



**DIAMOND
HILL** | INVESTMENT
GROUP

DIAMOND HILL INVESTMENT GROUP, INC.

2013 ANNUAL REPORT

NOTICE OF 2014 ANNUAL MEETING

AND PROXY STATEMENT

DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 12, 2014

Dear Fellow Shareholders:

The asset management industry is not complex but neither is it easy, especially as an active manager. Our fiduciary responsibility to our clients is crystal clear. We fulfill that responsibility by providing investment strategies that we believe will deliver long-term value to our clients' portfolios and then by communicating accurately the degree to which we have succeeded in that endeavor.

Similarly, our corporate goal is to provide a return to our owners commensurate with the risk of our enterprise. This is measured by the capital returned to shareholders and the growth in the intrinsic value per share.

I am pleased that, since inception, we have generally met this dual mission of delivering value to our clients and to our shareholders. Going forward, while our mission remains clear, it continues to be challenging as we experience countervailing winds: the benefit of more resources, offset by larger assets under management (AUM). Therefore, continuous improvement is required in all areas of the firm.

Firm Sustainability

Succession planning is one of the most important responsibilities of any firm, and we made significant progress in 2013. Late last year, Chris Bingaman was named President of Diamond Hill Capital Management, Inc., and Lisa Wesolek was named Chief Operating Officer. Chris and Lisa are among the people who will be the future executive leadership and in fact already have increasing influence on the management of the firm as members of the Senior Management Team appointed in December 2012. As a portfolio manager, Chris understands the importance of our fiduciary responsibility and will maintain our primary investment focus. Given the competitive nature of our industry, client service and retention is also important to our future growth and sustainability, and Lisa's experience will be invaluable.

It is expected that Chris will succeed me as Chief Executive Officer in January 2016. As I wrote in the Diamond Hill annual shareholder letter in March 2011, I intend to continue to serve as a portfolio manager after that time. In addition, effective January 1, 2014, I assumed the role of Vice Chairman of the Diamond Hill Investment Group Board, and it is expected that I will succeed Don Shackelford as Board Chairman in 2015 when his term expires.

Attracting and retaining talented investment personnel is also key to firm sustainability. Our research team has continued to grow in numbers and experience, led by Co-Directors of Research Rick Snowdon and Austin Hawley. At the end of 2013, we had 17 research analysts and 7 research associates, which we believe necessary for the depth of analysis required to accomplish our goals. The growth of this team has paralleled the growth in AUM, and we hope to see continued growth in both. Importantly, we have had no turnover in our equity portfolio manager or our research analyst ranks since the firm's inception.

Co-Chief Investment Officer Chris Welch leads our newest strategy, which is a Mid Cap strategy that overlaps with Chuck Bath's Large Cap strategy and Chris' own Small-Mid Cap strategy. We believe that this offering addresses an important market segment and can be managed efficiently given our existing strategies. We will only offer strategies in areas where we believe we can meet our fiduciary responsibility to new clients without diminishing our ability to meet that responsibility to our clients in existing strategies.

At the end of 2013, we completed an initiative to refresh our brand, including a new logo and website. Each of the colors in our new logo was carefully chosen to represent one of the core principles in our mission statement, serving as a subtle yet tangible reminder of our commitment and our distinctive culture. Our commitment to an intrinsic value-based investment philosophy, long-term perspective, disciplined approach, and alignment with our clients' interests remains unchanged, as it has since our firm's inception.

Financial Results: Shareholder Value

Revenue was \$81 million in 2013 compared with \$67 million in 2012 and \$47 million in 2008. AUM finished the year at \$12.2 billion, up 30% from 2012 and 170% from 2008. Our 37.7% operating margin was slightly higher than last year's margin of 36.6%. Our strong financial results in 2013 were primarily a reflection of the very strong U.S. equity markets. The U.S. financial markets have rebounded considerably from the depths of the financial crisis. As a result, we believe it is highly unlikely that equity market returns will rival returns over the past five years, which certainly impacts our growth in revenues and profits.

Six years ago, Diamond Hill paid its first cash dividend, and we have paid a cash dividend each year since. In total, we have paid \$49 per share in cash dividends, about 57% of which represented a return of capital. It is important to note that during the past six years, our tangible book value per share declined due to these dividends, from \$17.52 at the end of 2007 to \$13.80 at the end of 2013. The \$49 per share in dividends and the \$3.72 decline in tangible book value per share results in a net of \$45.28 per share, which represents one measure of change in shareholder value during the past six years, an annualized rate of 17% percent for the six years. While tangible book value is a component of intrinsic value, the percentage of intrinsic value it represents varies considerably between companies.

This analysis is comparable to another popular measure: total shareholder return (TSR), which takes into account both cash returned to shareholders and change in stock price. For Diamond Hill, this also equates to approximately 15% annualized over the past six years. While the current stock price represents the market's estimate of a company's intrinsic value, a premise of our investment philosophy is that price and intrinsic value often differ, sometimes substantially. Thus, we believe the relevant measure of value creation, in addition to cash returned to shareholders, is the change in Diamond Hill's intrinsic value.

The Next Five Years

During the next five years, and always, our top priority is to meet our fiduciary duty to clients. Adding value to our clients' portfolios through our disciplined investment process is imperative for retaining and growing our client base. Secondly, adding new strategies that fit well with our existing strategies, like our new Mid Cap strategy, is something we will consider. Over the past few years, we have expanded our research effort to include more international companies. A deeper understanding of non-U.S. based companies not only allows us to be better investors, but also may lead to a global strategy in the future. Finally, additional tangential business

opportunities, like our Beacon Hill subsidiary, are possible, but only when we believe that such opportunities would increase the intrinsic value of our entire firm.

We are a financially strong, well-positioned firm operating in a very competitive industry. While I would not want us to underestimate the various challenges, I believe that we will continue to build upon our past successes and to reward clients, shareholders, and associates accordingly. A special thanks to our Board of Directors who have supported me in those efforts.

Sincerely,

A handwritten signature in black ink that reads "R. H. Dillon". The letters are cursive and slightly slanted to the right.

R. H. Dillon
President and Chief Executive Officer



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

March 12, 2014

Dear Shareholders:

We cordially invite you to attend the 2014 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. to be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 30, 2014, at 2:00 p.m. Eastern Daylight Saving 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 our operations and our directors and officers 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 ensure that your vote is counted if you are unable to attend the Annual Meeting. Your vote is important, regardless of the number of shares you own.

Sincerely,

A handwritten signature in black ink that reads "R. H. Dillon". The signature is written in a cursive style with a large, prominent "D" and "l" in the last name.

R. H. Dillon
President and Chief Executive Officer



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 APRIL 30, 2014**

Notice is hereby given that the 2014 Annual Meeting of Shareholders (the “Annual Meeting”) of Diamond Hill Investment Group, Inc. (the “Company”), will be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 30, 2014, at 2:00 p.m. Eastern Daylight Saving Time to consider and act upon the following matters:

- 1) the election of six directors to serve on the Company’s Board of Directors until the Company’s 2015 Annual Meeting of Shareholders and until their successors have been duly elected and qualified;
- 2) the ratification of the appointment of KPMG LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2014;
- 3) the approval of the Diamond Hill Investment Group, Inc. 2014 Equity and Cash Incentive Plan;
- 4) amendments to the Company’s Code of Regulations to separate the positions of President and Chief Executive Officer;
- 5) amendments to the Company’s Code of Regulations to permit the Board of Directors to amend the Code of Regulations in accordance with Ohio law;
- 6) a non-binding, advisory resolution to approve the compensation of the Company’s named executive officers; and
- 7) 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 March 6, 2014, as the record date for determination of the shareholders entitled to vote at the Annual Meeting and any adjournments thereof. Please complete, sign and date the enclosed form of proxy, which is solicited by the Company’s Board of Directors, and mail it promptly in the enclosed envelope. Alternatively, you may vote by phone or electronically over the Internet in accordance with the instructions on the enclosed 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.

PROMPTLY RETURNING YOUR PROXY WILL SAVE THE COMPANY THE EXPENSE OF MAKING 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,

A handwritten signature in black ink that reads "James F. Laird".

James F. Laird
Secretary

Columbus, Ohio
March 12, 2014

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 30, 2014:
The Proxy Statement and the 2013 Annual Report to Shareholders are available without charge at the following location:
<http://ir.diamond-hill.com/GenPage.aspx?IID=112960&GKP=1073749012>



**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 APRIL 30, 2014**

This Proxy Statement is being furnished to the shareholders of Diamond Hill Investment Group, Inc., an Ohio corporation (the “Company”, “we”, “us” or “our”), in connection with the solicitation of proxies by our Board of Directors (the “Board”) for use at our 2014 Annual Meeting of Shareholders (the “Annual Meeting”) to be held on April 30, 2014, 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 March 14, 2014. Only our shareholders of record at the close of business on March 6, 2014, 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 six directors to serve on our Board until our 2015 Annual Meeting of Shareholders and until their successors have been duly elected and qualified;
- 2) To consider and vote upon a proposal to ratify the appointment of KPMG LLP (“KPMG”) as our independent registered public accounting firm for the fiscal year ending December 31, 2014;
- 3) To consider and vote upon the approval of the Diamond Hill Investment Group, Inc. 2014 Equity and Cash Incentive Plan (the “2014 Incentive Plan”);
- 4) To consider and vote upon amendments to our Code of Regulations to separate the positions of President and Chief Executive Officer;
- 5) To consider and vote upon amendments to our Code of Regulations to permit the Board to amend the Code of Regulations in accordance with Ohio law;
- 6) To consider and vote upon a non-binding, advisory resolution to approve the compensation of our named executive officers; and
- 7) To transact such other business that may properly come before the Annual Meeting or any adjournment thereof.

Those common shares represented by (i) properly signed proxy cards received by us prior to the Annual Meeting or (ii) properly authenticated voting instructions recorded electronically over the Internet or by telephone prior to 11:59 p.m. Eastern Daylight Saving Time on April 29, 2014 and, in each case, that are not revoked, will be voted 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 as recommended by the Board.** The proxy holders will use their best judgment regarding any other matters that may properly come before the Annual Meeting.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 30, 2014:
The Proxy Statement and the 2013 Annual Report to Shareholders are available without charge at the following location:
<http://ir.diamond-hill.com/GenPage.aspx?IID=112960&GKP=1073749012>**

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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 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 30, 2014, at 2:00 p.m. Eastern Daylight Saving Time. You may also listen live to the Annual Meeting via audio conference by calling 1-800-774-6070, and using confirmation code 8418 969# when prompted.

Q: What may I vote on?

A: At the Annual Meeting, you will be asked to consider and vote upon: (i) the election of six directors to serve on the Board until our 2015 Annual Meeting of Shareholders; (ii) the ratification of the appointment of KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2014; (iii) the approval and adoption of our 2014 Equity and Cash Incentive Plan; (iv) amendments to our Code of Regulations to separate the positions of President and Chief Executive Officer; (v) amendments to our Code of Regulations to permit the Board to amend the Code of Regulations in accordance with Ohio law; and (vi) a non-binding, advisory resolution to approve the compensation of our named executive officers.

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 card promptly in the enclosed envelope. Alternatively, you may vote by phone or over the Internet in accordance with the instructions on your proxy card. The deadline for transmitting voting instructions over the Internet or telephonically is 11:59 p.m. Eastern Daylight Saving Time on Tuesday, April 29, 2014. 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 in more than one account, you will receive more than one proxy card. If you intend to vote by mail, sign, date 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 over 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 broker, 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 the Company’s transfer agent, you are considered the shareholder of record and we are sending this Proxy Statement and related materials 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 Board’s designees by completing, signing and returning the enclosed proxy card, or transmitting your voting instructions over the Internet or by phone.

Beneficial Owner. For shares held in “street name”, you are considered the beneficial owner and this Proxy Statement and related materials are being forwarded to you by your broker, bank 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 them 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 voting instructions provided to you by your broker. However, if you do not provide voting instructions to your broker, it may vote your shares in its discretion on certain “routine” matters. The ratification of the appointment of KPMG as our independent registered public accounting firm for the 2014 fiscal year 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 ratification. **[None of the other matters to be voted on at the Annual Meeting are routine, and your broker may not vote your shares on those matters without your instructions.]**

Q: May I revoke my proxy or change my vote after I have mailed a proxy card or voted electronically over 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 a written statement to James F. Laird, our Secretary, stating that you would like to revoke your proxy, which must be received prior to the Annual Meeting;
- send a newly signed and later-dated proxy card, which must be received prior to the Annual Meeting, or submit later-dated electronic voting instructions over the Internet or by telephone no later than 11:59 p.m. Eastern Daylight Saving Time on April 29, 2014; 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 prior Internet or telephone 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 and a form 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 and a form of identification. To obtain directions to attend the Annual Meeting and vote in person, please call James F. Laird, the Company's Secretary, at (614) 255-3353 or visit the Company's website, www.diamond-hill.com/contact.

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 your shares voted, your proxy will be voted on the matters presented as recommended by the Board. The Board's recommendations are set forth in this Proxy Statement.

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 James F. Laird, the Company's Secretary, 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.

PROCEDURAL MATTERS

Record Date

Only our shareholders of record at the close of business on March 6, 2014, the record date, will be entitled to vote at the Annual Meeting. As of the record date, there were 3,285,998 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 card without voting instructions, it will be voted as recommended by the Board. These recommendations are set forth in this Proxy Statement. The duly appointed proxy holders will vote in their discretion on any other matters that may 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. If you hold shares in street name, we encourage you to instruct your broker or other nominee as to how to vote your shares.

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 (six), 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 will 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 the Board is 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 six director nominees as possible. Cumulative voting only applies to the election of directors.

Director elections. The affirmative vote of the holders of a plurality of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote is required for the election of directors. The six nominees receiving the most votes will be elected.

Ratification of selection of KPMG. The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to ratify the selection of KPMG as the Company's independent registered public accounting firm for fiscal year 2014.

Approval of the 2014 Incentive Plan. The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to approve the 2014 Incentive Plan.

Approval of the amendments to the Company's Code of Regulations to separate the positions of President and Chief Executive Officer. The affirmative vote of a majority of our outstanding shares is required to approve the amendments to our Code of Regulations.

Approval of the amendments to the Company's Code of Regulations to permit the Board of Directors to amend the Code of Regulations in accordance with Ohio law. The affirmative vote of a majority of our outstanding shares is required to approve the amendments to our Code of Regulations.

Advisory approval of named executive officer compensation. The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required for shareholder advisory approval of the compensation of the Company's named executive officers.

Effect of broker non-votes and abstentions. Under the applicable regulations of the Securities and Exchange Commission (the "SEC") and the rules of exchanges and other self-regulatory organizations of which the brokers are members, brokers who hold common shares in street name may sign and submit proxies and may vote our common shares on certain "routine" matters. The ratification of KPMG is considered routine. Brokers may not vote street name shares on other matters without specific instructions from the customer who owns the shares. Proxies that are signed and submitted by brokers that have not been voted on certain matters are referred to as "broker non-votes."

Under applicable stock exchange rules, brokers are not permitted to vote without instruction in the election of directors, on the approval of the 2014 Incentive Plan, or the two proposals to amend our Code of Regulations. In addition, SEC regulations prohibit brokers from voting without customer instruction on the approval of named executive officer compensation. Neither broker non-votes nor abstentions will have any effect on the election of directors. Abstentions will have the same effect as a vote against the ratification of the appointment of KPMG, the 2014 Incentive Plan, and the advisory approval of named executive officer compensation; although, broker non-votes will have no effect on those proposals. Abstentions and broker non-votes will have the same effect as votes against the each of the proposals to amend our Code of Regulations.

Quorum

Business can be conducted at the Annual Meeting only if a quorum, consisting of at least the holders of a majority of our outstanding shares entitled to vote, is present, either in person or by proxy. Abstentions and broker non-votes will be counted toward establishing a quorum. If 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.

Solicitation; Expenses

We will pay all expenses of the Board's 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 any electronic access charges associated with Internet or telephonic voting incurred by a shareholder. We may solicit proxies in person or by telephone, facsimile or e-mail, and our officers, directors and employees may also assist with solicitation, but will receive no additional compensation for doing so.

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; Internet Availability

Our Annual Report on Form 10-K for the year ended December 31, 2013, including 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 or by phone at (614) 255-3333.

Additionally, this Proxy Statement and our Annual Report on Form 10-K are available on the internet free of charge at: <http://ir.diamond-hill.com/GenPage.aspx?IID=112960&GKP=1073749012>.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth beneficial ownership of our common shares as of the record date, March 6, 2014, by (a) all persons known by us to own beneficially five percent or more of the Company’s outstanding shares, (b) each director and director nominee, (c) our Chief Executive Officer and Chief Financial Officer, and the President and Chief Operating Officer of Diamond Hill Capital Management, Inc., and (d) all of our executive officers, directors, and nominees as a group. Although not required, we have also decided to voluntarily disclose all common shares beneficially owned by all other employees of the Company, excluding the executive officers. Unless otherwise indicated, the named persons exercise sole voting and dispositive power over the shares listed. None of the named persons have any outstanding options.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class⁽¹⁾</u>
Christopher M. Bingaman	20,898 ⁽²⁾	*
R. H. Dillon	301,288 ⁽²⁾	9.2%
Randolph J. Fortener	6,000	*
James F. Laird	75,422 ⁽²⁾	2.3%
Donald B. Shackelford	11,705 ⁽³⁾	*
Bradley C. Shoup	6,000	*
Frances A. Skinner	6,935	*
Lisa M. Wesolek	31,107 ⁽²⁾	*
Directors, nominees, and executive officers as a group (8 persons)	459,355	14.0%
All other employees of the Company (87 persons)	544,863 ⁽⁴⁾	16.6%
<u>5% Beneficial Owners</u>		
Royce & Associates, LLC ⁽⁵⁾	202,329	6.2%
BlackRock, Inc. ⁽⁶⁾	188,208	5.7%

- (1) Beneficial ownership of less than one percent is represented by an asterisk (*). The percent of class is based upon (a) the number of shares beneficially owned by the named person, divided by (b) the total number of shares which are issued and outstanding as of March 6, 2014 (3,285,998 shares).
- (2) Includes 2,434 shares, 2,901 shares, 3370 shares, and 697 shares for Mr. Bingaman, Mr. Dillon, Mr. Laird, and Ms. Wesolek, respectively, which are held in the Company’s 401(k) plan, over which the Trustee of the 401(k) Plan possesses the voting power and which are subject to restrictions on the power to dispose of these shares.
- (3) Includes 11,705 shares for Mr. Shackelford that are held in Trust.
- (4) Includes all employees of Diamond Hill Investment Group, Inc. and its subsidiaries as of March 6, 2014, excluding executive officers. Each employee has sole voting power. Certain shares are subject to restrictions on the power to dispose of the shares. The employees do not constitute a Group as defined by Rule 13d-1 of the Exchange Act. Includes 64,641 shares held in the Company’s 401(k) Plan, over which the Trustee of the 401(k) Plan possesses the voting power and which are subject to restrictions on the power to dispose of these shares.
- (5) The address for Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151. Based on information contained in a Schedule 13G filed with the SEC on January 8, 2014, by Royce & Associates, Inc, which reported Royce & Associates, Inc. has sole voting power and sole dispositive power over 202,329 shares.
- (6) The address for BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022. Based on information contained in a Schedule 13G/A filed with the SEC on January 28, 2014, by BlackRock, Inc., which reported BlackRock, Inc. has sole voting power over 183,334 shares and sole dispositive power over 188,208 shares on behalf of its subsidiaries.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires executive officers and directors, and persons who beneficially own more than ten percent of the Company’s shares, to file with the SEC initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 and Form 5. Executive officers, directors and persons who beneficially own more than ten percent of the Company’s securities are required by SEC regulations to furnish to the Company copies of all Section 16(a) reports they file with the SEC. Based solely upon a review of the Forms 3, 4 and 5 furnished to the Company by these persons and statements made by these persons that no other Section 16(a) reports were required to be filed by them, there were, to the Company’s knowledge, no late or unfiled reports during the year ended December 31, 2013.

