

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)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
  - 1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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- Fee paid previously with preliminary materials
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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   |                     |
| <b>Directors, Director Nominee, and Named Executive Officers(1)</b>                                    |   |   |         |                     |
| 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%               |
| <b>5% Beneficial Owners</b>  |   |   |         |                     |
| Ascend Advisory Group, LLC(5)<br>7600 Olentangy River Rd.<br>Suite 200<br>Columbus, Ohio 43235         | 307,872                                   |   | 307,872 | 12.9%               |
| Bares Capital Management, Inc.(6)<br>221 W. 6 <sup>th</sup> Street<br>Suite 1225<br>Austin, Texas 7870 | 194,839                                   |   | 194,839 | 8.2%                |
| Arrow Capital Management, LLC(7)<br>Alexandre von Furstenberg(7)                                       |   |   |         |                     |

|  |         |         |      |
|--|---------|---------|------|
| Mel Serure(7)<br>499 Park Avenue<br>New York, New York 10022 | 149,670 | 149,120 | 6.3% |
|--|---------|---------|------|

\*\* 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<br>with the<br>Company and<br>Principal Occupation(s) | Director of<br>the<br>Company<br>Continuously<br>Since | Nominee<br>for Term<br>Expiring in |
|---------|-----|--|--|------------------------------------|
|---------|-----|--|--|------------------------------------|

|                         |    |  |      |      |
|-------------------------|----|--|------|------|
| 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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| <b>Nominee</b>        | <b>Age</b> | <b>Position(s) Held<br/>with the<br/>Company and<br/>Principal Occupation(s)</b>   | <b>Director of<br/>the<br/>Company<br/>Continuously<br/>Since</b> | <b>Nominee<br/>for Term<br/>Expiring in</b> |
|-----------------------|------------|--|---|---|
| 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<br>Earned<br>or Paid<br>in Cash(1) | Stock<br>Awards(2) | Option<br>Award | Change<br>in<br>Pension<br>Value<br>and<br>Nonqualified |                                      |                              | Total     |
|----------------|---|--------------------|-----------------|---|--------------------------------------|------------------------------|-----------|
|                |   |                    |                 | Non-Equity<br>Incentive<br>Plan<br>Compensation         | Deferred<br>Compensation<br>Earnings | All<br>Other<br>Compensation |           |
| David P. Lauer | \$ 22,000                               | \$ 30,000          |                 |   |                                      |                              | \$ 52,000 |

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|                       |    |        |    |        |    |        |
|-----------------------|----|--------|----|--------|----|--------|
| David R. Meuse        | \$ | 13,000 | \$ | 30,000 | \$ | 43,000 |
| Dr. James G. Mathias  | \$ | 13,000 | \$ | 30,000 | \$ | 43,000 |
| Diane D. Reynolds     | \$ | 17,000 | \$ | 30,000 | \$ | 47,000 |
| Donald B. Shackelford | \$ | 17,000 | \$ | 30,000 | \$ | 47,000 |

- (1) Consists of cash retainer fees of \$5,000 for the Chairs of the Board, Audit Committee and Compensation Committee, quarterly cash retainer of \$2,000 for each board member, and a per Committee meeting fee of \$1,000.
- (2) The amount shown is the expense, determined under Statement of Financial Accounting Standards No. 123R ( FAS 123R ), incurred by us and recognized in our financial statements in 2007 for awards granted to our directors. On January 31, 2007, each director received a grant of 305 of our shares for service as a non-employee director, which had a value of \$30,000 based on our market price on that date. These shares were granted under our 2005 Employee and Director Equity Incentive Plan. For more information on the expensing of these awards,



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please see note 5 to our consolidated financial statements contained in our Form 10-K for the year ended December 31, 2007.

**Communications Between Shareholders and the Board**

Given our relatively small size, the relatively small number of record holders of our shares, and the Board's consistent practice of being open to receiving direct communications from our shareholders, the Board believes that it is not necessary to implement, and we do not have, a formal process for shareholders to send communications to the Board. Our practice is to forward any communication addressed to the Board or to the director or group of directors identified in the communication.

**Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee is or has been an officer or employee of the Company or has had any relationship requiring disclosure by us under Item 404 of SEC Regulation S-K. In addition, no member of the Compensation Committee is employed by a company whose board of directors includes a member of our management.

**Code of Business Conduct and Ethics**

The Board has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees, a copy of which is filed as an exhibit to our Form 10-K filed with the SEC.

**Director Attendance at Annual Meetings**

We do not have a formal policy regarding director attendance at annual meetings of shareholders, although all directors are encouraged to attend. All of our directors attended the 2007 Annual Meeting of Shareholders.