PROPOSAL 1 — ELECTION OF DIRECTORS

The Board guides the strategic direction of the Company and oversees its management. All of our directors are elected annually. Peter J. Moran, who has served as a director of the Company since 2011 and is the chairman of the Nominating and Governance Committee, has not been renominated and is retiring from the Board at the Annual Meeting. The Board would like to thank Mr. Moran for his dedicated service to the Company. Although we presently have seven directors, as a result of Mr. Moran's departure from the Board, the Board has reduced the number of directors from seven to six. Mr. Moran will continue to serve until his term expires at the Annual Meeting, at which time the reduction to six directors will take effect. Thus, the Board is nominating six nominees for election.

Pursuant to the recommendation of the Nominating and Governance Committee, the Board has nominated the six nominees listed below for reelection, all of whom are incumbents, to hold office until the next annual meeting of shareholders and until their respective successors are elected and qualified. If any nominee becomes unable or unwilling to serve between the date of this proxy statement and the Meeting, proxies will be voted **FOR** the election of a replacement recommended by the Nominating and Governance Committee and approved by the Board.

Director Independence

The Board has determined that, with the exception of Mr. Dillon and Mr. Laird, all of our current directors are independent under the rules and independence standards of The NASDAQ Stock Market ("NASDAQ"), as well as applicable SEC requirements. There are no family relationships among our directors and executive officers.

The Nominees

The Board has determined that all of our director nominees are qualified to serve as directors of the Company. In addition to the specific business experience listed below, each of our director nominees has the tangible and intangible skills and attributes that we believe are required to be an effective director of the Company, including experience at senior levels in areas of expertise helpful to the Company, a willingness and commitment to assume the responsibilities required of a director, and the character and integrity we expect of our directors. The specific qualifications of each individual nominee are set forth under his or her name below.

R. H. Dillon, CFA, age 57, has been a director of the Company since 2001, and the President and CEO of the Company since 2000. Prior to joining the firm in 2000, Mr. Dillon had been employed as a portfolio manager by Loomis, Sayles & Company since 1997. Mr. Dillon has over 30 years of experience in the investment management industry.

Mr. Dillon received his BS and MA from The Ohio State University and his MBA from University of Dayton. Mr. Dillon also holds the Chartered Financial Analyst designation.

The Board believes that Mr. Dillon's qualifications to serve on the Board include his 13 years of experience as CEO and a Portfolio Manager of the Company, his in depth knowledge and involvement in our operations and his more than 30 years of experience as an investment professional.

Randolph J. Fortener, age 60, has been an independent director of the Company since 2013, is the chair of the Audit Committee, and serves on the Nominating and Governance Committee. Mr. Fortener has worked at the Crane Group, a private holding and management company, based in Columbus, Ohio, since 1990 and currently serves as the executive vice president of Crane Investment Company. In such capacity, Mr. Fortener directs all investment and acquisition activity for the company. Prior to joining the Crane Group, Mr. Fortener was a partner at Deloitte & Touche LLP, a big four accounting firm, providing services to investment banking firms. Mr. Fortener also specialized in estate and tax planning for privately held businesses while with Deloitte. Mr. Fortener has over 35 years of business experience, with an emphasis on corporate acquisitions and investments.

Mr. Fortener has served on numerous corporate boards and has served as chairman for many of them. Currently, Mr. Fortener is an appointed board member of the Columbus Metropolitan Library and serves on the board of The Breathing Association.

Mr. Fortener received a BS in accounting from The University of Findlay and an MBA in finance from the University of Dayton and is a Certified Public Accountant (inactive).

Mr. Fortener's qualifications to serve on the Board include his substantial experience in accounting and financial matters, including his significant experience as a certified public accountant, his current role as President of Crane Investment Company, and his experience on other corporate boards.

James F. Laird, CPA, age 57, has been a director of the Company since 2011, and the Chief Financial Officer, Secretary and Treasurer of the Company and President of Diamond Hill Funds since 2001. Prior to joining the firm in 2001, Mr. Laird was employed as a Senior Vice President for Villanova Capital since 1999 and Vice President and General Manager for Nationwide Advisory Services, Inc. from 1995 to 1999. Mr. Laird has over 25 years of experience in the investment management industry.

Mr. Laird received his BS in Accounting from The Ohio State University, is a Certified Public Accountant, and holds the Series 7, 24, 26, 27 and 63 securities licenses with the Financial Industry Regulation Authority.

Mr. Laird's qualifications to serve on the Board include his 12 years of experience as CFO of the Company, his in depth knowledge and involvement in our operations and his more than 25 years of experience in the financial, operational, administrative, and distribution aspects of the investment management industry.

Donald B. Shackelford, age 81, has been an independent director of the Company since 2005, has served as board chairman since 2011, and serves on the Compensation Committee. Mr. Shackelford retired from Fifth Third Bank, Central Ohio in 2008, where he served as Chairman from 1998 to 2008. Prior to joining Fifth Third Bank, Mr. Shackelford served as Chairman and CEO of State Savings Bank for 25 years, until its acquisition by Fifth Third Bank in 1998.

Mr. Shackelford served as a director of The Progressive Corporation, a national property and casualty insurance company from 1976 to 2010. Mr. Shackelford serves on the board of The Lowell Group, Insignia Bank, and Insight Bank, each private companies. Mr. Shackelford also served as a director of Limited Brands, Inc. from 1976 to 2005.

Mr. Shackelford received his BA from Denison University and his MBA from Harvard Business School.

Mr. Shackelford's qualifications to serve on the Board include his substantial experience in banking and financial services and his experience as a director of other public companies.

Bradley C. Shoup, age 55, has been an independent director of the Company since 2012 and serves on the Audit, Compensation, and Nominating and Governance Committees. Mr. Shoup has been Partner at Falcon Fund Management Ltd., since 2013. From 2011 to 2013, Mr. Shoup was a Managing Director of Cox Partners Inc., a private investment partnership in a family office. Prior to working at Cox Partners Inc., Mr. Shoup was Chief Investment Officer of Armstrong Equity Partners LP, a private investment partnership in the same family office. Prior to joining Armstrong, Mr. Shoup was President of BCS Capital Inc, an investment advisory firm from 2003 to 2006. Prior to BCS Capital, he was a founding member of Relational Investors LLC, an institutional investment management firm. Mr. Shoup has over 20 years of experience in the investment management industry.

Mr. Shoup received his BS in Civil Engineering with Distinction from the University of Kansas and his MS from the Sloan School of Management at Massachusetts Institute of Technology.

Mr. Shoup's qualifications to serve on the Board include his significant experience in the investment management industry, including his specific knowledge of and experience in investment management.

Frances A. Skinner, CFA, CPA, age 49, has been an independent director of the Company since 2010, is the chair of the Compensation Committee, and serves on the Audit Committee. Ms. Skinner has been a partner with AUM Partners, LLC, a management consulting firm specializing in the investment management industry, since 2009. Prior to joining AUM Partners, she was a principal with Focus Consulting Group, Inc. from 2003 to 2009. Ms. Skinner also spent 16 years at Allstate Investments, LLC, where she worked on developing compensation and incentive programs for investment professionals. Ms. Skinner has over 25 years of experience in the areas of investment management, finance and consulting. She is a co-author of the book *High Performing Investment Teams* (Wiley, 2006).

Ms. Skinner received her BA from St. Xavier University and her MBA from the University of Illinois - Chicago. Ms. Skinner also holds the Chartered Financial Analyst designation and is a Certified Public Accountant.

Ms. Skinner's qualifications to serve on the Board include her significant experience in the global investment management industry and experience in developing and consulting on matters of leadership, teamwork, performance evaluation, and compensation practices.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF R. H. DILLON, RANDY J. FORTENER, JAMES F. LAIRD, DONALD B. SHACKELFORD, BRADLEY C. SHOUP, AND FRANCES A. SKINNER AS DIRECTORS OF THE COMPANY.

THE BOARD OF DIRECTORS AND COMMITTEES

The Board held a total of five meetings during the year ended December 31, 2013. Each director attended 100% of the combined total number of meetings of the Board and its committees of which he or she was a member. Consistent with our Corporate Governance Guidelines, the independent directors met in executive session at all of the regularly scheduled Board meetings in 2013. Our Corporate Governance Guidelines provide that all directors are expected to attend each annual meeting of shareholders. All of our then incumbent directors attended our 2013 Annual Meeting of Shareholders.

Corporate Governance

The Board has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. The Board has adopted a written charter for each Committee. Current copies of each committee charter and our Corporate Governance Guidelines are available at our website, ir.diamond-hill.com, under the heading “Corporate Governance” on the right hand side of the site.

Pursuant to rules promulgated under the Sarbanes-Oxley Act of 2002, the Board has adopted a Code of Ethics for Principal Executive and Senior Financial Officers. This code is intended to deter wrongdoing and promote honest and ethical conduct, full, timely and accurate reporting, compliance with laws, and accountability for adherence to the code, including internal reporting of code violations.

We also have a Code of Business Conduct and Ethics that is applicable to all of our employees and directors, a copy of which was filed as an exhibit to our Annual Report on Form 10-K filed with the SEC on March 13, 2009. It is our policy to require all employees to participate annually in continuing education and training relating to the Code of Business Conduct and Code of Ethics.

We also have established a policy prohibiting our officers, directors, and employees from purchasing or selling shares of the Company while in possession of material, nonpublic information, or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. The policy also prohibits all employees and directors from purchasing or selling any derivative arrangement related to securities of the Company or engaging in any speculative, short selling, or hedging activities related to securities of the Company that may have a similar economic effect.

Audit Committee

Mr. Fortener, Mr. Shoup, and Ms. Skinner serve on the Audit Committee, which met four times during 2013. Mr. Fortener serves as the Chair of the Audit Committee. The Board has determined that each of these committee members meets the independence and financial literacy rules and standards of the SEC and NASDAQ. The Board also has concluded that each of Mr. Fortener, Mr. Shoup, and Ms. Skinner meets the criteria for an audit committee financial expert as established by the SEC.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to (1) the retention of our independent registered public accounting firm, including appointing and overseeing the terms of its engagement and its performance, qualifications and independence, and (2) the integrity of our financial statements, other financial information provided to shareholders, and our internal control structure. The Audit Committee also reviews all related person transactions for potential conflicts of interest on an ongoing basis and all such transactions must be 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 report of the Audit Committee appears below the heading “AUDIT COMMITTEE REPORT.”

Compensation Committee

Mr. Shackelford, Mr. Shoup, and Ms. Skinner serve on the Compensation Committee, which met three times during 2013. Ms. Skinner serves as the Chair of the Compensation Committee. The Board has determined that each of these committee members meets the independence criteria of the SEC and NASDAQ. 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 or Board is employed by a company whose board of directors includes a member of the Company’s management.

The primary purpose of the Compensation Committee is to review and approve the Company’s executive compensation policies, evaluate the performance of our executive officers in light of corporate goals and objectives approved by the Compensation Committee, approve the annual salary, bonus, stock grants and other benefits, direct and indirect, of our executive officers and other senior employees, make recommendations to the full Board with respect to incentive-compensation plans and equity-based plans and determine director and committee member/chair compensation for non-employee directors. The Compensation Committee also administers our equity and other incentive plans. The Compensation Committee has delegated to management the ability to make stock grants within specific parameters to associates to align the interests of shareholders and the associate, to promote employee retention, and long-term employee ownership. 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.

Nominating and Governance Committee

Messrs. Fortener, Moran, and Shoup serve on the Nominating and Governance Committee, which met twice during 2013. Mr. Moran serves as the chairman. The Board has determined that each of these committee members meets the independence criteria of NASDAQ.

The primary purpose of the Nominating and Governance Committee is to maintain and cultivate the effectiveness of the Board and oversee the Company’s governance policies. Among the committee’s responsibilities are Board and committee composition, director qualifications, orientation and education, and Board evaluations. Members identify, evaluate, and nominate Board candidates; review compliance with director stock ownership guidelines; and oversee procedures regarding shareholder nominations and other communications to the Board. The Nominating and Governance Committee is also responsible for monitoring compliance with and recommending any changes to the company’s Corporate Governance Guidelines. Additional information regarding the committee’s activities can be found under the heading “Corporate Governance.”

Board Committee Membership

The following table summarizes the membership of the Board and each of its committees, and the number of times each met during 2013:

<i>Director</i>	<i>Audit</i>	<i>Compensation</i>	<i>Nominating and Governance</i>
R. H. Dillon			
Randolph J. Fortener ⁽¹⁾	Chair		Member
James F. Laird			
Peter J. Moran			Chair
Donald B. Shackelford ⁽²⁾		Member	
Bradley C. Shoup ⁽³⁾	Member	Member	Member
Frances A. Skinner	Member	Chair	
Number of Meetings in 2013	4	3	2

(1) Mr. Fortener was appointed Chair of the Audit Committee in April 2013.

(2) Chairman of the Board.

(3) Mr. Shoup was appointed to Compensation Committee in October 2013, replacing Mr. Moran, and was appointed to the Nominating and Governance Committee in April 2013.

Compensation of Directors

The Compensation Committee is responsible for periodically reviewing and recommending to the Board the compensation of non-employee directors. At the discretion of the Board, directors are eligible to receive stock-based awards under the Diamond Hill Investment Group, Inc. 2011 Equity and Cash Incentive Plan (the “2011 Plan”). After a thorough review of the compensation of our non-employee directors, the Compensation Committee recommended a change in our non-employee director compensation from an annual payment structure to the use of long-term cliff vesting restricted stock awards, as a way to further align the interests

of our directors with the long-term interests of our shareholders.

The Board adopted the Compensation Committee’s recommendation and, effective January 1, 2012, independent directors are compensated using cliff vesting restricted stock grants. These are intended to compensate the directors for a period of time, which is currently the shorter of five years or a director’s expected retirement date. The restricted stock grants are intended to fully compensate directors for their services as directors and as members of committees of the Board. After the restricted stock grants vest, our Corporate Governance Guidelines prohibit the shares from being sold while the director remains on the Board, except that shares may be sold within the year the grants vest to pay taxes due as a result of the vesting.

In 2012, the non-employee directors each received a cliff vesting restricted stock grant. Non-employee directors who are eligible to serve on the Board for five years or longer received a cliff vesting restricted stock grant of 6,000 shares intended to fully compensate them for their services through 2016. These directors will not be eligible to receive another cliff vesting restricted stock grant until 2017. Non-employee directors who are expected to retire within five years received a prorated cliff vesting restricted stock grant intended to fully compensate them for their services until they retire from the Board.

The following table summarizes the changes in the structure of director compensation adopted in 2012:

	Previous Compensation Structure		New Compensation Structure*			
	2011	2012	2013	2014	2015	2016
Total Compensation — Company Stock	—		[6,000 Shares of Company Stock]			
Annual Retainer — Company Stock	\$ 40,000					
Annual Retainer for Chairman — Cash	\$ 10,000					
Annual Retainer for Committee Chairs — Cash	\$ 5,000					
Payment for each board meeting attended	\$ 2,000					
Payment for each committee meeting attended	\$ 1,000					

The following table sets forth information regarding the compensation earned by, or paid to, directors who served on our Board in 2013. Mr. Dillon and Mr. Laird, who are executive officers of the Company, do not receive separate compensation for the director service and have been omitted from this table. As discussed above, existing directors received no cash or stock compensation in 2013, with the exception of Mr. Fortener who received a cliff vesting restricted stock grant of 6,000 shares in conjunction with his election to the Board, which is intended to fully compensate him for a five year period.

2013 Director Compensation⁽¹⁾

<u>Name</u>	<u>Stock Awards(2)</u>	<u>Total</u>
Randolph J. Fortener ⁽³⁾	\$ 452,940	\$ 452,940
Peter J. Moran	\$ —	\$ —
Donald B. Shackelford	\$ —	\$ —
Frances A. Skinner	\$ —	\$ —
Bradley C. Shoup	\$ —	\$ —

- (1) Includes only those columns relating to compensation awarded to, earned by, or paid to non-employee directors for their services in 2013. All other columns have been omitted.
- (2) Represents the full grant-date fair value computed by multiplying the total shares granted by the closing price of the shares on the grant date.
- (3) Mr. Fortener was elected to the Board at the 2013 Annual Shareholder meeting. His compensation represents service after his election to the Board and is intended to represent service for the five year period ending April 30, 2018.

Non-employee directors are not expected to receive any additional cash or stock awards for the service period covered in the below table. These shares were granted under the 2011 Plan. For information on the expensing of these awards, please see note 5 to the

consolidated financial statements contained in the Company’s Form 10-K for the year ended December 31, 2013. Details of each stock award are reflected in the table below.

<u>Name</u>	<u>Shares Granted</u>	<u>Service Period Covered</u>	<u>Grant- Date Fair Value</u>	<u>Grant Date</u>	<u>Vesting Date</u>
Randolph J. Fortener	6,000	4/24/13 - 4/30/18	\$ 452,940	4/30/13	4/30/18
Peter J. Moran	6,000	1/1/12 - 12/31/16	\$ 462,060	2/22/12	1/1/17
Donald B. Shackelford ^(a)	4,200	1/1/12 - 4/30/15	\$ 323,442	2/22/12	4/30/15
Frances A. Skinner	6,000	1/1/12 - 12/31/16	\$ 462,060	2/22/12	1/1/17
Bradley C. Shoup	6,000	4/25/12 - 4/30/17	\$ 462,060	4/25/12	4/30/17

(a) Intended to represent service from January 1, 2012 until his scheduled retirement.

Ownership and Retention Guidelines

Our Corporate Governance Guidelines generally prohibit shares granted to our directors as compensation from being sold while the director remains on the Board. Therefore, we expect each non-employee director to hold for his or her entire term of service on the Board all of our shares granted to the director as compensation, except for sales of shares to pay taxes as discussed above.

CORPORATE GOVERNANCE

The Nominating and Governance Committee has general oversight responsibility for assessment and recruitment of new director candidates, as well as evaluation of director and board performance and oversight of our governance matters. The Committee originally adopted Corporate Governance Guidelines on February 25, 2010 and reviews them annually. The most current version of the Guidelines is available on our website, ir.diamond-hill.com, under “Corporate Governance” on the right hand side of the site.

Board Leadership and Composition

We believe separating the roles of Chairman and CEO provides for a strong governance and oversight structure, and these roles have been separate since 2000. Mr. Shackelford has served as independent non-executive chairman since 2011 and Mr. Dillon has served as CEO since joining the Company in 2000. The Chairman approves Board agendas and schedules, chairs all executive sessions of the independent directors, acts as the liaison between the independent directors and management, oversees the information distributed in advance of Board meetings, is available to the Secretary to discuss and, as necessary, respond to shareholder communications to the Board, and calls meetings of the independent directors. Mr. Dillon assumed the role of Vice Chairman in 2014 and is expected to become Chairman when Mr. Shackelford retires from the Board. When this occurs, a Lead Director will be named.

Currently, five of the seven directors are independent under NASDAQ standards. If the proposed directors are elected and following Mr. Moran’s departure, four of our six directors will still be independent. In addition, the Nominating and Governance Committee, the Audit Committee, and the Compensation Committee are all currently comprised entirely of independent directors and following the Annual Meeting will be reconstructed to remain so. Overall, we believe that our Board structure is designed to foster critical oversight, good governance practices, and the interests of the Company and its shareholders.

Among other things, the Corporate Governance Guidelines address term limits of each director. Although we have a 10 year service limit for directors, the Guidelines authorize the Board to make exceptions to this limitation and permit directors to serve for an additional year, and the Board has made such exceptions in the past.

Board’s Role in Risk Oversight

The Board’s role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including client investment results, and operational, financial, legal, regulatory and strategic risks. The Audit Committee is responsible for overseeing risks relating to our accounting matters, financial reporting and legal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets regularly with management and the Company’s independent registered public accounting firm. The Compensation Committee is responsible for overseeing risks

relating to employment policies and our compensation and benefits programs. To satisfy these oversight responsibilities, the Compensation Committee meets regularly with management to understand the implications of compensation decisions, particularly the risks that our compensation policies pose to our finances and our relationship with employees.

Planning Group and Senior Management Team

In December 2012, the Company created a Senior Management Team, which includes the CEO, CFO, Mr. Bingaman, Mr. Snowdon, and Ms. Wesolek. Each member of the Senior Management Team reports directly to the CEO and is responsible for the following functional areas of the company: Mr. Laird - Finance, Administration, and Compliance; Mr. Bingaman - Portfolio Management; Mr. Snowdon - Research; and Ms. Wesolek - Client Service, Marketing, and Business Development. In conjunction with the creation of the Senior Management Team, the Planning Group was temporarily dissolved.

In July 2013, the Company reconstituted the Planning Group to provide input to the Senior Management Team, provide a source of leadership development, and play a role in the Company's overall succession planning efforts. When reconstituted, the Planning Group included William Zox, Gary Young, and Laurie Riebel from the previous planning group and new members Austin Hawley - investment research, Jason Downey - investment research, and Josh Alderman - business development. The Company believes that the Senior Management Team in conjunction with a reconstituted Planning Group is an appropriate and effective organizational structure for the Company.

In December 2013, the Company announced that effective January 1, 2014, Mr. Bingaman would assume the role of President of Diamond Hill Capital Management, Inc. With this role, Mr. Bingaman is expected to succeed Mr. Dillon as Chief Executive Officer in January 2016. In addition, the Company announced that effective January 1, 2014, Ms. Wesolek would assume the role of Chief Operating Officer of Diamond Hill Capital Management, Inc.

Director Orientation and Continuing Education and Development

When a new independent director joins the Board, the Company provides a formal orientation program for the purpose of providing the new director with an understanding of our operations and financial condition. In addition, each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. To assist the directors in maintaining such level of expertise, we may, from time to time, offer continuing education programs in addition to briefings during Board meetings relating to the competitive and industry environment and the Company's goals and strategies.

Director Qualifications and the Nominations Process

The Nominating and Governance Committee believes that the nominees presented in this proxy statement would constitute a Board with an appropriate level and diversity of experience, education, skills, and independence. The Nominating and Governance Committee routinely considers the current composition of the Board, and whether changes should be made or additional directors should be added to the Board.

The Nominating and Governance Committee supervises the nomination process for directors. It considers the performance, independence, diversity, and other characteristics of our incumbent directors, including their willingness to serve, and any change in their employment or other circumstances in considering their nomination each year. The Nominating and Governance Committee also considers diversity of background and experience as well as gender and other forms of diversity. We do not, however, have any formal policy regarding diversity in identifying nominees for a directorship, but rather we consider it among the various factors relevant to any particular nominee and the overall needs of the Board. In the event that a vacancy exists or the Company decides to increase the size of the Board, the Nominating and Corporate Governance Committee will identify, interview, examine, and make recommendations to the Board regarding appropriate candidates.

The Nominating and Governance Committee identifies potential candidates principally through suggestions from our directors and senior management. The committee may also seek candidates through informal discussions with third parties. We have not historically retained search firms to help identify director candidates and did not do so in identifying this year's nominees.

In evaluating potential candidates, the Nominating and Governance Committee considers, among other factors, independence from management, experience, expertise, commitment, diversity, number of other public company board and related committee seats held, potential conflicts of interest, and the composition of the Board at the time of the assessment. All candidates for nomination must:

- demonstrate strong character and integrity;
- have sufficient time to carry out their duties;

- have experience at senior levels in areas of expertise helpful to the Company and consistent with the objective of having a diverse and well-rounded Board; and
- have the willingness and commitment to assume the responsibilities required of a director of the Company.

In addition, candidates expected to serve on the Audit Committee must meet independence and financial literacy qualifications required by NASDAQ, the SEC, and other applicable laws and regulations. Candidates expected to serve on the Nominating and Governance Committee and on the Compensation Committee must meet independence qualifications set out by NASDAQ. The evaluation process of potential candidates also includes personal interviews, and discussions with appropriate references. Once the Nominating and Governance Committee has selected a candidate, it recommends the candidate to the full Board for election if a vacancy occurs or is created by an increase in the size of the Board during the course of the year, or for nomination if the director is to be first elected by our shareholders. All directors serve for one-year terms and must stand for reelection annually.

The Nominating and Governance Committee does not currently have any specific policies regarding the consideration of director candidates recommended by shareholders due to a historical absence of shareholder recommendations. The Nominating and Governance Committee will consider shareholder recommendations for directors using the process and criteria set forth above. In the future, the Nominating and Governance Committee may in its discretion adopt policies regarding the consideration of director candidates recommended by shareholders. 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.

Certain Relationships and Related Person Transactions

The Board recognizes that related person transactions present a heightened risk of conflicts of interest. 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. The Audit Committee will review 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 2013. For any related person transaction to be consummated or to continue, the Audit Committee must approve or ratify the transaction.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during 2013 were Ms. Skinner, Mr. Moran, Mr. Shoup, and Mr. Shackelford. Mr. Shoup replaced Mr. Moran on the Committee in October 2013. No director who served on the Compensation Committee during 2013 currently is, or during 2013 was, an officer, employee or former officer of the Company or had any relationship during 2013 requiring disclosure by us under Item 404 of SEC Regulation S-K. During 2013, none of our executive officers served as a member of the board of directors or compensation committee of any other company that has an executive officer serving as a member of our Board or Compensation Committee.

EXECUTIVE OFFICERS AND COMPENSATION INFORMATION

During 2013, R. H. Dillon and James F. Laird were the Company's only named executive officers. Their experience is described above under the heading "PROPOSAL 1 - ELECTION OF DIRECTORS." The Company had no executive officers other than our named executive officers during 2013. Each named executive officer devotes his full time and effort to the affairs of the Company. Effective January 1, 2014, Diamond Hill Capital Management, Inc., a subsidiary of the Company, named Chris Bingaman, President, and Lisa Wesolek, Chief Operating Officer, making them executive officers of the Company.

Compensation Discussion and Analysis

In our Compensation Discussion and Analysis, we:

- describe our compensation program objectives and how compensation for our named executive officers is determined; and
- explain the tables and disclosures that follow.

This Compensation Discussion and Analysis presents compensation information for the following individuals:

- R. H. Dillon, who served as our President and Chief Executive Officer in 2013; and
- James F. Laird, who served as our Chief Financial Officer, Secretary and Treasurer in 2013.

Background

We are in the investment management industry. Human capital is the most important resource of companies in our industry. Attracting and retaining employees can be more difficult in our industry than in others because of how heavily our industry depends on the contributions of talented individuals. We have been able to attract and retain high-quality employees due to:

- our investment-centric culture,
- employee ownership in our business,
- our central Ohio location, and
- the nationally-competitive compensation we offer to our employees.

Compensation, which is a critical element in a business dependent on talented employees, has a particularly significant impact on profitability in industries like ours that are not capital intensive. This requires a balancing of the economics between our operating profit margin and rewarding the employees who generate our profits and produce investment results for our clients. As of March 6, 2014, our employees and directors owned approximately 30% of the Company. In contrast, many competitor firms are owned entirely by their employees and many publicly-traded asset managers are far less employee owned. Despite our unique ownership structure given our industry, we believe that industry norms are helpful benchmarks for evaluating the balancing effort.

At our 2013 Annual Meeting of Shareholders, we asked our shareholders to vote upon an advisory resolution to approve the compensation of our executive officers. The compensation of our named executive officers was approved by 98% of the votes cast on the matter. The Compensation Committee of the Board (the “Committee”) believes that the results of the advisory vote on executive compensation are supportive of our previous compensation practices and of its overall judgment related to the compensation practices of the Company and considered that endorsement in establishing the compensation awarded to our executive officers for 2013.

Compensation Program Objectives

We seek to attract and retain people with integrity, intelligence and energy. All 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 results, (ii) market compensation data, and (iii) the profitability of the firm compared to other investment management firms.

In addition to annual incentive compensation, upon commencing employment with the Company, most employees are awarded equity grants as an incentive to their continued employment. Generally, these awards cliff vest after five years of employment to promote employee retention and long-term employee ownership. The Company also seeks to increase employee ownership because it believes such ownership encourages employees to act and think like owners. While compensation amounts differ depending upon position, responsibilities, performance and competitive data, the Company seeks to reward all employees with similar compensation components based on these objectives.

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 goals defined as rolling five-year periods in which client returns are sufficiently above relevant passive benchmarks, rank in the top quartile of similar investment strategies, and exceed a sufficient absolute return for the risk associated with the asset class. As it relates to our investment professionals, their compensation program is designed to reward performance that supports these objectives. For those employees who are not a part of our investment team the compensation program varies, but is based on rewarding individual performance that helps us meet our fiduciary duty to clients and shareholders. We seek to fulfill our fiduciary duty to shareholders by managing the firm and its assets to increase shareholder value over time.

Over the past five years, our annualized total shareholder return was 26.8% compared to a peer group average of 18.6% and a 20.0% return for the Russell 2000 Index. Further, over the past five years, \$49 per share has been returned to shareholders via special dividend distributions, much of which has been deemed a return of capital, and therefore, is generally not currently taxable to our shareholders.

Compensation Setting Process

Role of the Compensation Committee. The Committee has the overall responsibility for evaluating and approving the structure, operation and effectiveness of our compensation plans, policies and programs for all employees. The Committee consists of Mr. Shackelford, Mr. Shoup and Ms. Skinner. Ms. Skinner serves as the Chair. Each member of the Committee is an “outside director” for purposes of Section 162(m) of the Internal Revenue Code (the “Code”), is a “non-employee director” for purposes of Section 16(b) of the Securities Exchange Act of 1934, and meets NASDAQ independence requirements. The Committee is specifically charged to:

- review and approve the corporate goals and objectives relevant to the compensation of the CEO, to evaluate the CEO’s performance in light of these goals and objectives, and, based on this evaluation, make recommendations to the Board for the independent directors to approve the CEO’s compensation level (including any long-term incentive or other compensation under any incentive-based or equity-based compensation plan);
- review management’s recommendations and make recommendations to the Board with respect to director and other non-CEO executive officer compensation; provided, however, that the Committee has full decision-making authority with respect to compensation intended to be performance-based compensation within the meaning of Section 162 (m) of the Internal Revenue Code;
- retain compensation consultants as it deems necessary to assist in its evaluation of director, CEO or other senior executive compensation programs or arrangements. The Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors;
- review management’s recommendations and make recommendations to the Board with respect to incentive-based compensation and equity-based compensation plans and programs that are subject to Board approval, and that may be applicable to all or any portion of the employees of the Company and/or its subsidiaries; and
- exercise all power and authority of the Board in the administration of equity-based incentive compensation plans.

The Committee considers the sum of all pay elements when reviewing annual compensation recommendations for the named executive officers. Although the framework for compensation decision-making is tied to the Company’s overall financial performance and the creation of long-term shareholder value, the Committee retains the discretion to make recommendations to the Board for the independent directors to approve individual compensation based on other performance factors, such as demonstrated management and leadership capabilities and the achievement of certain investment results for client accounts and other strategic operating results.

Role of Management. The Company’s CEO evaluates the CFO as part of our annual review process and makes recommendations to the Committee regarding all elements of executive compensation paid to him. Changes in executive compensation proposed by the CEO are based on the CFO’s performance, the compensation of individuals with comparable responsibilities in competing or similar organizations, and the profitability of the Company. At the Committee’s request, the CEO and CFO attend Committee meetings to provide general employee compensation and other information to the Committee, including information regarding the design, implementation and administration of our compensation plans. The Committee also meets in executive sessions without the presence of any executive officer whose compensation the Committee is scheduled to discuss.

Use of Compensation Consultants and Surveys in Determining Executive Compensation. The Committee’s written charter gives it the authority to retain an independent outside executive compensation consulting firm to assist in evaluating policies and practices regarding executive compensation and provide objective advice regarding the competitive landscape. Historically, however, the Committee has not engaged compensation consultants and did not do so in 2013.

Each year the Committee obtains and summarizes an asset management industry pay analysis prepared by McLagan Partners, a compensation specialist focusing on the asset management industry. The companies in the McLagan Partners’ analysis includes approximately 150 public and private asset management companies with which we compete. This analysis provides the Committee with a general overview of compensation trends in the asset management industry. The Committee does not define a specific peer group, but rather takes a broad view of the analysis. The Committee does not set any compensation elements or levels based on targeting a certain percentile from the survey, but rather sets compensation that it believes to be both competitive and based on the executive’s value to the Company. The survey is just one of many factors that the Committee considers when determining executive compensation. Management and the Committee believe this broad view of the analysis is appropriate because we compete with both public and private asset management firms regardless of their size and scope of operations.

Elements of Compensation

Base Salary. Base salaries for the named executive officers are intended to provide a fixed level of cash compensation that is appropriate given the executive's role in the organization. Generally, base salaries are determined by (i) scope of responsibility and complexity of position, (ii) performance history, (iii) tenure of service, (iv) internal equity within the Company's salary structure, and (v) relative salaries of persons holding similar positions at companies within the investment management industry. Base salaries are designed to compensate knowledge and experience. In December 2013, the Committee made the determination not to increase the base salaries of the named executive officers for fiscal year 2014. Consistent with our desire to have the majority of total compensation paid to named executive officers at risk in the form of incentive compensation, only 35 and 20 percent of the total compensation of our CEO and CFO, respectively, in fiscal year 2013 (as shown in the Summary Compensation table) was paid in the form of base salaries. In furtherance of this desire, the 100,000 share performance-based restricted stock award made to the CEO in May 2011 has vesting provisions based on the future operating performance of the Company, as described in the "Restricted Stock Award to Mr. Dillon" section below.

Annual Cash Bonuses. In March 2011, we entered into an amendment and restatement of our employment agreement with Mr. Dillon. We agreed to amend and restate Mr. Dillon's employment agreement to reflect the mutual desire of the Company and Mr. Dillon that he remain CEO for the next five years. The amended and restated agreement entitles Mr. Dillon to, among other things, an annual cash bonus equal to at least 5% of the Company's operating income, subject to an annual cap of \$640,000. Mr. Dillon earned a \$640,000 cash bonus for 2013 because 5% of the Company's operating income for fiscal year 2013 exceeded \$640,000. The Committee believes this formula to determine a cash bonus is appropriate for our CEO, whose effectiveness and responsibility is most closely tied to the amount of our operating income, capping the award at an amount that Mr. Dillon and the Committee believe is appropriate given broad market compensation data and the additional value of the separate restricted stock award to Mr. Dillon in 2011 (which is described in the following section).

The Committee awarded a discretionary cash bonus to Mr. Laird, to reward him for his strong performance and overall contributions to the Company in fiscal year 2013. The Committee believes that structuring Mr. Laird's annual cash bonus as a discretionary cash bonus provides the Committee with the flexibility to consider all aspects of Mr. Laird's performance and contributions to the Company which, for a CFO, may not be as directly tied to our operating income. In determining the amount of Mr. Laird's cash bonus, the Committee considered the Company's overall operating results for 2013, contributions by Mr. Laird that were not reflected in our operating results, and broad market compensation data.