**Director Attendance at Board and Committee Meetings**

The table below summarizes each Director's attendance at Board and Committee meetings during 2007.

|                       | <b>Board</b> |                 | <b>Audit Committee</b> |                 | <b>Compensation Committee</b> |                 |
|-----------------------|--------------|-----------------|------------------------|-----------------|-------------------------------|-----------------|
|                       | <b>Held</b>  | <b>Attended</b> | <b>Held</b>            | <b>Attended</b> | <b>Held</b>                   | <b>Attended</b> |
| R. H Dillon           | 4            | 4               | NA                     | NA              | NA                            | NA              |
| David P. Lauer        | 4            | 4               | 4                      | 4               | 4                             | 4               |
| Dr. James G. Mathias  | 4            | 4               | 4                      | 4               | NA                            | NA              |
| David R. Meuse        | 4            | 4               | NA                     | NA              | NA                            | NA              |
| Diane D. Reynolds     | 4            | 4               | 4                      | 4               | 4                             | 4               |
| Donald B. Shackelford | 4            | 4               | NA                     | NA              | 4                             | 4               |

NA Board member was not a member of the respective committee

**Certain Relationships and Related Person Transactions**

Our Board recognizes that related person transactions present a heightened risk of conflicts of interest. However, we currently have no related person transactions reportable pursuant to Item 404(a) of SEC Regulation S-K, and have not had any such transactions in the recent past. As such, we do not believe it is necessary to have a written policy specifically dealing with related person transactions. Our Audit Committee reviews any potential related person transactions as they arise and are reported to the Board or the Audit Committee, regardless of whether the transactions are reportable pursuant to Item 404. No such transactions arose or were reviewed by the Audit Committee in 2007. For any related person transaction to be consummated or to continue, the Audit Committee must approve or ratify the transaction.

**Table of Contents****EXECUTIVE OFFICERS AND COMPENSATION INFORMATION**

The following information describes the business experience during the past five years of James F. Laird, our only Named Executive Officer other than Mr. Dillon. Mr. Dillon's experience is described above under the heading PROPOSAL 1 ELECTION OF DIRECTORS. We have no executive officers other than our Named Executive Officers. Each Named Executive Officer devotes his full time and effort to the affairs of the Company, and is elected annually to serve at the pleasure of the Board, subject to the terms of applicable employment agreement. There are no arrangements or understandings between our Named Executive Officers and any other person pursuant to which such persons were elected.

| <b>Named Executive Officer</b> | <b>Age</b> | <b>Position(s) Held with the Company</b>  |
|--------------------------------|------------|---|
| James F. Laird                 | 51         | Chief Financial Officer and Treasurer of the Company since December 2001; President of Diamond Hill Funds since December 2001; Certified Public Accountant (inactive) and holder of several NASD licenses, including Series 7, 24 and 63. |

**Compensation Discussion and Analysis**

**Background.** We are in the investment management industry. Human capital is the most important resource in this industry. A balancing of the economics between owners and employees is always important, especially in an industry that is not capital intensive, and heavily dependent on talented individuals. Attracting and retaining people can be more difficult, given the high percentage of a firm's value-proposition which is attributable to key people.

The balancing effort is particularly challenging for us because we were essentially a start-up in May 2000, but yet had the unusual legacy of being a publicly owned company, in contrast to the norm of partnership-like structures for investment management firms of a similar size. We have been able to attract and retain quality people due to:

Our investment-centric culture,

Ownership in the business,

Our central Ohio location, and

Compensation competitive on a national basis.

This last point is directly related to firm profitability levels, which in essence represents the balancing of the economics of the business between owners and employees. Industry norms are helpful benchmarks for evaluating the balancing effort. Additionally, it makes sense to enact a thoughtful alignment of incentives that may pertain more so to our firm than others, because of our ownership structure. On a fully diluted basis, employees and directors own approximately 32% of the firm. In contrast, many of our competitor firms are owned entirely by their employees.

**Compensation Program Objectives.** We seek to attract and retain people with integrity, intelligence and energy. All of our employees are paid a competitive base salary, provided with competitive benefits and participate in an annual

cash and equity incentive compensation program. The amount of individual incentive awards is based on an assessment of individual performance, while the amount of the overall available incentive pool is based on (i) overall firm investment and operating performance, (ii) market compensation data and (iii) the profitability of the firm compared to other investment management firms.

In addition to their annual incentive compensation, certain individuals were awarded options, warrants, restricted stock or a combination as an incentive to employment. Generally these awards vest over five years. We also seek to increase the ownership percentage of all employees because we feel that will encourage all employees to act and think like owners. While compensation amounts will differ depending upon position, responsibilities, performance and competitive data, we seek to reward all employees with similar compensation components.