Restricted Stock Award to Mr. Dillon. In May 2011, we awarded 100,000 shares of performance-based restricted stock to Mr. Dillon pursuant to the Company's 2011 Plan. All of the shares will vest on January 1, 2016, if the Company's cumulative operating profit (defined as the Company's total revenue during the period beginning on January 1, 2011 and ending on December 31, 2015, excluding any investment income and gains and the revenue of the Company's subsidiaries Beacon Hill Fund Services, Inc. and BHIL Distributors, Inc. (collectively, "Beacon Hill"), less the Company's total operating expenses during such period, excluding Beacon Hill expenses, any investment losses and all taxes) equals or exceeds \$75,000,000. The results of Beacon Hill are excluded from the cumulative operating profit because it is a separate subsidiary of the Company and is not yet material to the overall financial results of the Company. If the Company's cumulative operating profit during such period is less than \$75,000,000, a number of shares of restricted stock equal to 100,000 multiplied by a fraction, the numerator of which will be the Company's actual cumulative operating profit during such performance period and the denominator of which will be \$75,000,000, will vest on January 1, 2016. Any shares of restricted stock that do not vest will be forfeited on such date. All shares of restricted stock that vest on January 1, 2016 will remain subject to restrictions on sale or transfer following the vesting date. The restrictions on sale or transfer will lapse with respect to 20% of the vested shares of restricted stock on each anniversary of the vesting date. If Mr. Dillon dies or is disabled prior to December 31, 2015, a number of shares of restricted stock equal to 100,000 multiplied by a fraction, the numerator of which will be the number of whole months of service elapsed between January 1, 2011 and the date of death or disability and the denominator of which will be 60, will vest and become immediately transferable without restriction. If Mr. Dillon's employment is terminated prior to January 1, 2016 without Cause or for Good Reason (each as defined in Mr. Dillon's amended and restated employment agreement), a number of shares of restricted stock equal to 100,000 multiplied by the lesser of (i) a fraction, the numerator of which will be the Company's actual cumulative operating profit during the period beginning on January 1, 2011 and ending on the date of termination of employment and the denominator of which will be \$75,000,000, and (ii) a fraction, the numerator of which will be the number of whole months of service elapsed between January 1, 2011 and the date of termination of employment and the denominator of which will be 60, will vest and become immediately transferable without restriction. In the event of a Change in Control (as defined in Mr. Dillon's amended and restated employment agreement), all 100,000 shares of restricted stock will immediately vest and become transferable without restriction.

This restricted stock award is intended to comprise all of Mr. Dillon's equity-based compensation for the 2011 fiscal year through the 2015 fiscal year, and no additional equity awards to Mr. Dillon during that period are contemplated. The Committee believes

this compensation structure strongly aligns the long-term interests of Mr. Dillon with those of the Company and its shareholders and better advances the objectives of our compensation program than the annual compensation structure used in prior years.

In December 2012, we amended Mr. Dillon’s award agreement made under the 2011 Plan to clarify restrictions on dividends paid on the 100,000 share performance-based restricted stock grant described above. The amendment caused dividends paid in 2012 on the 100,000 share performance-based restricted stock grant to be placed in escrow and to be subject to the same vesting requirements as the stock grant. When shares subject to the award vest, the related dividends held in escrow will be transferred to Mr. Dillon.

Discretionary Stock Award to Mr. Laird. The Committee awarded a discretionary stock award to Mr. Laird to reward him for his strong performance and overall contributions to the Company in fiscal year 2013. The Committee believes that paying a discretionary stock bonus to Mr. Laird provides the Committee with the flexibility to consider all aspects of Mr. Laird’s performance and contributions to the Company as well as properly compensate him for the value he provided to the Company in fiscal year 2013. In addition, this stock award, while immediately vested, is restricted from sale or transfer for five years, which the Committee believes strongly aligns the long-term interests of Mr. Laird with those of the Company and its shareholders. In determining the amount of the stock award, the Committee considered the contributions Mr. Laird made to the Company in 2013, specifically his leadership in our day-to-day management, oversight of financial matters, compliance, and internal controls, all of which contribute to our overall operating results, which continued to be strong in 2013. In summary, the Committee considered contributions made by Mr. Laird in 2013 along with a review of broad market compensation data for executives in similar roles and determined that this discretionary award was reflective of his performance in 2013.

Retirement Plan Benefits. We provide retirement benefits through the Diamond Hill Investment Group 401k Plan and Trust. The named executive officers are entitled to participate in this plan on the same terms and conditions as all other employees. The Plan does not involve any guaranteed minimum or above-market returns, as plan returns depend on actual investment results.

Deferred Compensation Plans. We have two Deferred Compensation Plans: the Diamond Hill Fixed Term Deferred Compensation Plan (the “Fixed Term Plan”) and the Diamond Hill Variable Term Deferred Compensation Plan (the “Variable Term Plan”). Mr. Dillon is eligible to participate in the Variable Term Plan, along with each person employed by the Company or any of its affiliates as a portfolio manager or research analyst. Mr. Laird is eligible to participate in the Fixed Term Plan, along with each person employed by the Company or any of its affiliates who is not a portfolio manager or research analyst. The terms and conditions of the Plans are described in more detail under the heading “Pension Plans and Non-Qualified Deferred Compensation” below.

Other Benefits and Perquisites. We do not provide supplemental retirement plan benefits to our named executive officers. As a general rule, we do not provide any perquisites or other personal benefits to our named executive officers that are not offered on an equal basis to all employees. Our named executive officers are entitled to participate in benefit programs that entitle them to medical, dental, and short-term and long-term disability insurance coverage that are available to all employees.

Post Employment Payments. Only Mr. Dillon, has an employment contract which provides for payments upon termination of employment. More information on Mr. Dillon’s employment agreement and termination payments thereunder is set forth under the heading “Employment Agreements and Change in Control Benefits.”

Stock Ownership Guidelines

In February 2010, the Board adopted stock ownership guidelines for our named executive officers to further align their interests with those of our shareholders. The below table provides the target ownership level reflected in the guidelines and actual shares owned as of December 31, 2013. Both of our named executive officers hold shares well in excess of the amounts required under the guidelines.

<u>Name</u>	<u>Title</u>	<u>Target Ownership Level</u>	<u>Target Number of Shares(a)</u>	<u>Number of Shares Owned</u>	<u>Ownership Guideline Met</u>
R. H. Dillon	President and CEO	5x Salary	15,211	301,244	Yes
James F. Laird	Chief Financial Officer	3x Salary	5,071	74,102	Yes

(a) Based on a per share price of \$118.34, which was the closing price of our common shares on December 31, 2013, and the respective base salaries of our named executive officers as of that date.

Risks Related to Compensation Policies and Practices

As part of its oversight of our executive and non-executive compensation programs, the Compensation Committee considers how current compensation programs, including the incentives created by compensation awards, affect the Company’s risk profile. In addition, the Committee reviews our compensation policies, particularly the incentives that they create, to determine whether they encourage an appropriate level of risk-taking and do not present a significant risk to the Company. The Compensation Committee also considered the following risk mitigating factors:

- current compensation programs reward portfolio managers and research analysts on trailing five-year investment performance in client accounts;
- a majority of incentive compensation is in the form of equity-based awards;
- sale restriction periods for equity-based compensation awards encourage executives and other employees to focus on the long-term performance of the Company;
- the Committee has discretionary authority to adjust annual incentive awards;
- the Company has internal controls over financial reporting and other financial, operational and compliance policies and practices; and
- base salaries are consistent with executives’ responsibilities so that they are not motivated to take excessive risks to achieve a reasonable level of financial security.

Based on this review, the Committee has concluded that our compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

Compensation Recoupment and Restitution Policy

Upon the recommendation of the Compensation Committee, our Board of Directors recently adopted a compensation recoupment and restitution policy that applies to all incentive compensation received by all employees, including our named executive officers. Under the policy, we may recover all or a portion of incentive compensation (or pay out additional incentive compensation) related to awards made after the adoption of the policy, in three general situations:

- if due to error or malfeasance the previously determined incentive pool, or an individual award, is either too large (or too small), then any overpayment made to an employee may be returned to Company or an additional payment may be made to an associate;
- if an employee violates an important Company policy or acts in an unlawful manner, then we could recoup the employee’s incentive compensation; and
- if an employee, who is part of the financial statement preparation process, commits wrongdoing, then we could recoup the employee’s incentive compensation.

The policy is intended to provide enhanced safeguards against certain types of misconduct and provide enhanced protection to and alignment with shareholders. These provisions are in addition to any policies or recovery rights that are provided under applicable laws, including the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Beginning in 2013, all awards are subject to this policy.

Summary Compensation Table

The following table sets forth the total compensation paid to or earned by our named executive officers in the years indicated. Additional information on the elements of compensation included in the table below is available under the “Compensation Discussion and Analysis” section.

Name and Principal Position	Year	Salary	Bonus⁽¹⁾	Stock Awards	All Other Compensation⁽⁵⁾	Total
R. H. Dillon	2013	\$ 360,000	\$ 640,000	\$ —	\$ 34,464	\$ 1,034,464
<i>President and CEO</i>	2012	\$ 360,000	\$ 640,000	\$ —	\$ 34,464	\$ 1,034,464
	2011	\$ 360,000	\$ 640,000	\$ 7,997,000 (2)	\$ 34,200	\$ 9,031,200
James F. Laird	2013	\$ 200,000	\$ 550,000	\$ 250,000 (3)	\$ 26,532	\$ 1,026,532
<i>Secretary, Treasurer and</i>	2012	\$ 200,000	\$ 250,000	\$ 500,000 (3)	\$ 26,532	\$ 976,532
<i>Chief Financial Officer</i>	2011	\$ 200,000	\$ 250,000	\$ 500,000 (3)	\$ 26,400	\$ 976,400

- (1) Mr. Dillon was granted a bonus award in accordance with the terms of his employment contract. Mr. Laird was granted a discretionary bonus award from the Company’s bonus pool, which was not based upon any pre-established performance goals. Mr. Laird’s amount for 2013 includes a \$300,000 cash bonus and \$250,000 originally made as a stock award with respect to which Mr. Laird elected to defer 50% in cash to the Fixed Term Plan. See the “Compensation Discussion and Analysis” section above for a further description of Mr. Dillon’s and Mr. Laird’s cash bonus awards for fiscal year 2013.
- (2) Represents the full grant date fair value computed by multiplying the total number of shares of restricted stock granted by the closing price of our common shares on the grant date. This award represents 100,000 shares of restricted stock awarded to Mr. Dillon on May 2, 2011 as part of a long-term performance-based incentive program under the 2011 Plan and constitutes the stock portion of Mr. Dillon’s incentive compensation for the years 2011 through 2015. These shares will vest on January 1, 2016 subject to the achievement of performance goals established by the Compensation Committee and described above in the “Compensation Discussion and Analysis” section. The value shown is based on what we currently believe to represent the probable outcome of the applicable performance goals. Any shares that vest on January 1, 2016 will be subject to further restrictions from transfer or sale in accordance with the following schedule:

Percentage of Vested Shares Available for Transfer or Sale

<u>January 1, 2017</u>	<u>January 1, 2018</u>	<u>January 1, 2019</u>	<u>January 1, 2020</u>	<u>January 1, 2021</u>
20%	40%	60%	80%	100%

- (3) Represents the full grant date fair value computed by multiplying the total number of shares granted by the closing price of the shares on the grant date. These shares were awarded to Mr. Laird as partial payment for amounts earned under our 2013, 2012, and 2011 annual incentive plans. All shares were fully vested on the grant date but were restricted from sale for five years. The below table shows the details of the specific number of shares granted for each annual incentive plan year:

<u>Name</u>	<u>Incentive Plan Year</u>	<u>Shares Granted</u>	<u>Grant Date</u>	<u>Sale Restriction Period</u>
James F. Laird	2013	2,130	February 28, 2014	Five Years
	2012	6,405	February 20, 2013	Five Years
	2011	6,493	February 22, 2012	Five Years

The stock awards made to Mr. Laird for 2011, 2012, and 2013 were discretionary and were made under the Company’s 2011 Plan.

- (4) The following types of compensation are included in the all other compensation column:

<u>Name</u>	<u>Year</u>	<u>Contributions to Company 401k Plan^(a)</u>	<u>Contributions to Health Savings Account^(a)</u>	<u>Total</u>
R. H. Dillon	2013	\$ 29,400	\$ 5,064	\$ 34,464
	2012	\$ 29,400	\$ 5,064	\$ 34,464
	2011	\$ 29,400	\$ 4,800	\$ 34,200
James F. Laird	2013	\$ 24,000	\$ 2,532	\$ 26,532
	2012	\$ 24,000	\$ 2,532	\$ 26,532
	2011	\$ 24,000	\$ 2,400	\$ 26,400

- (a) The Company contributions to the Company 401k Plan and employee Health Savings Accounts are offered to all employees of the Company and its affiliates.

Grants of Plan Based Awards for 2013

The following table sets forth information regarding annual incentive plan awards to each of the named executive officers for the year ended December 31, 2013.

Name	Grant Date	Compensation Committee Action Date(1)	Estimated Possible Payouts Under Equity Incentive Plan Awards(2)			Grant Date Fair Value of Stock and Options Awards \$
			Threshold #	Target #	Maximum #	
R.H. Dillon	—	—	—	—	—	—
James F. Laird	2/28/14	2/24/14	—	2,130	—	\$ 250,000

- (1) The Compensation Committee Action Date represents the date on which the Committee authorized the equity-based award.
- (2) The amount in this column represents shares of restricted stock awarded pursuant to the 2011 Plan, which award is described in detail above under the heading “Compensation Discussion and Analysis.”

Outstanding Equity Awards at December 31, 2013

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2013. Mr. Laird had no outstanding equity awards at December 31, 2013.

Name	Stock Awards	
	Equity Incentive Plan Awards: Number of Unearned Shares That have Not Vested ⁽¹⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested ⁽²⁾
R. H. Dillon	100,000	\$ 11,834,000

- (1) The amount in this column represents shares of restricted stock awarded pursuant to the 2011 Plan, which is described in detail above under the heading “Compensation Discussion and Analysis.” These shares will vest on January 1, 2016, subject to the achievement of performance goals established by the Compensation Committee and Mr. Dillon’s continued employment by the Company on that date.
- (2) Amount reflects the value of the shares of restricted stock shown multiplied by \$118.34, the closing market price of the Company’s common shares as of December 31, 2013.

Option Exercises and Stock Vested for 2013

Neither Mr. Dillon nor Mr. Laird exercised any options during 2013. The following table sets forth information with respect to the only stock awards to Mr. Dillon or Mr. Laird that vested in 2013.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting
R. H. Dillon	—	\$ —
James F. Laird	6,405	\$ 500,000

Pension Plans and Non-Qualified Deferred Compensation

We do not maintain any pension plans for named executive officers or other employees. We offer two Non-Qualified Deferred Compensation Plans: the Fixed Term Plan and the Variable Term Plan (the “Deferred Compensation Plans”).

Deferrals of Incentive Compensation.

Pursuant to the Deferred Compensation Plans, participants may elect to defer up to 50% of the stock portion of their annual bonus and up to 100% of the cash portion of their annual bonus for a plan year (the calendar year). Generally, the participant must submit a deferral election by December 31 of the year before the services are to be performed. After the applicable deadline, a deferral election is irrevocable for that plan year except under circumstances set forth in the Deferred Compensation Plan.

Earnings

The deferred incentive compensation, if any, is credited to an account for that plan year. The participant is 100% vested in the account, although the account is subject to the terms and conditions of the Company's Compensation Recoupment and Restitution Policy, described above. The account will be credited with earnings and losses based on the performance of the investment selections in the participant's account, which only include Diamond Hill Funds.

Plan Funding

The Deferred Compensation Plans are unfunded, unsecured promises by the Company to pay the account balances under the Deferred Compensation Plans at a later date. Participants have only the rights of general unsecured creditors of the Company and do not have any interest in or right to any specific asset of the Company.

Distributions

Under the Fixed Term Plan, the account for each Plan Year will be distributed in (i) a single lump sum payment within 90 days following the fifth anniversary of the date the Incentive Compensation was deferred or (ii) in up to five substantially equal annual installments beginning on the January 1 following the fifth anniversary of the date such Incentive Compensation was deferred and on each January 1 thereafter, except in the event of death, Disability or a Change in Control.

Under the Variable Term Plan, the participant must elect when they wish to receive distributions. Generally, the participant may elect to receive the account (i) in a single lump sum payment within 90 days following either the termination of employment, or a specified date which is at least five years after the annual bonus was deferred; or (ii) in substantially equal annual installments for up to fifteen years beginning on the January 1 following either (A) the termination of employment and on each January 1 thereafter, or (B) on a specified date which is at least five years after the annual bonus was deferred and on each January 1 thereafter.

In the event of death or Disability (as defined in the Deferred Compensation Plans), the participant's account will be distributed to the participant or the participant's beneficiary, as applicable, in a lump sum within 90 days after the event. In the event that the Company undergoes a Change in Control (as defined in the Plans), the account will be distributed in a lump sum within 30 days after the Change in Control.

During fiscal year 2013, Mr. Dillon deferred no compensation and had no balance under the Deferred Compensation Plans as of December 31, 2013. In 2013, Mr. Laird was awarded a discretionary stock award in the amount of \$500,000. Mr. Laird elected to defer \$250,000 of such award into the Fixed Term Plan.

Non-Qualified Deferred Compensation

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year Ending
R. H. Dillon	0	0	0	0	0
James F. Laird	250,000 ⁽¹⁾	0	0	0	250,000 ⁽¹⁾

(1) The amounts included in this table were reported as Bonus in the Summary Compensation Table for 2013. No contribution was actually deposited into the plan until 2014.

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. We are not a party to an employment agreement with any other employee and are not obligated to provide change in control benefits to any employee other than Mr. Dillon.

In March 2011, we entered into an amended and restated employment agreement with Mr. Dillon. The agreement has a current expiration date of January 1, 2016. The agreement provides for an annual salary of \$360,000, which may be increased (but not reduced) by the Board annually, plus an annual cash bonus of at least 5% of the Company's operating income, with a maximum annual cash bonus of \$640,000. Mr. Dillon also received a restricted stock award of 100,000 shares that vests on January 1, 2016 if performance criteria established by the Compensation Committee are satisfied and Mr. Dillon remains employed with the Company on that date. The performance criteria and vesting provisions of Mr. Dillon's restricted stock award are discussed more thoroughly in the "Compensation Discussion and Analysis" section above. Mr. Dillon's employment agreement also entitles him to receive health insurance and six weeks paid vacation annually and to participate in other benefit programs offered to employees. The agreement also restricts Mr. Dillon from competing with the Company 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 Company information.

If we terminate Mr. Dillon's employment without Cause (as defined in Mr. Dillon's amended and restated employment agreement), he would be entitled to the following payments, which are quantified to reflect the amounts he would have received had his employment been terminated at December 31, 2013:

1. his accrued but unpaid base salary and vacation and unreimbursed business expenses as of the date of termination (\$0 at December 31, 2013);
2. payments, if any, under other benefit plans and programs in effect at the time (\$0 at December 31, 2013; we have no benefit plans that would result in payments upon termination);
3. a single lump sum payment equal to six months of his base salary at his annual salary rate in effect at the date of termination (\$180,000 at December 31, 2013);
4. beginning in the seventh month after the date of termination, six monthly payments of his monthly base salary (\$180,000 at December 31, 2013);
5. any portion of the restricted stock award of 100,000 shares as provided in the award agreement (60,000 shares at December 31, 2013);
6. a lump sum payment equal to the amount, if any, he received as an annual cash bonus for the preceding year (\$640,000 at December 31, 2013);
7. his accrued but unpaid annual cash bonus from the year prior to the date of termination (\$0 at December 31, 2013); and
8. a pro rata portion of the annual cash bonus (\$640,000 at December 31, 2013).

Mr. Dillon may terminate his employment for "Good Reason" (as defined in Mr. Dillon's amended and restated employment agreement), which generally includes reduction of his annual base salary or annual cash bonus, permanent or consistent assignment to him of duties inconsistent with his position and authority, a requirement that he no longer report directly to the Board, or a breach by the Company of his employment agreement. If he terminates his employment for Good Reason, Mr. Dillon is entitled to all of the payments to which he would be entitled in the event he is terminated without Cause, except for the payment set forth in number 7 above.

If Mr. Dillon's employment terminates due to his death or disability, if the employment agreement terminates in accordance with its terms or if we terminate Mr. Dillon for "Cause" (as defined in Mr. Dillon's amended and restated employment agreement), he will be entitled to receive the payments set forth in numbers 1 and 2 above. In the event of his death, he will also receive the payments described in numbers 1, 2, 5, and 8 above. In the event of disability, he will also receive the payments described in numbers 1, 2, 5, 7, and 8 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.

In the event of a "Change in Control" (as defined in Mr. Dillon's amended and restated employment agreement), all 100,000 shares of restricted stock would immediately vest and become transferable without restriction in accordance with the terms of the award agreement applicable to the restricted stock award. Additionally, if within 24 months after the occurrence of a "Change in Control", Mr. Dillon's employment is terminated by the Company for any reason other than death, disability or for Cause, or Mr. Dillon terminates his employment for "Good Reason", he will be entitled to the following payments from us or our successor, in addition to the applicable payments set forth in numbers 1 through 8 above:

- a single lump sum payment equal to his annual base salary and annual cash bonus payable to him for the most recently completed fiscal year (\$1,000,000 at December 31, 2013); 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 (\$6,050 at December 31, 2013).

If any payments to Mr. Dillon in connection with a "Change in Control" would constitute excess parachute payments under applicable tax laws, Mr. Dillon will receive gross-up payments in an amount that covers any taxes, interest, penalties, additional taxes or costs incurred and leaves Mr. Dillon with the amount he would have retained if the payments he received upon the "Change in Control" had not constituted excess parachute payments.

COMPENSATION COMMITTEE REPORT

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

We have reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on such review and discussion, we recommended that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Submitted by the Compensation Committee of the Board of Directors:

Frances A. Skinner, Chair
Donald B. Shackelford
Bradley C. Shoup

PROPOSAL 2 — RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On October 25, 2012, upon the recommendation of the Audit Committee, Plante & Moran PLLC (“Plante & Moran”) was dismissed as our independent registered public accounting firm. The reports of Plante & Moran on the consolidated financial statements of the Company for the years ended December 31, 2011 and December 31, 2010 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Plante & Moran’s reports on the effectiveness of internal control over financial reporting as of December 31, 2011 and 2010 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2010 and December 31, 2011 and from January 1, 2012 through October 30, 2012, there were (i) no disagreements between the Company and Plante & Moran on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to Plante & Moran’s satisfaction, would have caused Plante & Moran to make reference to the subject matter of the disagreement in connection with its reports for such years and interim period, and (ii) no “reportable events” within the meaning of Item 304(a)(1)(v) of Regulation S-K.

On October 24, 2012, the Audit Committee engaged KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2012. During the fiscal years ended December 31, 2010 and December 31, 2011 and from January 1, 2012 through October 30, 2012, neither the Company nor anyone on its behalf has consulted with KPMG regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, (ii) the type of audit opinion that might be rendered on the Company’s financial statements, (iii) any matter that was the subject of a “disagreement” within the meaning of Item 304(a)(1)(iv) of Regulation S-K, or (iv) any “reportable event” within the meaning of Item 304(a)(1)(v) of Regulation S-K. KPMG served as our independent registered public accounting firm in fiscal 2013 as well.

The Audit Committee has again engaged KPMG as our independent registered public accounting firm for the 2014 fiscal year, and is asking that our shareholders ratify this appointment. Representatives of KPMG are expected to be present at the Annual Meeting to respond to appropriate questions from shareholders and to make such statements as they may desire.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2014.

If Proposal 2 is not approved, the Audit Committee will reconsider the appointment of KPMG as our independent registered public accounting firm for 2014.

Disclosure of Fees Charged by the Independent Registered Public Accounting Firm

The following table summarizes the fees billed by Plante & Moran and KPMG for services rendered to the Company and its subsidiaries during 2012 and 2013.

	Year Ended 12/31/2013	Year Ended 12/31/2012
Audit Fees ⁽¹⁾	\$ 118,200	\$ 109,500
Audit-Related Fees	—	—
Tax Fees ⁽²⁾	\$ 52,350	\$ 45,620
All Other Fees ⁽³⁾	\$ 3,000	4,950
Total Fees	\$ 173,550	\$ 160,070

- (1) Audit fees include professional services rendered for the audit of annual financial statements, reviews of quarterly financial statements, issuance of consents, and assistance with review of other documents filed with the SEC. In 2012, Plante & Moran billed the Company \$12,000 and KPMG billed the Company \$97,500. In 2013, all fees were billed by KPMG.
- (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. In 2012, Plante & Moran billed the Company \$14,120 and KPMG billed the Company \$31,500. In 2013, all fees were billed by KPMG.
- (3) In 2013 all Other Fees were billed by KPMG and included services related to a review of a consolidation analysis. In 2012, all Other Fees were billed by Plante & Moran and included services related to assisting management with calculating the Company's "earnings and profits" in order to determine the proper tax character of dividends paid.

Preapproval by Audit Committee

The Audit Committee pre-approves the audit and non-audit services provided by the independent registered public accounting firm to ensure that the provision of the services does not impair the firm's independence. All services disclosed above were pre-approved by the Audit Committee.

AUDIT COMMITTEE REPORT

The 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. KPMG served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2013.

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. The Company's independent registered public accounting firm is responsible for performing an audit of the Company's consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board ("PCAOB") and issuing reports on the Company's financial statements and the effectiveness of the Company's internal controls over financial reporting. The Audit Committee's responsibility is to provide independent, objective oversight of these processes.

Pursuant to this responsibility, the Audit Committee met and held discussions with management and KPMG regarding the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2013. The Audit Committee reviewed the audit plan and scope with KPMG and discussed with them the matters required by Statement on Auditing Standards No. 61, as amended, and adopted by the PCAOB in Rule 3200T. The Audit Committee also met with KPMG 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.

The Committee also discussed with KPMG its independence from management and the Company, and received its written disclosures and the letter from KPMG required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence.

Management has represented to the Audit Committee that the Company's consolidated financial statements for the year ended December 31, 2013, were prepared in accordance with United States generally accepted accounting principles, and the Audit Committee reviewed and discussed the audited consolidated financial statements with management and KPMG. Based on the Audit Committee's discussions with management and KPMG and review of KPMG'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, 2013, filed with the SEC.

Submitted by the Audit Committee of the Board of Directors:

Randolph J. Fortener, Chairman
Bradley C. Shoup
Frances A. Skinner

PROPOSAL 3 - APPROVAL OF THE COMPANY'S 2014 EQUITY AND CASH INCENTIVE PLAN

Summary of 2014 Equity and Cash Incentive Plan

The following is a summary of the material terms of the 2014 Incentive Plan, which summary is qualified in its entirety by reference to the 2014 Incentive Plan, the complete text of which is attached to this proxy statement as Appendix A. We urge you to read the 2014 Incentive Plan.

Purpose. The purpose of the Plan is to promote the Company's long-term financial success and increase shareholder value by motivating performance through incentive compensation. The Plan also is intended to encourage participants to acquire ownership interests in the Company, attract and retain talented employees and directors and enable participants to participate in the Company's long-term growth and financial success.

Effect on Other Plans. The 2014 Incentive Plan will replace the Company's existing equity-based incentive plan (the "2011 Plan"). As of March 1, 2014, under the 2011 Plan, zero shares were subject to outstanding stock options; a maximum of 220,560 shares may be paid out in respect of outstanding restricted stock; a maximum of 14,000 shares may be paid out in respect of outstanding restricted stock units and 189,318 shares remained available for new award grants. If the 2014 Incentive Plan is approved, future awards will be made under the 2014 Incentive Plan and no additional awards will be made under the 2011 Plan.

Administration. The Compensation Committee of the Board will administer the 2014 Incentive Plan and will have full power and authority to:

- interpret the 2014 Incentive Plan and any award agreement issued thereunder;
- establish, amend and rescind any rules and regulations relating to the Plan;
- select participants;
- establish the terms and conditions of any award consistent with the terms and conditions of the 2014 Incentive Plan, including when the award may vest and, if applicable, exercised, the acceleration of any such dates, and the expiration of the award; and
- make any other determinations that it deems necessary or desirable for the administration of the 2014 Incentive Plan.

To the extent permitted by law, the Compensation Committee may delegate any ministerial duties associated with the Plan; however, the Compensation Committee may not delegate duties that it is required to discharge to comply with Section 162(m) of the Code, its authority to grant awards to any participant who is subject to Section 16 of the Act, and its authority under any equity award granting policy of the Company that may be in effect from time to time.

Eligibility. The Compensation Committee may select any employees of the Company and its affiliates and any non-employee directors to receive awards under the 2014 Incentive Plan. As of March 6, 2014, there were 5 non-employee directors of the Company and approximately 90 employees of the Company and its affiliates who are eligible to receive awards under the 2014 Incentive Plan.

Types of Awards

In General. When an award is granted under the 2014 Incentive Plan, the Compensation Committee will establish the terms and conditions of that award. These terms and conditions will be contained in an award agreement.

Stock Options. A stock option gives a participant the right to acquire a specified number of shares at an exercise price determined at the time of grant. Stock options may be granted as "incentive stock options" or "nonqualified stock options." The exercise price of a stock option must be at least equal to the fair market value of a share (*i.e.*, the closing price of the Company's shares on NASDAQ) on the date the stock option is granted. The exercise price of a stock option may be paid in any method approved by the Compensation Committee, including in cash, by tendering previously-acquired shares, by a cashless exercise, any combination of the foregoing or any other method approved by the Compensation Committee. The Compensation Committee will determine the term of the stock option (which may not exceed ten years), the vesting conditions and any other terms and conditions of the stock option, all of which will be stated in the award agreement. Incentive stock options may only be granted to employees and must comply with other requirements, including those contained in Section 422 of the Code.

Stock Appreciation Rights. A stock appreciation right gives the participant a right to receive the difference between the fair market value of a share on the date of exercise over the exercise price of the stock appreciation right. The exercise price of any stock appreciation right will be at least equal to the fair market value of a share on the date the stock appreciation right is granted. The Compensation Committee will determine the term of the stock appreciation right (which may not exceed ten years), the vesting

conditions and any other terms and conditions of the stock appreciation right, all of which will be stated in the related award agreement.

Restricted Stock. Restricted stock consists of a number of shares granted to a participant subject to limitations on transferability and a risk of forfeiture if certain terms and conditions are not met. These restrictions may include time- or performance-based restrictions, as determined by the Compensation Committee and stated in the related award agreement. Unless otherwise provided in the award agreement, a participant who has been granted restricted stock will have the right to vote the restricted stock during the restriction period and receive dividends (which will be subject to the same limitations as the restricted stock).

Other Stock-Based Awards. Other stock-based awards are awards valued in whole or in part by reference to, or otherwise based on, the fair market value of a share. Other stock-based awards may include unrestricted shares and stock units, which are notional shares that entitle the participant to receive the value of a share if certain terms and conditions are satisfied. These terms and conditions (if any) may include time- or performance-based terms and conditions, as determined by the Compensation Committee and stated in the related award agreement. Other stock-based awards may be granted with rights to receive dividends paid on the shares to which the award relates.

Cash-Based Awards. Cash awards represent the right to receive a cash payment if certain terms and conditions are satisfied. These terms and conditions may include time- or performance-based terms and conditions, as determined by the Compensation Committee and stated in the related award agreement.

Performance-Based Awards. Awards granted under the 2014 Incentive Plan may be granted subject to satisfaction or attainment of performance criteria so that the award may constitute qualified performance-based compensation under Section 162(m) of the Code.

For employees, other than Covered Employees, the Compensation Committee may select any performance criteria it deems appropriate. For Covered Employees, the performance criteria are:

- operating profit, including operating profit margins;
- earnings per share;
- net income;
- investment performance of the Company's investment strategies (collectively or a single strategy, individually);
- operating income;
- calculation of the Company's intrinsic value;
- return on equity;
- return on sales; and
- revenue.

Different performance criteria may be applied to individual participants or to groups of participants and may be based on the results achieved individually or collectively by the Company, by any related entity or by any combination of our segments, products, divisions, or related entities. In addition, performance objectives may be measured on an absolute or cumulative basis or measured relative to selected peer companies or a market index.

The Compensation Committee may issue a performance-based award to any participant. However, a performance-based award granted to an employee whose compensation may be subject to limited deductibility under Section 162(m) of the Code (a "Covered Employee") is subject to the additional requirements discussed below. Generally, our Named Executive Officers are our only Covered Employees.

For performance-based awards granted to a Covered Employee, the Compensation Committee will establish in writing the applicable performance criteria, performance period and formula for determining the amount or value of the performance-based award by no later than 90 days after the beginning of the applicable performance period (or, if earlier, after 25% of the applicable performance period has expired). After the end of each performance period, the Compensation Committee will certify in writing whether the performance goals and other material terms imposed on the Performance-Based Award have been satisfied. The Compensation Committee may exercise negative discretion and reduce (but not increase) the amount of a performance-based award to a Covered Employee.

Shares Available for Awards

Share Pool. Subject to the adjustments discussed below, the aggregate number of shares available for the grant of awards under the 2014 Incentive Plan will be 600,000, which is the same number of shares that were authorized and available for issuance from

our existing equity-based incentive plan, the 2011 Plan. Shares issued under the 2014 Incentive Plan may consist of treasury shares, authorized but unissued shares, or shares purchased on the open market.

Share Usage. When an award is granted, the number of shares available for issuance under the 2014 Incentive Plan will be reduced by the number of shares subject to such award. Notwithstanding the reduction described in the preceding sentence, the following shares may be again available for issuance as awards:

- shares covered by an award that expires or is forfeited, cancelled, surrendered or otherwise terminated without the issuance of shares;
- shares covered by an award that is settled in cash or for less than the full number of shares subject to the award;
- shares granted through the assumption of, or in substitution for, outstanding awards granted by a company to individuals who become participants in the 2014 Incentive Plan as the result of a merger, consolidation, acquisition or other corporate transaction involving such company and the Company or any of its affiliates;
- shares from awards exercised for or settled in vested and nonforfeitable shares that are later returned to the Company pursuant to any compensation recoupment policy, provision or agreement; and
- shares surrendered upon exercise of an award as payment of the applicable exercise price or withheld to satisfy any applicable taxes.

Adjustments. In the event of any share dividend, share split, recapitalization, merger, reorganization, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares or any other change affecting the shares, the Compensation Committee will make such substitutions and adjustments as it deems equitable and appropriate to the aggregate number of shares that it may issue under the 2014 Incentive Plan, any share-based limits imposed under the 2014 Incentive Plan and the exercise price, number of shares and other terms or limitations applicable to outstanding awards.

Share Price. On March 6, 2014, the closing price of the Company's shares on NASDAQ was \$118.11.

Effect of Termination of Employment or Service

Death; Disability or Retirement. Except as otherwise specified in the related award agreement, in the event of a participant's death, disability or retirement (as such terms are defined in the 2014 Incentive Plan): (1) all exercisable awards may be exercised for the remainder of the term of such award (provided, however, that any incentive stock option that is not exercised within 12 months following the participant's death, disability or retirement will be treated as a nonqualified stock option); (2) a pro rata portion of all unvested awards shall vest, as determined by the Committee in its sole discretion, based on the amount of time elapsed during the vesting period prior to the date of death, disability or retirement, or the attainment of the performance criteria over the portion of the performance period elapsed as of the date of death, disability or retirement; and (3) all awards that do not vest as described in (1) and (2), above, shall terminate and be forfeited as of the date of death, disability or retirement.

Termination for Cause. Except as otherwise specified in the related award agreement, if a participant is terminated for Cause (as such term is defined in the 2014 Incentive Plan), all awards, whether or not vested and/or exercisable, shall terminate and be forfeited as of the date of termination.

Other Terminations. Except as otherwise specified in the related award agreement, if a participant terminates for any other reason: (1) all exercisable awards may be exercised for the remainder of the term of such award (provided, however, that any incentive stock option that is not exercised within three months following the participant's termination will be treated as a nonqualified stock option); and (2) all unvested awards shall terminate and be forfeited as of the date of termination.

Change in Control

Except as otherwise provided in the related award agreement, in the event of a change in control (as such term is defined in the 2014 Incentive Plan), all outstanding awards shall become immediately vested and exercisable, and the Compensation Committee may take such actions, if any, as it deems necessary or desirable with respect to any such awards, including, without limitation, (1) the payment of a cash amount in exchange for the cancellation of an award and/or (2) the issuance of substitute awards that substantially preserve the value, rights and benefits of any awards affected by the change in control.

Other Terms and Conditions

Transferability. Except as otherwise provided in a related award agreement, a participant may not sell, transfer, pledge or assign an award, except by will or the laws of descent and distribution. In no event may it be transferred for value. During a participant's lifetime, only the participant or his or her guardian or legal representative may exercise an award.

No Rights as a Shareholder. Except as otherwise provided in the 2014 Incentive Plan or in a related award agreement, a participant will not have any rights as a shareholder with respect to shares covered by an award unless and until the participant becomes the record holder of such shares.

Repricing. Except for adjustments due to recapitalization, etc. as discussed above, the 2014 Incentive Plan expressly prohibits the Board or Compensation Committee from amending the terms of an outstanding award to reduce the exercise price of an outstanding stock option or stock appreciation right or cancel an outstanding stock option or stock appreciation right in exchange for cash or other awards (including stock options or stock appreciation rights) having an exercise price less than the exercise price of the original stock option or stock appreciation right, without shareholder approval.

Effective Date and Term. The 2014 Incentive Plan will become effective upon its approval by the shareholders and, unless earlier terminated, will continue until the tenth anniversary of the date of its approval by the shareholders (except that the Compensation Committee may not grant any incentive stock options after February 25, 2024, the tenth anniversary of the date the 2014 Incentive Plan was approved by the Board).

Amendment or Termination

The Board or Compensation Committee may amend or terminate the 2014 Incentive Plan at any time, except that no amendment or termination may be made without shareholder approval if the amendment materially increases the benefits accruing to participants, the amendment materially increases the aggregate number of shares authorized for grant under the 2014 Incentive Plan (except for adjustments due to recapitalization, etc. as discussed above), the amendment materially modifies the eligibility requirements for participation or shareholder approval is required by any law, regulation or stock exchange rule.