***Rewards Based on Performance.*** Our primary business objective is to meet our fiduciary duty to clients. Specifically, our focus is on long-term, five-year investment returns, with our goals defined as rolling five-year periods in which client returns are sufficiently above relevant passive benchmarks, rank in the top quartile of similar

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investment strategies and absolute returns are sufficient for the risk associated with the asset class. Our compensation program is designed to reward performance that meets these objectives. Our second objective is to fulfill our fiduciary duty to shareholders by growing the intrinsic value of the business at an appropriate rate. To support that objective, our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) are rewarded based on achieving fair and competitive operating profit margins. For those employees who are not a part of the investment team objectives vary but are consistent in that we strive to reward individual performance that helps us meet our fiduciary duty to clients.

***Elements of Compensation.*** We provide a base salary paid in cash on a monthly basis; benefits including health care, dental, disability and 401k; and incentive compensation paid in a combination of cash and equity grants made pursuant to the 2005 Employee and Director Equity Incentive Plan. We do not pay any long-term deferred compensation to any employee, officer or director.

### ***Rationale for Compensation Elements***

We choose to offer a competitive base salary and benefits package to all employees to attract them to join and remain with the Company. Our incentive plan is based on the operating profit of the Company and is intended to reward individual performance.

During the past three years we made incentive awards largely in stock grants that vested immediately but are restricted from sale for up to three years. This was done to increase employee ownership and ensure our employee s interests were aligned with our shareholders.

We generally choose to make equity awards in the form of fully-vested stock that is restricted from sale for a period of one to three years. We believe that this approach matches the economic expense of the award with the period in which it was earned and further avoids the complex accounting involved with options and other awards that vest over time.

We encourage stock ownership by all our employees; in fact our match in the 401k plan is made in stock vesting over each employee s first six years with the Company. We do not, however, have a formal policy mandating stock ownership.

***Determination of Incentive Compensation Amount.*** The incentive pool is determined by the Compensation Committee and is agreed to in advance based upon the target operating profit margin of the Company with an objective of generating operating profit margins consistent and competitive with others in the investment management business. Mr. Dillon, our CEO, must have a maximum bonus opportunity of at least 20% of the incentive pool according to the terms of his employment agreement. Individual awards for members of the investment team are based on assessments of individual performance with a focus on investment results for the previous five years for each investment strategy. The CEO and CFO are rewarded based on achieving competitive operating results. For those not in the investment area objectives vary but generally are consistent with performance that helps in meeting our fiduciary duty to our clients. Awards made to executives are based on performance-based agreements ( 162(m) agreements ) and finalized by the Compensation Committee in executive sessions. Awards made to non-executives are determined by the CEO and CFO based on the specific criteria discussed above.

***Competitor Compensation Data.*** We participate in a comprehensive compensation survey with approximately 125 other investment management firms and attempt to make individual compensation competitive with others in the industry while rewarding individual performance. The cash versus equity component of the awards are based upon an intent to increase employee ownership over the long-term and are biased in favor of stock grants and against stock options. In 2007 and 2006, stock grants were approximately 70% of our total incentive awards with the remaining 30% made in cash. Currently 100% of incentive awards are paid on a current basis although the equity awards, while

immediately vested, are restricted from sale for up to three years. We believe that incentive awards related to performance in a particular year, or five years ended in a particular year, should be paid currently. This approach offers a better matching of the economics with performance as opposed to granting awards that vest in the future thus burdening future earnings with awards earned in the past.

We have no formal policy to adjust prior incentive awards to reflect restatement or adjustment of financial results. We believe that due to the nature of our business material restatements or prior period adjustments to

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operating results are highly unlikely. Individual awards made under the plan are based on the factors discussed above and may increase or decrease materially from year to year consistent with similar changes in the relevant factors such as profitability and individual performance. We give no weight to the economic impact of prior awards in making current awards. Awards each year stand on their own.

**Post Employment Payments.** Only our CEO has an employment contract which provides for payments upon termination of employment. The maximum payment is one year's salary, one year's incentive bonus and a prorated bonus the year of termination. More information on our employment agreement with our CEO and termination payments thereunder is set forth under the heading Employment Agreements and Change in Control Benefits.

**Compensation Committee Processes and Procedures.** The Compensation Committee generally meets in December and January each year to review and ultimately to ratify performance objectives that were established at the beginning of the year. Additionally the committee meets in February and March of each year to establish new objectives for the current year. Management is present for a portion of most committee meetings; however, the committee always holds an executive session without management present to discuss relevant goals and bonus opportunity amounts.

### **Summary of Compensation Objectives**

The total incentive award for each individual meets the Company's objective of paying a competitive total compensation for each individual.