U.S. Federal Income Tax Consequences

The following is a brief summary of the general U.S. federal income tax consequences relating to participation in the 2014 Incentive Plan. This summary is based on U.S. federal tax laws and Treasury Regulations in effect on the date of this Proxy Statement and does not purport to be a complete description of the U.S. federal income tax laws. In addition, this summary does not constitute tax advice or describe federal employment, state, local or foreign tax consequences. Each participant should consult with his or her tax advisor concerning the U.S. federal income tax and other tax consequences of participating in the 2014 Incentive Plan.

Incentive Stock Options. Incentive stock options are intended to qualify for special treatment available under Section 422 of the Code. A participant will not recognize taxable income when an incentive stock option is granted and the Company will not receive a deduction at that time. A participant will not recognize ordinary income upon the exercise of an incentive stock option provided that the participant was, without a break in service, an employee of the Company or an affiliate during the period beginning on the grant date of the incentives stock option and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the participant's employment is terminated due to Disability).

If the participant does not sell or otherwise dispose of the shares acquired upon the exercise of an incentive stock option within two years from the grant date of the incentive stock option or within one year after the participant receives the shares, then, upon disposition of such shares, any amount realized in excess of the exercise price will be taxed to the participant as a capital gain, and the Company will not be entitled to a corresponding deduction. The participant generally will recognize a capital loss to the extent that the amount realized is less than the exercise price.

If the foregoing holding period requirements are not met, the participant generally will recognize ordinary income at the time of the disposition of the shares in an amount equal to the lesser of (1) the excess of the fair market value of the shares on the date of exercise over the exercise price or (2) the excess, if any, of the amount realized upon disposition of the shares over the exercise price, and the Company will be entitled to a corresponding deduction. Any amount realized in excess of the value of the shares on the date of exercise will be capital gain. If the amount realized is less than the exercise price, the participant generally will recognize a capital loss equal to the excess of the exercise price over the amount realized upon the disposition of the shares.

The rules that generally apply to incentive stock options do not apply when calculating any alternative minimum tax liability. The rules affecting the application of the alternative minimum tax are complex, and their effect depends on individual circumstances, including whether a participant has items of adjustment other than those derived from incentive stock options.

Nonqualified Stock Options. A participant will not recognize any income when a nonqualified stock option is granted, and the Company will not receive a deduction at that time. However, when a nonqualified stock option is exercised, a participant will recognize ordinary income equal to the excess, if any, of the fair market value of the shares that the participant purchased on the

date of exercise over the exercise price. If a participant uses shares or a combination of shares and cash to pay the exercise price of a nonqualified stock option, the participant will recognize ordinary income equal to the value of the excess of the number of shares that the participant purchases over the number of shares that the participant surrenders, less any cash the participant uses to pay the exercise price. When a nonqualified stock option is exercised, the Company will be entitled to a deduction equal to the ordinary income that the participant recognizes.

Stock Appreciation Rights. A participant will not recognize taxable income when a stock appreciation right is granted, and the Company will not receive a deduction at that time. When a stock appreciation right is exercised, a participant will recognize ordinary income equal to the excess of the cash and/or the fair market value of the shares the participant receives over the aggregate exercise price of the stock appreciation right, if any, and the Company will be entitled to a corresponding deduction.

Restricted Stock. Unless a participant makes an election under Section 83(b) of the Code (a “Section 83(b) Election”), the participant generally will not recognize taxable income when restricted stock is granted, and the Company will not receive a deduction at that time. Instead, a participant will recognize ordinary income when the restricted stock vests (i.e., when the underlying shares are either freely transferable or not subject to a substantial risk of forfeiture) equal to the fair market value of the shares that the participant receives when the terms, conditions and restrictions have been met, less any consideration paid for the restricted stock, and the Company generally will be entitled to a deduction equal to the income that the participant recognizes.

If a participant makes a Section 83(b) Election, the participant will recognize ordinary income on the grant date equal to the fair market value of the shares subject to the restricted stock award on the grant date, and the Company will be entitled to a deduction equal to the income that the participant recognizes at that time. The participant will not recognize income when (and if) the restricted stock vests.

Other Stock-Based Awards. Generally, a participant will not recognize taxable income when another stock-based award is granted, and the Company will not receive a deduction at that time. However, upon the settlement of another stock-based award, the participant will recognize ordinary income equal to the cash and/or fair market value of the shares that the participant receives, less the aggregate exercise price of the other stock-based award, if any. The Company generally will be entitled to a deduction equal to the income that the participant recognizes.

Cash Awards. A participant will not recognize ordinary income at the time a cash award is granted, and the Company will not be entitled to a deduction at that time. In general, a participant will recognize ordinary income when the cash award is settled equal to the amount of the cash received, and the Company will be entitled to a corresponding deduction.

Section 162(m) of the Code. Awards granted under the 2014 Incentive Plan may constitute qualified performance-based compensation under Section 162(m) of the Code to preserve certain federal income tax deductions by the Company for Covered Employees. To so qualify, awards must be granted under the 2014 Incentive Plan by a committee consisting solely of two or more “outside directors” (as defined under applicable tax regulations) and satisfy the 2014 Incentive Plan’s limit on the total number of shares that may be awarded to any single participant during any fiscal year. In addition, for awards other than stock options and stock appreciation rights to constitute qualified performance-based compensation, the granting, vesting, exercisability or settlement of the award, as the case may be, must be contingent upon satisfying one or more of the performance criteria described above, as established and certified by a committee consisting solely of two or more “outside directors.” The Compensation Committee meets the composition requirements of Section 162(m) of the Code.

Sections 280G and 4999 of the Code. Sections 280G and 4999 of the Code impose penalties on “excess parachute payments.” An excess parachute payment occurs when payments are made to a “disqualified individual” (as defined under Section 280G of the Code) in connection with a change in control in an amount equal to or greater than three times the disqualified individual’s taxable compensation averaged over the five calendar years ending before the change in control (or over the entire period of employment if the participant has been employed less than five calendar years). This average is called the “base amount.” The excess parachute payment is the amount by which the payments exceed the participant’s base amount.

Excess parachute payments subject the disqualified individual to a 20% excise tax. This tax is in addition to other federal, state and local income, wage and employment taxes. The Company may not deduct the amount of any excess parachute payment, and the \$1,000,000 limit on deductible compensation under Section 162(m) of the Code is reduced by the amount of the excess parachute payment. Generally, any payments under the 2014 Incentive Plan that may be subject to the loss of deduction or excise tax imposed by Sections 280G or 4999 of the Code are reduced to the maximum amount that can be paid without resulting in a loss of deduction or the imposition of an excise tax.

Section 409A of the Code. Section 409A of the Code imposes rules for amounts deferred under nonqualified deferred compensation plans. Section 409A includes a broad definition of nonqualified deferred compensation plans which may extend to various types

of awards granted under the 2014 Incentive Plan. The proceeds of any award that is subject to Section 409A are subject to a 20% excise tax if those proceeds are distributed before the recipient separates from service with the Company or before the occurrence of other specified events, such as death, disability or a change in control, all as defined in Section 409A. The 2014 Incentive Plan has been drafted to comply with Section 409A of the Code. The 2014 Incentive Plan is intended to comply with the requirements of Section 409A of the Code and the Compensation Committee intends to administer the 2014 Incentive Plan to minimize the impact of Section 409A of the Code.

New Plan Benefits

There have been no grants authorized by the Compensation Committee under the 2014 Incentive Plan to date.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL AND ADOPTION OF THE 2014 INCENTIVE PLAN.

PROPOSAL 4 - APPROVAL OF AN AMENDMENT TO OUR CODE OF REGULATIONS TO SEPARATE THE POSITIONS OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

Currently, under our Code of Regulations (the “Regulations”) the positions of President and Chief Executive Officer (the “CEO”) are combined. Historically, this combined position has not presented any issues because it has been held by Mr. Dillon since our formation. However, with the growth of our Company and a view towards expanded leadership, our Board now desires the flexibility to appoint different individuals to serve as our President and our CEO. As we have disclosed previously, we have been involved in succession planning in light of Mr. Dillon’s intention to retire as our CEO at the end of 2015. As part of this process, the Board desires to appoint his anticipated successor as our President, while retaining Mr. Dillon as our CEO. This separation would permit a more effective and efficient division of responsibilities, and would permit the Board to more effectively fill our officer positions to carry out our succession planning. In addition, the appointment of an anticipated successor during Mr. Dillon’s service to the Company would enable a seamless transition of our senior leadership and increase organizational sustainability.

If this amendment is approved by our shareholders, the Board intends to immediately appoint Chris Bingaman, who is currently the President of Diamond Hill Capital Management, Inc., our wholly-owned subsidiary, to the position of President. As we have previously announced, Mr. Bingaman is expected to succeed Mr. Dillon as our CEO in January 2016.

The full text of Sections 3.01 and 3.04 through 3.08 of the Regulations, as they are proposed to be amended, is set forth below, marked to show changes from the current provisions in the Regulations:

SECTION 3.01. OFFICERS. The officers of the corporation to be elected by the directors shall be [a chief executive officer](#), a president, a secretary, a treasurer, and, if desired, one or more vice presidents and such other officers and assistant officers as the directors may from time to time elect. The directors may elect a chairman of the board, who must be a director. Officers need not be shareholders of the corporation, and may be paid such compensation as the board of directors may determine. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law, the Articles, the Regulations or the By-Laws to be executed, acknowledged, or verified by two or more officers.

SECTION 3.04. DUTIES OF THE CHIEF EXECUTIVE OFFICER. [The chief executive officer of the corporation shall exercise supervision over the business of the corporation and over its officers and employees and shall have, among such additional powers and duties as the directors may from time to time assign to him, the power and authority to sign all certificates evidencing shares of the corporation and all deeds, mortgages, bonds, contracts, notes and other instruments requiring the signature of the chief executive officer of the corporation. It shall be the duty of the chief executive officer to preside at meetings of shareholders in the absence of, or at the request of, the chairman of the board.](#)

SECTION 3.05. DUTIES OF THE PRESIDENT. The president shall ~~be the chief executive officer of the corporation and shall~~ exercise supervision over the business of the corporation [and over its officers and employees](#) and shall have, among such additional powers and duties as the directors ~~and, if there be one, the chief executive officer,~~ may from time to time assign to him, the power and authority to sign all certificates evidencing shares of the corporation and all deeds, mortgages, bonds, contracts, notes and other instruments requiring the signature of the president of the corporation. ~~It shall be the duty of the president to preside at all meetings of shareholders.~~

SECTION ~~3.05~~3.06. DUTIES OF THE VICE PRESIDENTS. In the absence of the [chief executive officer, or the president](#), or in the event of ~~his~~[either officer's](#) inability or refusal to act, the vice president, if any (or in the event there be more than one vice president, the vice presidents in the order designated, or in the absence of any designation, then in the order of their election), shall perform the duties of the [chief executive officer, or the president](#), and when so acting, shall have all the powers of and be subject to all restrictions upon the [chief executive officer or the president](#). The vice presidents shall perform such other duties and have such other powers as the directors may from time to time prescribe.

SECTION ~~3.06~~3.07. DUTIES OF THE SECRETARY. It shall be the duty of the secretary, or of an assistant secretary, if any, in case of the absence or inability to act of the secretary, to keep minutes of all the proceedings of the shareholders and the directors and to make a proper record of the same; to perform such other duties as may be required by law, the Articles or the Regulations; to perform such other and further duties as may from time to time be assigned to him by the directors, [the chief executive officer](#), or the president; and to deliver all books, paper and property of the corporation in his possession to his successor, [the chief executive officer](#), or to the president.

SECTION ~~3.07~~3.08. DUTIES OF THE TREASURER. The treasurer, or an assistant treasurer, if any, in case of the absence or inability to act of the treasurer, shall receive and safely keep in charge all money, bills, notes, choses in action,

securities and similar property belonging to the corporation, and shall do with or disburse the same as directed by [the chief executive officer](#), the president, or the directors; shall keep an accurate account of the finances and business of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, stated capital and shares, together with such other accounts as may be required and hold the same open for inspection and examination by the directors; shall give bond in such sum with such security as the directors may require for the faithful performance of his duties; shall, upon the expiration of his term of office, deliver all money and other property of the corporation in his possession or custody to his successor, [the chief executive officer](#), or the president; and shall perform such other duties as from time to time may be assigned to him by the directors.

The table of contents and the remaining provisions of Article Three of the Regulations will be renumbered and updated accordingly.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF AMENDMENTS TO OUR CODE OF REGULATIONS TO SEPARATE THE POSITIONS OF PRESIDENT AND CHIEF EXECUTIVE OFFICER.

PROPOSAL 5 - APPROVAL OF AN AMENDMENT TO OUR CODE OF REGULATIONS TO PERMIT THE BOARD OF DIRECTORS TO AMEND OUR CODE OF REGULATIONS IN ACCORDANCE WITH OHIO LAW

Currently, any amendment under our Regulations requires approval by our shareholders, regardless of how minor the change. Many states, such as Delaware, historically have allowed the board of directors of a corporation to amend that corporation's by-laws (the equivalent to Ohio's code of regulations) without shareholder approval. In 2006, the Ohio Revised Code was amended to allow the directors of Ohio corporations to make certain amendments to a corporation's code of regulations without shareholder approval, if such authority is provided in or permitted by the articles or code of regulations, and subject to the statutory limitations listed below. These amendments, however, may not divest or limit the shareholders' power to adopt, amend or repeal the code of regulations of the corporation.

Below is a list of the rights that the Ohio legislature reserved to the shareholders. The proposed amendment to our Regulations will prohibit our Board from taking any of these actions without the approval of our shareholders:

- specifying the percentage of shares a shareholder must hold in order to call a special meeting;
- specifying the length of time required for notice of a shareholders' meeting;
- specifying that shares that have not yet been fully paid will not have voting rights;
- specifying requirements for a quorum at a shareholders' meeting;
- prohibiting shareholder or director actions from being authorized or taken without a meeting;
- defining terms of office for directors or providing for classification of directors;
- requiring greater than a majority vote of shareholders to remove directors without cause;
- establishing requirements for a quorum at directors' meetings, or specifying the required vote for an action of the directors; and
- removing the requirement that a control share acquisition of the Company be approved by the shareholders.

In addition, the Board may not delegate its authority to adopt, amend or repeal our Regulations to any of its committees.

If the proposed amendment to our Regulations is approved and adopted by our shareholders, Section 6.01 of our Regulations would be revised to allow the Board to amend our Regulations in the future to the extent permitted by Ohio law. Accordingly, the Board would be able to make ministerial and other changes to our Regulations without the time-consuming and expensive process of seeking shareholder approval, which would otherwise be required if this proposal is not approved. If the amendment is adopted, the Board intends to thoroughly review the Regulations and adopt amendments as it deems appropriate, subject to the limitations discussed above. No amendment may eliminate the right of our shareholders to adopt, amend or repeal our Regulations. While the Board has not yet undertaken a careful review of the Regulations, it anticipates that many of the changes will be to update the Regulations into a more contemporary form to conform with applicable rules, law and practices since the Regulations were originally adopted. The Company is required to promptly notify our shareholders of any amendments made to our Regulations by sending a notice to our shareholders as of the date of the adoption of the amendment or by filing a report with the SEC.

The full text of Section 6.01 of the Regulations, as it is proposed to be amended, is set forth below, marked to show changes from the current provision in the Regulations:

SECTION 6.01. AMENDMENTS. The Regulations may be amended, or new regulations may be adopted, at a meeting of shareholders held for such purpose, ~~only~~ by the affirmative vote of the holders of shares entitling them to exercise not less than a majority of the voting power of the corporation on such proposal, or without a meeting by the written consent of the holders of shares entitling them to exercise not less than a majority of the voting power of the corporation on such proposal. Except as otherwise set forth in the Articles of Incorporation, these Regulations may be amended, or new regulations adopted, by the directors to the fullest extent permitted by Ohio law.

If this proposal is approved, the Board believes that its having the ability to amend our Regulations will result in a more efficient and economical governance of our Company, while the limitations under Ohio law on the ability of the Board to amend the Regulations offers our shareholders desired protection.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF AN AMENDMENT TO OUR CODE OF REGULATIONS TO PERMIT THE BOARD OF DIRECTORS TO AMEND OUR CODE OF REGULATIONS IN ACCORDANCE WITH OHIO LAW.

PROPOSAL 6 - ADVISORY VOTE ON THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our executive officers identified in the Summary Compensation Table of this Proxy Statement (the "named executive officers") as disclosed in this Proxy Statement in accordance with the SEC's rules.

As described in detail in the section entitled, "EXECUTIVE OFFICERS AND COMPENSATION INFORMATION", we believe that executive compensation should be linked with the Company's performance and significantly aligned with the interests of the Company's shareholders. In addition, our executive compensation program is designed to allow us to retain, and recognize the contributions of, employees who play a significant role in our current and future success. We urge you to read the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure for a detailed description of the fiscal year 2013 compensation of our named executive officers.

The vote on this resolution is not intended to address any specific element of compensation; rather, the advisory vote relates to the overall compensation of our named executive officers. This vote is advisory and therefore not binding on the Company. However, the Board and the Compensation Committee will review the voting results and will take into account the outcome of the vote when determining future compensation for the Company's named executive officers.

Accordingly, we ask our shareholders to vote on the following resolution:

"RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure."

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPLENSATION DISCLOSURE RULES OF THE SEC.

ADDITIONAL INFORMATION

SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Given the Company's relatively small size, the relatively small number of record shareholders, and the Board's consistent practice of being open to receiving direct communications from 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 full Board to the Chairman, to a group of directors to a member of the group, or to an individual director, to that person.

SHAREHOLDER PROPOSALS FOR 2015 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 the Proxy Statement for next year's annual meeting, under applicable SEC rules, the proposal must be received by the Company's Secretary on or before November 13, 2014, 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 the Company prior to January 27, 2015, or 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. The Company's address is 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.

SHAREHOLDERS SHARING THE SAME ADDRESS

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 the Company to send a single annual report and a single proxy statement to any household at which two or more different shareholders reside if the Company believes such shareholders are members of the same family, 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 expenses. The Company has 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 the annual report and proxy statement and you wish to request householding, you may contact the Company's transfer agent, Continental Stock Transfer & Trust Company at 17 Battery Place, New York, New York 10004, or by phone at (212) 509-4000, or write to Mr. James Laird at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, or by calling (614) 255-3333.

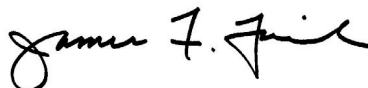
In addition, many brokerage firms and other holders of record have instituted householding. If your family has one or more "street name" accounts under which our shares are beneficially owned, you may have received householding information from your broker, financial institution or other nominee in the past. Please contact the holder of record directly if you have questions, require additional copies of this Proxy Statement or Annual Report on Form 10-K 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

APPENDIX A - 2014 EQUITY AND CASH INCENTIVE PLAN

DIAMOND HILL INVESTMENT GROUP, INC. 2014 EQUITY AND CASH INCENTIVE PLAN

The purpose of the Plan is to promote the Company's long-term financial success and increase shareholder value by motivating performance through incentive compensation. The Plan also is intended to encourage Participants to acquire ownership interests in the Company, attract and retain talented employees and directors and enable Participants to participate in the Company's long-term growth and financial success.

ARTICLE I DEFINITIONS

When used in the Plan, the following capitalized words, terms and phrases shall have the meanings set forth in this Article I. For purposes of the Plan, the form of any word, term or phrase shall include any and all of its other forms.

1.1 **"Act"** shall mean the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto.

1.2 **"Affiliate"** shall mean any entity with whom the Company would be considered a single employer under Section 414 (b) or (c) of the Code, but modified as permitted under any Code section relevant to the purpose for which the definition is applied.

1.3 **"Award"** shall mean any Nonqualified Stock Option, Incentive Stock Option, Stock Appreciation Right, Restricted Stock, Other Stock-Based Award or Cash-Based Award granted pursuant to the Plan.

1.4 **"Award Agreement"** shall mean any written or electronic agreement between the Company and a Participant that describes the terms and conditions of an Award. If there is a conflict between the terms of the Plan and the terms of an Award Agreement, the terms of the Plan shall govern.

1.5 **"Board"** shall mean the Board of Directors of the Company.

1.6 **"Cash-Based Award"** shall mean a cash Award granted pursuant to Article IX of the Plan.

1.7 **"Cause"** shall mean, unless otherwise provided in the related Award Agreement or in any employment agreement between the Participant and the Company or any Affiliate or in any other agreement between the Participant and the Company or any Affiliate, a Participant's: (a) willful and continued failure to substantially perform the Participant's assigned duties; (b) gross misconduct; (c) breach of any term of any agreement with the Company or any Affiliate, including the Plan and any Award Agreement; (d) conviction of (or plea of no contest or nolo contendere to) (i) a felony or a misdemeanor that originally was charged as a felony but which was subsequently reduced to a misdemeanor through negotiation with the charging entity or (ii) a crime other than a felony, which involves a breach of trust or fiduciary duty owed to the Company, any Affiliate or any client of the Company or any Affiliate; or (e) violation of the Company's code of conduct, Code of Ethics, Insider Trading Policy or any other policy of the Company or any Affiliate that applies to the Participant. Notwithstanding the foregoing, Cause will not arise solely because the Participant is absent from active employment during periods of vacation, consistent with the Company's applicable vacation policy, or other period of absence approved by the Company.

1.8 **"Change in Control"** shall mean, unless otherwise provided in any employment agreement between the Participant and the Company or any Affiliate or in any other agreement between the Participant and the Company or any Affiliate, the occurrence of any of the following:

(a) Any transaction or series of transactions, whereby any person (as that term is used in Section 13 and 14(d)(2) of the Act), is or becomes the beneficial owner (as that term is used in Section 13(d) of the Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; provided, that for purposes of this paragraph, the term "person" will exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership in the Company, and (iii) any venture capital firm or other investor in securities of the Company that first purchases any such securities within the thirty (30) day period following the effective date of the Plan;

(b) Any merger, consolidation, other corporate reorganization or liquidation of the Company in which the Company is not the continuing or surviving corporation or entity or pursuant to which Shares would be converted into cash, securities, or other property, other than (i) a merger or consolidation with a wholly-owned subsidiary, (ii) a reincorporation of the Company in a different jurisdiction, or (iii) any other transaction in which there is no substantial change in the stockholders of the Company;

(c) Any merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation, or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation, or other reorganization;

(d) The sale, transfer, or other disposition of all or substantially all of the assets of the Company in one transaction or a series of transactions; or

(e) A change or series of related or unrelated changes in the composition of the Board, during any twenty-four (24) month period beginning on the first anniversary of the effective date of the Plan, as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either (i) had been directors of the Company on the later of such first anniversary of the effective date of the Plan or the date twenty-four (24) months prior to the date of the event that may constitute a Change of Control (the "Original Directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of a least a majority of the aggregate of the Original Directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved.

Notwithstanding the foregoing, the following transactions will not constitute a "Change of Control": (i) any transaction the sole purpose of which is to change the state of incorporation of the Company or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction; or (ii) with respect to any Award that is subject to Section 409A of the Code and for which no exception applies, any transaction or event described above that does not also constitute a "change in control event" within the meaning of Section 409A of the Code.

1.9 "**Code**" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto. Where appropriate, a reference to the Code shall also include the applicable Treasury Regulations and other official guidance promulgated thereunder.

1.10 "**Committee**" shall mean the Compensation Committee of the Board, which will be comprised of at least two directors, each of whom is an "outside director," within the meaning of Section 162(m) of the Code, a "non-employee" director within the meaning of Rule 16b-3 under the Act, and an "independent director" under the rules of the exchange on which the Shares are listed.

1.11 "**Company**" shall mean Diamond Hill Investment Group, Inc., an Ohio corporation, and any successor thereto.

1.12 "**Covered Employee**" shall mean a "covered employee" within the meaning of Section 162(m) of the Code.

1.13 "**Director**" shall mean a person who is a member of the Board, excluding any member who is an Employee.

1.14 "**Disability**" shall mean, with respect to:

(a) An Incentive Stock Option, "disability" as defined in Section 22(e)(3) of the Code;

(b) The payment, exercise or settlement of any Award that is (or becomes) subject to Section 409A of the Code (and for which no exception applies): (i) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (ii) the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees of the Participant's employer; or (iii) the Participant is determined to be totally disabled by the Social Security Administration; and

(c) A Participant's right to exercise or receive settlement of any Award or with respect to the payment, exercise or settlement of any Award not described in subsection (a) or (b) of this definition, a Participant's inability (established by an independent physician selected by the Committee) due to illness, accident or otherwise to perform his or her duties, which is expected to be permanent or for an indefinite duration longer than 12 months.

1.15 **“Employee”** shall mean any person who is a common law employee of the Company or any Affiliate. A person who is classified as other than a common law employee but who is subsequently reclassified as a common law employee of the Company or any Affiliate for any reason and on any basis shall be treated as a common law employee only from the date that reclassification occurs and shall not retroactively be reclassified as an Employee for any purpose under the Plan.

1.16 **“Fair Market Value”** shall mean the value of one Share on any relevant date, determined under the following rules:

(a) If the Shares are traded on an exchange, the reported “closing price” on the relevant date if it is a trading day, otherwise on the next trading day;

(b) If the Shares are traded over-the-counter with no reported closing price, the mean between the lowest bid and the highest asked prices on that quotation system on the relevant date if it is a trading day, and if the relevant date is not a trading day, then on the next trading day; or

(c) If neither (a) nor (b) applies, (i) with respect to Options, Stock Appreciation Rights and any Award that is subject to Section 409A of the Code, the value as determined by the Committee through the reasonable application of a reasonable valuation method, taking into account all information material to the value of the Company, within the meaning of Section 409A of the Code, and (ii) with respect to all other Awards, the fair market value as determined by the Committee in good faith.

1.17 **“Incentive Stock Option”** shall mean an Option that is intended to meet the requirements of Section 422 of the Code.

1.18 **“Nonqualified Stock Option”** shall mean an Option that is not intended to be an Incentive Stock Option.

1.19 **“Option”** shall mean an option to purchase Shares which is granted pursuant to Article V of the Plan. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

1.20 **“Other Stock-Based Award”** shall mean an Award granted pursuant to Article VIII of the Plan.

1.21 **“Participant”** shall mean an Employee or Director who is granted an Award under the Plan.

1.22 **“Performance-Based Award”** shall mean an Award described in Article X of the Plan.

1.23 **“Performance Criteria”** shall mean: (a) with respect to a Participant who is or is likely to be a Covered Employee, the performance criteria described in Section 10.2(a) of the Plan; and (b) with respect to any other Participant, any performance criteria determined by the Committee in its sole discretion.

1.24 **“Plan”** shall mean the Diamond Hill Investment Group, Inc. 2014 Equity and Cash Incentive Plan, as set forth herein and as may be amended from time to time.

1.25 **“Preexisting Plan”** shall mean the Diamond Hill Investment Group, Inc. 2011 Equity and Cash Incentive Plan. Upon approval of the Plan by the Company’s shareholders, no further awards will be issued under the Preexisting Plan, although the Preexisting Plan will remain in effect after the Company’s shareholders approve the Plan for purposes of determining any grantee’s right to awards issued under the Preexisting Plan before that date.

1.26 **“Restricted Stock”** shall mean an Award granted pursuant to Article VII of the Plan under which a Participant is issued Shares which are subject to specified restrictions on vesting and transferability.

1.27 **“Retirement”** shall mean, unless otherwise provided in the related Award Agreement or in any employment agreement between the Participant and the Company or any Affiliate or in any other agreement between the Participant and the Company or any Affiliate, a Participant’s voluntary termination of employment that is determined to constitute a “retirement” by the Board.

1.28 **“Shares”** shall mean the common shares, without par value, of the Company or any security of the Company issued in satisfaction, exchange or in place of these shares.

1.29 **“Stock Appreciation Right”** shall mean an Award granted pursuant to Article VI of the Plan.

1.30 **“Subsidiary”** shall mean with respect to an Incentive Stock Option, a “subsidiary corporation” as defined under Section 424(f) of the Code.

ARTICLE II SHARES SUBJECT TO THE PLAN

2.1 **Number of Shares Available for Awards.** Subject to this Article II, the aggregate number of Shares with respect to which Awards may be granted under the Plan shall be 600,000, all of which may be granted with respect to Incentive Stock Options. The Shares may consist, in whole or in part, of treasury Shares, authorized but unissued Shares not reserved for any other purpose or Shares purchased by the Company or an independent agent in either a private transaction or in the open market. Subject to this Article II, upon the grant of an Award, the number of Shares available for issuance under the Plan shall be reduced by an amount equal to the number of Shares subject to such Award, and any Shares underlying such an Award that become available for future grant under the Plan pursuant to Section 2.2 shall be added back to the Plan in an amount equal to the number of Shares subject to such an Award that become available for future grant under the Plan pursuant to Section 2.2.

2.2 **Share Usage.** In addition to the number of Shares provided for in Section 2.1, the following Shares shall be available for Awards under the Plan: (a) Shares covered by an Award that expires or is forfeited, canceled, surrendered or otherwise terminated without the issuance of such Shares; (b) Shares covered by an Award that is settled only in cash or for less than the full number of Shares subject to the Award; (c) Shares granted through the assumption of, or in substitution for, outstanding awards granted by a company to individuals who become Employees or Directors as the result of a merger, consolidation, acquisition or other corporate transaction involving such company and the Company or any of its Affiliates; (d) any Shares from awards exercised for or settled in vested and nonforfeitable Shares that are later returned to the Company pursuant to any compensation recoupment policy, provision or agreement; and (e) any Shares surrendered upon exercise of an Award as payment of the applicable exercise price or withheld to satisfy any applicable taxes.

2.3 **Fiscal Year Limits.** Subject to Section 2.4 and unless and until the Committee determines that an Award to a Covered Employee shall not be designated as “qualified performance-based compensation” under Section 162(m) of the Code, during any fiscal year of the Company, the Committee may not grant to any Participant: (a) Options covering more than 100,000 Shares; (b) Stock Appreciation Rights covering more than 100,000 Shares; (c) more than 100,000 Shares of Restricted Stock; (d) Other Stock-Based Awards covering more than 100,000 Shares; (e) Cash-Based Awards with a value in excess of \$5,000,000; (f) Performance-Based Awards that are to be settled in Shares covering more than 100,000 Shares; and (g) Performance-Based Awards that are to be settled in cash in excess of \$5,000,000.

2.4 **Adjustments.** In the event of any Share dividend, Share split, recapitalization (including payment of an extraordinary dividend), merger, reorganization, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of Shares or any other change affecting the Shares, the Committee shall make such substitutions and adjustments, if any, as it deems equitable and appropriate to: (a) the aggregate number of Shares that may be issued under the Plan; (b) any Share-based limits imposed under the Plan; and (c) the exercise price, number of Shares and other terms or limitations applicable to outstanding Awards. Notwithstanding the foregoing, an adjustment pursuant to this Section 2.4 shall be made only to the extent such adjustment complies, to the extent applicable, with Section 409A of the Code.

ARTICLE III ADMINISTRATION

3.1 **In General.** The Plan shall be administered by the Committee. The Committee shall have full power and authority to: (a) interpret the Plan and any Award Agreement; (b) establish, amend and rescind any rules and regulations relating to the Plan; (c) select Participants; (d) establish the terms and conditions of any Award consistent with the terms and conditions of the Plan, including when the Award may vest and, if applicable, be exercised, the acceleration of any such dates and the expiration of the Award; and (e) make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award Agreement in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan shall be made in the Committee’s sole and absolute discretion and shall be final, conclusive and binding on all persons.

3.2 **Delegation of Duties.** In its sole discretion, the Committee may delegate any ministerial duties associated with the Plan to any person (including Employees) it deems appropriate; provided, however, that the Committee may not delegate (a) any duties that it is required to discharge to comply with Section 162(m) of the Code or any other applicable law; (b) its authority to grant Awards to any Participant who is subject to Section 16 of the Act; and (c) its authority under any equity award granting policy of the Company that may be in effect from time to time.

ARTICLE IV ELIGIBILITY

4.1 **Eligibility.** The Committee may designate any Employee or Director as a Participant for purposes of receiving an Award under the Plan. Notwithstanding the foregoing, (a) any Non-Qualified Stock Option or Award subject to Section 409A of the Code may be granted to Employees or Directors of Affiliates only to the extent consistent with Section 409A of the Code; and (b) only Employees of the Company or a Subsidiary may be granted an Incentive Stock Option.

4.2 **Actual Participation.** Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards will be granted and will determine the nature and amount of each Award. No individual will have any right to be granted an Award pursuant to this Plan.

ARTICLE V OPTIONS

5.1 **Grant of Options.** Subject to the terms and conditions of the Plan, Options may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

5.2 **Award Agreement.** Each Option shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the Option, the number of Shares covered by the Option, the conditions upon which the Option shall become vested and exercisable and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan. The Award Agreement also shall specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

5.3 **Exercise Price.** The exercise price per Share of an Option shall be determined by the Committee at the time the Option is granted; provided, however, that in no event shall the exercise price per Share of any Option be less than 100% of the Fair Market Value of a Share on the date of grant.

5.4 **Term.** The term of an Option shall be determined by the Committee; provided, however, that in no event shall the term of any Option exceed ten years from its date of grant.

5.5 **Exercisability.** Options shall become exercisable at such times and upon such terms and conditions as shall be determined by the Committee. Such terms and conditions may include, without limitation, the satisfaction of (a) performance goals based on one or more Performance Criteria; and (b) time-based vesting requirements.

5.6 **Exercise of Options.** Except as otherwise provided in the Plan or in a related Award Agreement, an Option may be exercised for all or any portion of the Shares for which it is then exercisable. An Option shall be exercised by the delivery of a notice of exercise to the Company or its designee in a form specified by the Committee which sets forth the number of Shares with respect to which the Option is to be exercised and full payment of the exercise price for such Shares. The exercise price of an Option may be paid: (a) in cash or its equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the aggregate exercise price; provided that such Shares had been held for at least six months or such other period required to obtain favorable accounting treatment and to comply with the requirements of Section 16 of the Act; (c) by a cashless exercise (including by withholding Shares deliverable upon exercise and through a broker-assisted arrangement to the extent permitted by applicable law); (d) by a combination of the methods described in clauses (a), (b) and/or (c); or (e) through any other method approved by the Committee in its sole discretion. As soon as practicable after receipt of the notification of exercise and full payment of the exercise price, the Company shall cause the appropriate number of Shares to be issued to the Participant.

5.7 **Special Rules Applicable to Incentive Stock Options.** Notwithstanding any other provision in the Plan to the contrary:

(a) The terms and conditions of Incentive Stock Options shall be subject to and comply with the requirements of Section 422 of the Code.

(b) The aggregate Fair Market Value of the Shares (determined as of the date of grant) with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) may not be greater than \$100,000 (or such other amount specified in Section 422 of the Code), as calculated under Section 422 of the Code.

(c) No Incentive Stock Option shall be granted to any Participant who, at the time the Incentive Stock Option is granted, owns shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the exercise price of such Incentive Stock Option is at least 110% of the Fair Market Value of a Share

on the date the Incentive Stock Option is granted and (ii) the date on which such Incentive Stock Option will expire is not later than five years from the date the Incentive Stock Option is granted.

ARTICLE VI STOCK APPRECIATION RIGHTS

6.1 **Grant of Stock Appreciation Rights.** Subject to the terms and conditions of the Plan, Stock Appreciation Rights may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

6.2 **Award Agreement.** Each Stock Appreciation Right shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the Stock Appreciation Right, the number of Shares covered by the Stock Appreciation Right, the conditions upon which the Stock Appreciation Right shall become vested and exercisable and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

6.3 **Exercise Price.** The exercise price per Share of a Stock Appreciation Right shall be determined by the Committee at the time the Stock Appreciation Right is granted; provided, however, that in no event shall the exercise price per Share of any Stock Appreciation Right be less than 100% of the Fair Market Value of a Share on the date of grant.

6.4 **Term.** The term of a Stock Appreciation Right shall be determined by the Committee; provided however, that in no event shall the term of any Stock Appreciation Right exceed ten years from its date of grant.

6.5 **Exercisability of Stock Appreciation Rights.** A Stock Appreciation Right shall become exercisable at such times and upon such terms and conditions as may be determined by the Committee. Such terms and conditions may include, without limitation, the satisfaction of (a) performance goals based on one or more Performance Criteria; and (b) time-based vesting requirements.

6.6 **Exercise of Stock Appreciation Rights.** Except as otherwise provided in the Plan or in a related Award Agreement, a Stock Appreciation Right may be exercised for all or any portion of the Shares for which it is then exercisable. A Stock Appreciation Right shall be exercised by the delivery of a notice of exercise to the Company or its designee in a form specified by the Committee which sets forth the number of Shares with respect to which the Stock Appreciation Right is to be exercised. Upon exercise, a Stock Appreciation Right shall entitle a Participant to an amount equal to (a) the excess of (i) the Fair Market Value of a Share on the exercise date over (ii) the exercise price per Share, multiplied by (b) the number of Shares with respect to which the Stock Appreciation Right is exercised. A Stock Appreciation Right may be settled in full Shares, cash or a combination thereof, as specified by the Committee in the related Award Agreement.