The equity awards of approximately 70% of the total incentive award meet the Company's objective of increasing employee ownership.

### **Report Of The Compensation Committee**

The Board's Compensation Committee has submitted the following report for inclusion in this Proxy Statement:

The Compensation Committee is composed of three independent Directors. The committee met multiple times in 2007 and early 2008. In all these meetings there was at least a significant portion of meeting time where no management was present. The Committee has obtained survey data for other investment firms and met with consultants familiar with investment firm compensation.

The Committee has reviewed the performance of the CEO and CFO as well as the performance of the firm as a whole. The Committee established the salary and incentive payments of these two individuals and reviewed the pay of all other employees.

The Committee reviewed and approved the Compensation Disclosure and Analysis prepared by management. The Committee recommended that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for 2008 and incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**The foregoing report is provided by the following directors, who constitute the Compensation Committee:**

**Donald B. Shackelford, Chairman**

**David P. Lauer, CPA**

**Diane D. Reynolds, Esq.**

### **Executive Compensation Information**

**Summary Compensation Table.** The following table sets forth the compensation paid to or earned by Mr. Dillon and Mr. Laird during 2007 and 2006. The Company has no other executive officers. Additional information on the elements of compensation included in the table below, including a discussion of the amounts of



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certain components of compensation in relation to others, is available under the heading Compensation Discussion and Analysis above.

| Name and Principal Position                      | Year | Salary     | Bonus         | Stock Awards (1) | Options Awards | Change in Pension Value and Non-Equity Incentive Plan Compensation |                   |                        | Total        |
|--|------|------------|---------------|------------------|----------------|--|-------------------|------------------------|--------------|
|  |      |            |               |                  |                | Non-qualified  | Deferred Earnings | All Other Compensation |              |
| R.H. Dillon                                      | 2007 | \$ 360,000 |               | \$ 1,750,000     | \$ 740,000     |  | \$ 27,000         |                        | \$ 2,877,000 |
| President and Chief Executive Officer            | 2006 | \$ 360,000 | \$ 640,000(4) | \$ 2,457,750     | \$ 352,250     |  | \$ 26,400         |                        | \$ 3,836,400 |
| James F. Laird                                   | 2007 | \$ 180,000 |               | \$ 475,000       | \$ 147,500     |  | \$ 21,600         |                        | \$ 824,100   |
| Secretary, Treasurer and Chief Financial Officer | 2006 | \$ 180,000 |               | \$ 560,000       | \$ 160,000     |  | \$ 21,600         |                        | \$ 921,600   |

- (1) The amount shown is the expense, determined under FAS 123R, incurred by us and recognized in our financial statements for shares awarded to Messrs. Dillon and Laird under our 2005 Employee and Director Equity Incentive Plan as partial payment for amounts earned under our 2007 and 2006 annual incentive plans. For satisfaction of performance goals in 2007, on January 18, 2008, Mr. Dillon and Mr. Laird were awarded 25,000 and 6,786, respectively, fully-vested shares that are restricted from sale for one year. For satisfaction of performance goals in 2006, (i) Mr. Dillon was awarded on January 31, 2007, 25,000 fully-vested shares that are restricted from sale for three years, (ii) Mr. Laird was awarded on January 31, 2007, 2,797 fully-vested shares that are restricted from sale for one year and 1,678 fully-vested shares that are restricted from sale for three years, and on February 14, 2007, was awarded 1,137 fully-vested shares that are restricted from sale for three years. For more information on the expensing of these awards, please see note 5 to our consolidated financial statements contained in our Form 10-K for the year ended December 31, 2007.
- (2) Represents cash awards paid to Messrs. Dillon and Laird as partial payment for amounts earned under our 2007 and 2006 annual incentive plans. For more information on our annual incentive compensation program, please see the information above under the heading Compensation Discussion and Analysis.
- (3) Consists of the value of our matching contributions to Mr. Dillon's and Mr. Laird's accounts under our 401k plan. This contribution is made only in shares of the Company and the amount is based on the fair market value of our shares on the date of contribution.
- (4) Represents a discretionary cash bonus paid to Mr. Dillon for 2006.

**Grants of Plan Based Awards.** The following table sets forth information regarding annual incentive plan awards to each of the Named Executive Officers for the year ended December 31, 2007.

| Name       | Grant Date(1) | Threshold | Estimated Future Payouts Under Non-Equity Incentive Plan |                 | Estimated                    | All                 | All                  | Exercise Price of              |
|------------|---------------|-----------|--|-----------------|------------------------------|---------------------|----------------------|--------------------------------|
|            |               |           | Awards(2) Target   | Maximum         | Future Payouts Under Awards: | Other Stock Awards: | Other Option Awards: |                                |
| Mr. Dillon | 3/30/07       | \$ 1(3)   |  | \$ 2,490,000(3) | Equity Incentive Plan Awards | of Shares or Stock  | of Securities        | or Base Price of Option Awards |
| Mr. Laird  | 3/30/07       | \$ 1(3)   |  | \$ 622,500(3)   |                              |                     |                      |                                |

- (1) On March 30, 2007, we entered into participation agreements with Messrs. Dillon and Laird under our 2006 Performance-Based Compensation Plan. The performance period for these awards was the 2007 fiscal year. These awards were granted in accordance with Section 162(m) of the Internal Revenue Code so amounts paid are deductible by us as compensation. The performance conditions applicable to these awards are discussed in the Compensation Discussion and Analysis above.
- (2) Because the bonus is based on performance criteria, partial satisfaction could result in a payment as little as one dollar, ranging all the way to the maximum depending on the extent to which performance goals are met. The maximum is the largest amount that could have been earned for fiscal 2007, which was the performance period for the awards, upon the satisfaction of all of the performance goals specified in the participation agreement. Because the amount of the award earned varies based upon the extent of satisfaction of the performance goals, there is no specified target amount.

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- (3) Each of Mr. Dillon and Mr. Laird earned the maximum amount available to him under our annual incentive plan for 2007. Although amounts are denominated in dollars, once earned this amount is paid, at the discretion of the Compensation Committee, partially in cash and partially in our shares. The majority of the award is paid in shares of the Company, based on the market value of our shares on the date of payment. The shares awarded to Messrs. Dillon and Laird were awarded under our 2005 Employee and Director Equity Incentive Plan. The allocation of the payments to Mr. Dillon and Mr. Laird in cash and shares is reflected in the Summary Compensation Table above in the columns Stock Awards and Non-Equity Incentive Plan Compensation .

**Outstanding Equity Awards at December 31, 2007.** The following table sets forth information regarding the outstanding equity awards held by Mr. Dillon and Mr. Laird as of December 31, 2007.

| Name          | Option/Warrant Awards  |  |   |                     | Stock Awards    |   |  |  |   |
|---------------|--|--|---|---------------------|-----------------|---|--|--|---|
|               | Number of Securities Underlying Unexercised Options/Warrants (#) Exercisable | Number of Securities Underlying Unexercised Options/Warrants (#) Unexercisable | Number of Securities Underlying Unexercised Options (#) | Exercise Price (\$) | Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#) | Market Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Mr. Dillon(1) | 3,500  |  |   | \$ 28.10            | 12/20/2010      |   |  |  |   |
| Mr. Laird     | 2,500  |  |   | \$ 28.10            | 12/20/2010      |   |  |  |   |

(1) Mr. Dillon exercised 3,500 options on January 2, 2008.

**Option Exercises and Stock Vested.** The following table shows aggregated stock option exercises in 2007 and the related value realized on those exercises for Mr. Dillon and Mr. Laird. The table also sets forth information regarding the vesting during 2007 of stock awards made to Mr. Dillon and Mr. Laird.

| Name       | Option Awards           |                               | Stock Awards(1)                      |                              |
|------------|-------------------------|-------------------------------|--------------------------------------|------------------------------|
|            | Number of Shares        |                               | Number of Shares Acquired on Vesting | Value Realized on Vesting(4) |
|            | Acquired on Exercise(2) | Value Realized on Exercise(3) |                                      |                              |
| Mr. Dillon | 216,500                 | \$ 20,714,950                 | 25,000                               | \$ 1,750,000                 |
| Mr. Laird  | 60,000                  | \$ 5,281,500                  | 6,786                                | \$ 475,000                   |

(1) Reflects stock awards under our 2005 Employee and Director Equity Incentive Plan to Messrs. Dillon and Laird as partial payment for amounts earned under our 2006 annual incentive plan. These awards were immediately vested on the date of grant, although are restricted from sale for a period of one year. For more information on these awards see the Summary Compensation Table and the Grants of Plan-Based Awards Table above.

(2) Represents the total gross number of shares underlying the exercised options.

(3) The value realized on exercise is the difference between the market price of the underlying securities on the date of exercise and the exercise price, multiplied by the number of shares acquired.

(4) The value realized is the number of shares vested, multiplied by the closing price of our shares on the date of vesting.

**Pension Plans and Non-Qualified Deferred Compensation.** We do not maintain any pension plans or non-qualified deferred compensation programs for our executives or employees.

**Employment Agreements and Change In Control Benefits.** We currently have an employment agreement with Mr. Dillon. A description of the agreement is set forth below.

**Employment Agreement with Mr. Dillon.** In August 2006, we entered into an employment agreement with Mr. Dillon, the Company's President and Chief Executive Officer. This agreement was amended in February 2008 to address newly implemented tax laws relating to deferred compensation, although no other changes were made. The agreement has a current expiration date of January 1, 2011, although it may be extended after such time by our mutual agreement with Mr. Dillon. The agreement provides for an annual salary of \$360,000, which may be increased by the

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Board annually, plus participation by Mr. Dillon in our annual incentive plan as well as health insurance, six weeks paid vacation annually and participation in other benefit programs we offer to our employees. The agreement also restricts Mr. Dillon from competing with us during the term of the agreement and for one year following termination of his employment and provides that he will at all times maintain the confidentiality of our information.

If we terminate Mr. Dillon's employment without cause, he is entitled to the following payments, which are quantified to reflect the amounts he would have received had his employment been terminated at December 31, 2007:

his accrued and unpaid base salary and vacation and unreimbursed business expenses as of the date of termination (\$0 at December 31, 2007);

payments, if any, under our benefit plans and programs in effect at the time. We currently have no benefit plans that would result in payments upon termination;

a single lump sum payment equal to six months base salary at his annual salary rate in effect at the date of termination (\$180,000 at December 31, 2007);

beginning in the seventh month after the date of termination, six monthly payments of his monthly base salary (\$180,000 at December 31, 2007);

a pro rata portion of any amounts earned under our annual incentive plan for the year in which the termination occurs ( \$2,490,000 at December 31, 2007 because the year was complete); and

a lump sum payment equal to the amount, if any, he received under our annual incentive plan for the preceding year (\$2,490,000).

Mr. Dillon may terminate his employment with good reason, which generally includes reduction of his annual base salary, a reduction in his maximum potential payment under our annual incentive plan to less than 20% of the available bonus pool, permanent or consistent assignment to him of duties inconsistent with his position and authority, no longer having him report directly to the Board or a breach by us of his employment agreement. If he terminates his employment for good reason, Mr. Dillon is entitled to all of the payments referenced above, except he will not receive a pro rata portion of amounts earned under our annual incentive plan for the year in which termination occurs.

If Mr. Dillon's employment terminates due to his death or disability, upon the expiration of the employment agreement in accordance with its terms or we terminate Mr. Dillon for cause, he will be entitled to receive the payments set forth in the first two bullets above. In the event of his death or disability, he will also receive the payments in the fifth bullet above. Under the employment agreement, cause generally includes material violations of our employment policies, conviction of crime involving moral turpitude, violations of securities or investment adviser laws, causing us to violate a law which may result in penalties exceeding \$250,000, materially breaching the employment agreement or fraud, willful misconduct or gross negligence in carrying out his duties.

Mr. Dillon will not receive any payments solely due to a change in control. However, if within 24 months after the occurrence of a change in control Mr. Dillon's employment is terminated for any reason other than his disability, for cause or by him for good reason, he will be entitled to the following payment from us or our successor:

his accrued and unpaid base salary and vacation and unreimbursed business expenses as of the date of termination (\$0 at December 31, 2007);

payments, if any, under our benefit plans and programs in effect at the time. We currently have no benefit plans that would result in payments upon termination;

a single lump sum payment equal to his annual base salary and incentive plan compensation payable to him for our most recently completed fiscal year (\$2,850,000 at December 31, 2007); and

a single lump sum payment equal to 12 months of premium payments for coverage for Mr. Dillon and his family under our group health plan (\$4,240 at December 31, 2007).

If any payments to Mr. Dillon in connection with a change in control would constitute excess parachute payments under applicable tax laws, the benefits Mr. Dillon will receive will be reduced to an amount \$1 less than the amount that would be an excess parachute payment.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our securities, to file with the SEC initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 or Form 5. Executive officers, directors and persons who beneficially own more than ten percent of our securities are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Mr. Laird filed one late Form 4 during 2007 reporting the exercise of 10,000 stock options. This report was due to be filed on August 13, 2007, but was actually filed on August 15, 2007. Based solely upon a review of Forms 3, 4 and 5 furnished to us and a statement by these persons that no other Section 16(a) reports were required to be filed by them, we believe that, with the exception of Mr. Laird's late Form 4, there were no reports filed late or missed during the year ended December 31, 2007.

**AUDIT COMMITTEE MATTERS**

**Report of the Audit Committee for the Year Ended December 31, 2007**

Our Audit Committee is comprised of three independent directors operating under a written charter adopted by the Board. Annually, the Audit Committee engages the Company's independent registered public accounting firm. Plante & Moran, PLLC (Plante & Moran) served as our independent registered public accounting firm for the year ended December 31, 2007.

Management is responsible for preparation of the Company's financial statements and for designing and maintaining the Company's systems of internal controls and financial reporting processes. Our independent registered public accounting firm is responsible for performing an audit of the Company's consolidated financial statements in accordance with generally accepted auditing principles and issuing reports on the Company's financial statements and on management's assessment of the effectiveness of the Company's internal controls. The Audit Committee's responsibility is to provide independent, objective oversight of these processes.

Pursuant to this responsibility, the Audit Committee met with management and Plante & Moran throughout the year. The Audit Committee reviewed the audit plan and scope with Plante & Moran and discussed with them the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended. The Audit Committee also met with Plante & Moran without management present to discuss the results of their audit work, their evaluation of the Company's system of internal controls and the quality of the Company's financial reporting.

In addition, the Audit Committee has discussed with Plante & Moran their independence from the Company and its management, including the matters in written disclosures and letters to the Company from Plante & Moran required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended.

Management has represented to the Audit Committee that the Company's consolidated financial statements for the year ended December 31, 2007, were prepared in accordance with generally accepted accounting principles, and the Audit Committee reviewed and discussed the audited consolidated financial statements with management and Plante & Moran. Based on the Audit Committee's discussions with management and Plante & Moran and review of Plante & Moran's report to the Audit Committee, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC.

**Submitted by the Audit Committee of the Board of Directors of the Company:**

**David P. Lauer, Chairman**

**Dr. James G. Mathias**

**Diane D. Reynolds**



**Table of Contents****INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Selection of Auditor for 2008**

The Audit Committee selected Plante & Moran as our independent registered public accounting firm for the 2007 fiscal year, and has done so again for the 2008 fiscal year. A representative of Plante & Moran is expected to be present at the Annual Meeting to respond to appropriate questions and to make such statements as he or she may desire.

**Fees of Independent Registered Public Accounting Firms**

For the years ended December 31, 2007 and 2006, Plante & Moran billed the following fees to us:

|                                      | <b>Year Ended<br/>12/31/2007</b> | <b>Year Ended<br/>12/31/2006</b> |
|--------------------------------------|----------------------------------|----------------------------------|
| Audit fees(1)                        | \$ 55,850                        | \$ 51,200                        |
| Audit-related fees                   |                                  | 2,430                            |
| Tax fees(2)                          | 7,450                            | 7,300                            |
| All other fees                       |                                  |                                  |
| <b>Total Plante &amp; Moran fees</b> | <b>\$ 63,300</b>                 | <b>\$ 60,930</b>                 |

- (1) Audit fees include professional services rendered for the audit of our annual financial statements, reviews of our quarterly financial statements, issuance of consents, and assistance with review of other documents filed with the SEC.
- (2) Tax fees include services related to tax compliance, tax advice and tax planning including the preparation of tax returns and assistance with tax audits.

It is the Audit Committee's policy to pre-approve all services of our independent registered public accounting firm and present that approval to the Board. For the years ended December 31, 2007 and 2006, all such services were pre-approved by the Audit Committee.

**SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING**

Shareholders are entitled to submit proposals on matters appropriate for shareholder action consistent with SEC rules and our Code of Regulations. Should a shareholder wish to have a proposal appear in our Proxy Statement for next year's annual meeting, under applicable SEC rules, the proposal must be received by our Secretary on or before December 10, 2008, and must otherwise comply with the requirements of Rule 14a-8 of the Exchange Act. If a shareholder intends to present a proposal at next year's annual meeting but does not intend to seek the inclusion of such proposal in our Proxy Statement, such proposal must be received by us prior to February 23, 2009, or our management proxies will be entitled to use discretionary voting authority should such proposal be raised without any discussion of the matter in the Proxy Statement. Our address is 325 John H. McConnell Boulevard, Suite 200,

Columbus, Ohio 43215.

### **HOUSEHOLDING OF ANNUAL MEETING MATERIALS**

The SEC has implemented rules regarding the delivery of proxy materials (i.e., annual reports, proxy statements, proxy statements combined with a prospectus or any information statements provided to shareholders) to households. This method of delivery, often referred to as householding, would generally permit us to send a single annual report and a single proxy statement to any household at which two or more different shareholders reside if we believe such shareholders share the same address, unless the shareholder(s) have opted out of the householding process. Each shareholder would continue to receive a separate notice of any meeting of shareholders and proxy card. The householding procedure reduces the volume of duplicate information you receive and reduces our expenses. We have instituted householding. If (i) you wish to receive separate annual reports or proxy statements, either this year or in the future, or (ii) members of your household receive multiple copies of our annual

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report and proxy statement and you wish to request householding, you may contact our transfer agent, Continental Stock Transfer & Trust Company at 17 Battery Place, New York, New York 10004, or write to Mr. James Laird at our address at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.

In addition, many brokerage firms and other holders of record have instituted householding. If your family has one or more street name accounts under which our shares are beneficially owned, you may have received householding information from your broker, financial institution or other nominee in the past. Please contact the holder of record directly if you have questions, require additional copies of this Proxy Statement or our Annual Report on Form 10-K for the 2007 fiscal year or wish to revoke your decision to household and thereby receive multiple copies. You should also contact the holder of record if you wish to institute householding. These options are available to you at any time.

**OTHER BUSINESS**

The Board knows of no other business to be acted upon at the Annual Meeting. However, if any other business properly comes before the Annual Meeting, it is the intention of the persons named in the enclosed Proxy to vote on such matters in accordance with their best judgment.

The prompt completion, execution, and delivery of your proxy card or your submission of voting instructions electronically over the Internet or by telephone will be appreciated. Whether or not you expect to attend the Annual Meeting, please complete and sign the Proxy and return it in the enclosed envelope, or vote your proxy electronically via the Internet or telephonically.

By Order of the Board of Directors

James F. Laird  
Secretary

April 8, 2008

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Diamond Hill Investment Group, Inc. VOTE BY INTERNET OR TELEPHONE  
QUICK EASY IMMEDIATE As a stockholder of Diamond Hill Investment Group, Inc., you have the option of voting your shares electronically through the Internet or on the telephone, eliminating the need to return the proxy card. Your electronic vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, dated and returned the proxy card. Votes submitted electronically over the Internet or by telephone must be received by 7:00 p.m., Eastern Time, on May 21, 2008. 3 Vote Your Proxy on the Internet: Vote Your Proxy by Phone: Vote Your Proxy by mail: Call 1 (866) 894-0537 Go to [www.continentalstock.com](http://www.continentalstock.com) OR Use any touch-tone telephone to vote OR Mark, sign, and date your proxy card, Have your proxy card available when your proxy. Have your proxy card then detach it, and return it in the you access the above website. Follow available when you call. Follow the postage-paid envelope provided. the prompts to vote your shares. voting instructions to vote your shares. PLEASE DO NOT RETURN THE PROXY CARD IF YOU ARE VOTING ELECTRONICALLY OR BY PHONE FOLD AND DETACH HERE AND READ THE REVERSE SIDE PROXY Please mark your votes X like this THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSAL. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS 1. Proposal to elect the nominees named below as For Withhold For all (except directors for a one year term. Nominee(s) If you wish to vote electronically, please read the written below): instructions above. Nominees: (01) Lawrence E. Baumgartner, (02) R.H. Dillon, (03) David P. Lauer, (04) Dr. James G. Mathias, (05) David R. Meuse (06) Diane D. Reynolds, (07) Donald B. Shakelford. NOMINEES NAME(S) HERE: COMPANY ID: PROXY NUMBER: ACCOUNT NUMBER: Signature Signature Date , 2008. Please sign exactly as your name or names appear hereon. Joint owners should each sign. Executors, administrators, trustees, guardians and others should give their full title. Corporations and partnerships should sign in their full name by their president or another authorized person.

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FOLD AND DETACH HERE AND READ THE REVERSE SIDE PROXY Diamond Hill Investment Group, Inc. 325 John H. McConnell Blvd., Suite 200 Columbus, Ohio 43215 This Proxy is solicited on behalf of the Board of Directors for the Annual Meeting of Shareholders, May 22, 2008 The undersigned hereby appoints R.H. Dillon and James F. Laird and each of them, as proxies of the undersigned, with full power of substitution, to attend the Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. (the Company) to be held on May 22, 2008, or any adjournment thereof, and to vote all shares of common stock, without par value, of the Company (the Shares) which the undersigned is entitled to vote at such Annual Meeting or at any adjournment thereof as set forth on the reverse side. This Proxy when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no directive is made, the Shares represented by this Proxy will be voted FOR the election of the named nominees for directors. If any other matters are properly brought before the Annual Meeting or any adjournment thereof, the Shares represented by this Proxy will be voted in the discretion of the proxies on such other matters as the directors may recommend. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Shareholders dated April 8, 2008, the Proxy Statement furnished therewith, and the Company's Form 10-K for the year ended December 31, 2007. Any proxy heretofore given to vote the Shares which the undersigned is entitled to vote at the Annual Meeting of Shareholders is hereby revoked. Please mark, sign, date and return the Proxy card promptly in the enclosed envelope, unless voting electronically. See Reverse side See Reverse side