ARTICLE VII RESTRICTED STOCK

7.1 **Grant of Restricted Stock.** Subject to the terms and conditions of the Plan, Shares of Restricted Stock may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

7.2 **Award Agreement.** Each Restricted Stock Award shall be evidenced by an Award Agreement that shall specify the number of Shares of Restricted Stock, the restricted period(s) applicable to the Shares of Restricted Stock, the conditions upon which the restrictions on the Shares of Restricted Stock will lapse and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

7.3 **Terms, Conditions and Restrictions.**

(a) The Committee shall impose such other terms, conditions and/or restrictions on any Shares of Restricted Stock as it may deem advisable, including, without limitation, a requirement that the Participant pay a purchase price for each Share of Restricted Stock, restrictions based on the achievement of specific performance goals (which may be based on one or more Performance Criteria), time-based restrictions, holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock. Notwithstanding the foregoing, subject to Sections 2.3(h) and Article XII of the Plan or as described in the related Award Agreement in connection with a Participant's death, termination due to Disability and/or Retirement, no condition on vesting of a Restricted Stock Award that is based upon achievement of specified performance goals shall be based on performance over a period of less than one year.

(b) To the extent deemed appropriate by the Committee, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all terms, conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

(c) Unless otherwise provided in the related Award Agreement or required by applicable law or as determined by the Committee, the restrictions imposed on Shares of Restricted Stock shall lapse upon the expiration or termination of the applicable restricted period and the satisfaction of any other applicable terms and conditions.

7.4 Rights Associated with Restricted Stock during Restricted Period. During any restricted period applicable to Shares of Restricted Stock:

(a) Such Shares of Restricted Stock may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated.

(b) Unless otherwise provided in the related Award Agreement: (i) the Participant shall be entitled to exercise full voting rights associated with such Shares of Restricted Stock; and (ii) the Participant shall be entitled to all dividends and other distributions paid with respect to such Shares of Restricted Stock during the restricted period; provided, however, that receipt of any such dividends or other distributions will be subject to the same terms and conditions as the Shares of Restricted Stock with respect to which they are paid.

ARTICLE VIII OTHER STOCK-BASED AWARDS

8.1 Grant of Other Stock-Based Awards. Subject to the terms and conditions of the Plan, Other Stock-Based Awards may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion. Other Stock-Based Awards are Awards that are valued in whole or in part by reference to, or otherwise based on the Fair Market Value of, the Shares, and shall be in such form as the Committee shall determine, including without limitation, (a) unrestricted Shares or (b) time-based or performance-based restricted stock units that are settled in Shares and/or cash. Notwithstanding the foregoing, subject to Sections 2.3(h) and Article XII of the Plan or as described in the related Award Agreement in connection with a Participant's death, termination due to Disability and/or Retirement, no condition on vesting of an Other Stock-Based Award that is based upon achievement of specified performance goals shall be based on performance over a period of less than one year and no condition on vesting of an Other Stock-Based Award that is based upon continued employment or the passage of time shall provide for vesting in full of the Other Stock-Based Award more quickly than in pro rata installments over three years from the date of grant of the Award.

8.2 Award Agreement. Each Other Stock-Based Award shall be evidenced by an Award Agreement that shall specify the terms and conditions upon which the Other Stock-Based Award shall become vested, if applicable, the time and method of settlement, the form of settlement and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

8.3 Form of Settlement. An Other Stock-Based Award may be settled in full Shares, cash or a combination thereof, as specified by the Committee in the related Award Agreement.

8.4 Dividend Equivalents. Awards of Other Stock-Based Awards may provide the Participant with dividend equivalents, as determined by the Committee in its sole discretion and set forth in the related Award Agreement.

ARTICLE IX CASH-BASED AWARDS

Subject to the terms and conditions of the Plan, Cash-Based Awards may be granted to Participants in such amounts and upon such other terms and conditions as shall be determined by the Committee in its sole discretion. Each Cash-Based Award shall be evidenced by an Award Agreement that shall specify the payment amount or payment range, the time and method of settlement and the other terms and conditions, as applicable, of such Award which may include, without limitation, performance objectives.

ARTICLE X PERFORMANCE-BASED AWARDS

10.1 **In General.** Awards may be granted as Performance-Based Awards that are deductible by the Company under Section 162(m) of the Code. As determined by the Committee in its sole discretion, the grant, vesting, exercisability and/or settlement of any Performance-Based Award shall be conditioned on the attainment of performance goals based upon one or more Performance Criteria during a performance period established by the Committee. Any such Award must meet the requirements of this Article X.

10.2 **Performance Criteria.**

(a) For purposes of the Plan, the “Performance Criteria” for Participants who are or are likely to be Covered Employees are as follows:

- (i) Operating profit, including operating profit margins;
- (ii) Earnings per share (i.e., net income divided by a weighted average number of shares of Stock outstanding and dilutive common equivalent shares deemed outstanding);
- (iii) Net income;
- (iv) Investment performance of the Company’s investment strategies (collectively or single strategy, individually);
- (v) Operating income (i.e., income from operations excluding unusual items);
- (vi) Calculation of the Company’s intrinsic value;
- (vii) Return on equity (i.e., net income divided by average shareholders’ equity);
- (viii) Return on sales (i.e., operating income before incentive compensation divided by revenue); and
- (ix) Revenue (i.e., net sales).

(b) Performance Criteria may relate to the individual Participant, the Company, one or more of its Affiliates or one or more of their respective divisions or business units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, in each case, as determined by the Committee in its sole discretion.

10.3 **Establishment of Performance Goals.** With respect to Performance-Based Awards for Participants who are or are likely to be Covered Employees, the Committee shall establish: (a) the applicable performance goals and performance period and (b) the formula for computing the Performance-Based Award. Such terms and conditions shall be established in writing while the outcome of the applicable performance period is substantially uncertain, but in no event later than the earlier of: (i) 90 days after the beginning of the applicable performance period; or (ii) the expiration of 25% of the applicable performance period.

10.4 **Certification of Performance.** With respect to Performance-Based Awards for Participants who are or are likely to be Covered Employees, the Committee shall certify in writing whether the applicable performance goals and other material terms imposed on such Performance-Based Awards have been satisfied, and, if they have, ascertain the amount of the applicable Performance-Based Award. No such Performance-Based Award shall vest, become exercisable and/or be settled, as the case may be, until the Committee makes this certification.

10.5 **Modifying Performance-Based Awards.** To the extent consistent with Section 162(m) of the Code, performance goals relating to such Performance-Based Awards may be calculated without regard to extraordinary items or adjusted, as the Committee deems equitable, in recognition of unusual or non-recurring events affecting the Company and/or its Affiliates or changes in applicable tax laws or accounting principles.

10.6 **Negative Discretion.** In the Committee’s sole discretion, the amount of a Performance-Based Award actually paid to a Participant may be less than the amount determined by the applicable performance goal formula.

**ARTICLE XI
TERMINATION OF EMPLOYMENT OR SERVICE**

11.1 **Effect of Termination of Employment or Service.** With respect to each Award granted under the Plan, the Committee shall, subject to the terms and conditions of the Plan, determine the extent to which the Award shall vest and the extent to which the Participant shall have the right to exercise and/or receive settlement of the Award on or following the Participant's termination of employment or services with the Company and/or any Affiliate. Such provisions shall be determined in the sole discretion of the Committee at any time prior to or after such termination, shall be included in the related Award Agreement or an amendment thereto, need not be uniform among all Awards granted under the Plan and may reflect distinctions based on the reasons for termination.

11.2 **Default Provisions.** If the Award Agreement does not specify the effect of a Participant's termination of employment or services with the Company and/or any Affiliate on the vesting, exercisability and/or settlement of Awards, the following provisions shall apply:

(a) **Death, Disability or Retirement.** In the event of a Participant's death, Disability or Retirement: (i) all exercisable Awards may be exercised for the remainder of the term of such Award (provided, however, that any Incentive Stock Option that is not exercised within 12 months following the Participant's death, Disability or Retirement will be treated as a Nonqualified Stock Option); (ii) a pro rata portion of all unvested Awards shall vest, as determined by the Committee in its sole discretion, based on the amount of time elapsed during the vesting period prior to the date of death, Disability or Retirement, or the attainment of the performance objectives or Performance Goals, as applicable, over the portion of the Performance Period elapsed as of the date of death, Disability or Retirement; and (iii) all unvested Awards that do not vest pursuant to this Section 11.2(a) shall terminate and be forfeited as of the date of death, Disability or Retirement.

(b) **Termination for Cause.** If a Participant is terminated for Cause, all Awards, whether or not vested and/or exercisable, shall terminate and be forfeited as of the date of termination.

(c) **Other Termination.** If a Participant terminates for any other reason: (i) all exercisable Awards may be exercised for the remainder of the term of such Award (provided, however, that any Incentive Stock Option that is not exercised within three months following the Participant's termination will be treated as a Nonqualified Stock Option); and (ii) all unvested Awards shall terminate and be forfeited as of the date of termination.

Notwithstanding the foregoing, in no event shall any Performance-Based Award granted to a Covered Employee that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code, be settled or become exercisable in full, upon the termination of employment of the Covered Employee without regard to the satisfaction of the related Performance Criteria.

ARTICLE XII CHANGE IN CONTROL

12.1 **In General.** Except as otherwise provided in the related Award Agreement, in the event of a Change in Control, all outstanding Awards shall become immediately vested and exercisable and the Committee, in its sole discretion, may take such actions, if any, as it deems necessary or desirable with respect to any such Awards, including, without limitation: (a) by providing for a cash payment in exchange for the cancellation of an Award; or (b) the issuance of substitute Awards that substantially preserve the value, rights and benefits of any affected Awards. Any action relating to an Award that is subject to Section 409A of the Code shall be consistent with the requirements thereof.

12.2 **Effect of Section 280G of the Code.** Unless specified otherwise in the associated Award Agreement or in another written agreement between the Participant and the Company or any Affiliate, if the Company concludes that any payment or benefit due to a Participant under the Plan, when combined with any other payment or benefit due to the Participant from the Company or any other entity (collectively, the "Payor"), would be considered a "parachute payment" within the meaning of Section 280G of the Code, the Payor will reduce the payments and benefits due to the Participant under the Plan to \$1.00 less than the amount that would otherwise be considered a "parachute payment" within the meaning of Section 280G of the Code. Any reduction pursuant to this Section 12.2 shall be made in accordance with Section 409A of the Code and the Treasury Regulations promulgated thereunder.

ARTICLE XIII AMENDMENT OR TERMINATION OF THE PLAN

13.1 **In General.** The Board or the Committee may amend or terminate the Plan at any time; provided, however, that no amendment or termination shall be made without the approval of the Company's shareholders to the extent that (a) the amendment materially increases the benefits accruing to Participants under the Plan, (b) the amendment materially increases the aggregate

number of Shares authorized for grant under the Plan (excluding an increase in the number of Shares that may be issued under the Plan as a result of Section 2.4), (c) the amendment materially modifies the requirements as to eligibility for participation in the Plan, or (d) such approval is required by any law, regulation or stock exchange rule.

13.2 **Repricing.** Except for adjustments made pursuant to Section 2.4 of the Plan, in no event may the Board or the Committee amend the terms of an outstanding Award to reduce the exercise price of an outstanding Option or Stock Appreciation Right or cancel an outstanding Option or Stock Appreciation Right in exchange for cash, other Awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Option or Stock Appreciation Right without shareholder approval.

ARTICLE XIV TRANSFERABILITY

14.1 **Non-Transferability.** Except as described in Section 14.2 or as provided in a related Award Agreement, an Award may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, except by will or the laws of descent and distribution and, during a Participant's lifetime, may be exercised only by the Participant or the Participant's guardian or legal representative. Notwithstanding any provision contained in this Article XIV, no Award may be transferred by a Participant for value or consideration.

14.2 **Beneficiary.** Unless otherwise specifically designated by the Participant in writing, a Participant's beneficiary under the Plan shall be the Participant's spouse or, if no spouse survives the Participant, the Participant's estate.

ARTICLE XV MISCELLANEOUS

15.1 **No Right to Continued Service or to Awards.** The granting of an Award under the Plan shall impose no obligation on the Company or any Affiliate to continue the employment or services of a Participant or interfere with or limit the right of the Company or any Affiliate to terminate the services of any Employee or Director at any time. In addition, no Employee or Director shall have any right to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards and the Committee's interpretations and determinations with respect thereto need not be the same with respect to each Participant.

15.2 Tax Withholding.

(a) The Company or an Affiliate, as applicable, shall have the power and the right to deduct, withhold or collect any amount required by law or regulation to be withheld with respect to any taxable event arising with respect to an Award granted under the Plan. This amount may, as determined by the Committee in its sole discretion, be (i) withheld from other amounts due to the Participant, (ii) withheld from the value of any Award being settled or any Shares being transferred in connection with the exercise or settlement of an Award, (iii) withheld from the vested portion of any Award (including the Shares transferable thereunder), whether or not being exercised or settled at the time the taxable event arises, (iv) collected directly from the Participant, or (v) satisfied through any combination of the methods described above.

(b) Subject to the approval of the Committee, a Participant may elect to satisfy the withholding requirement, in whole or in part, by having the Company or an Affiliate, as applicable, withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction; provided that such Shares would otherwise be distributable to the Participant at the time of the withholding and if such Shares are not otherwise distributable at the time of the withholding, provided that the Participant has a vested right to distribution of such Shares at such time. All such elections shall be irrevocable and made in writing and shall be subject to any terms and conditions that the Committee, in its sole discretion, deems appropriate.

15.3 **Requirements of Law.** The grant of Awards and the issuance of Shares shall be subject to all applicable laws, rules and regulations (including applicable federal and state securities laws) and to all required approvals of any governmental agencies or national securities exchange, market or other quotation system. Without limiting the foregoing, the Company shall have no obligation to issue Shares under the Plan prior to: (a) receipt of any approvals from any governmental agencies or national securities exchange, market or quotation system that the Committee deems necessary; and (b) completion of registration or other qualification of the Shares under any applicable federal or state law or ruling of any governmental agency that the Committee deems necessary.

15.4 **Legends.** Certificates for Shares delivered under the Plan may be subject to such share transfer orders and other restrictions that the Committee deems advisable under the rules, regulations and other requirements of the Securities and Exchange

Commission, any stock exchange or other recognized market or quotation system upon which the Shares are then listed or traded, or any other applicable federal or state securities law. The Committee may cause a legend or legends to be placed on any certificates issued or stop orders imposed on Shares under the Plan to make appropriate reference to restrictions within the scope of this Section 15.4.

15.5 Uncertificated Shares. To the extent that the Plan provides for the issuance of certificates to reflect the transfer of Shares, the transfer of Shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

15.6 Governing Law. The Plan and all Award Agreements shall be governed by and construed in accordance with the laws of (other than laws governing conflicts of laws) the State of Ohio.

15.7 No Impact on Benefits. Awards are not compensation for purposes of calculating a Participant's rights under any employee benefit plan that does not specifically require the inclusion of Awards in calculating benefits.

15.8 Rights as a Shareholder. Except as otherwise provided in the Plan or in a related Award Agreement, a Participant shall have none of the rights of a shareholder with respect to Shares covered by an Award unless and until the Participant becomes the record holder of such Shares.

15.9 Successors and Assigns. The Plan shall be binding on all successors and assigns of the Company and each Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

15.10 Section 409A of the Code.

(a) Awards granted pursuant to the Plan that are subject to Section 409A of the Code, or that are subject to Section 409A but for which an exception from Section 409A of the Code applies, are intended to comply with or be exempt from Section 409A of the Code, and the Plan shall be interpreted, administered and operated accordingly.

(b) If a Participant is determined to be a "specified employee" (within the meaning of Section 409A of the Code and as determined under the Company's policy for determining specified employees), the Participant shall not be entitled to payment or to distribution of any portion of an Award that is subject to Section 409A of the Code (and for which no exception applies) and is payable or distributable on account of the Participant's "separation from service" (within the meaning of Section 409A of the Code) until the expiration of six months from the date of such separation from service (or, if earlier, the Participant's death). Such Award, or portion thereof, shall be paid or distributed on the first business day of the seventh month following such separation from service.

(c) Nothing in the Plan shall be construed as an entitlement to or guarantee of any particular tax treatment to a Participant, and none of the Company, its Affiliates, the Board or the Committee shall have any liability with respect to any failure to comply with the requirements of Section 409A of the Code.

15.11 Savings Clause. In the event that any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

**ARTICLE XVI
EFFECTIVE DATE AND TERM OF THE PLAN**

The effective date of the Plan shall be the date on which the Plan is approved by the Company's shareholders and the Plan shall terminate and no Awards may be granted after the tenth anniversary of this date. Notwithstanding the foregoing, no Incentive Stock Options shall be granted more than ten years after the date the Plan is approved by the Board. The termination of the Plan shall not preclude the Company from complying with the terms of Awards outstanding on the date the Plan terminates.

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

Commission file number 000-24498



DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio (State of incorporation)	65-0190407 (I.R.S. Employer Identification No.)
--	--

325 John H. McConnell Blvd., Suite 200, Columbus, Ohio 43215 (Address of principal executive offices)	43215 (Zip Code)
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Registrants's telephone number, including area code: (614) 255-3333
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u> Common shares, no par value	<u>Name of each exchange on which registered</u> The NASDAQ Stock Market LLC
--	--

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Aggregate market value of the registrant's common shares (the only common equity of the registrant) held by non-affiliates of the registrant, based on the closing price of \$85.59 on June 30, 2013 on the NASDAQ Global Select Market was \$211,801,356. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that the registrant's executive officers and directors and persons holding five percent or more of the registrant's common shares are affiliates.

3,285,998 Common Shares outstanding as of February 28, 2014.

Documents incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this report.

Diamond Hill Investment Group, Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2013
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PART I

Item 1. Business

Forward-Looking Statements

Throughout this Annual Report on Form 10-K, Diamond Hill Investment Group, Inc. (the "Company," "we," "us") may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to such matters as anticipated operating results, prospects and levels of assets under management, technological developments, economic trends (including interest rates and market volatility), expected transactions and similar matters. The words "believe," "expect," "anticipate," "estimate," "should," "hope," "seek," "plan," "intend" and similar expressions identify forward-looking statements that speak only as of the date thereof. While we believe that the assumptions underlying our forward-looking statements are reasonable, investors are cautioned that any of the assumptions could prove to be inaccurate and, accordingly, our actual results and experiences could differ materially from the anticipated results or other expectations expressed in our forward-looking statements. Factors that could cause such actual results or experiences to differ from results discussed in the forward-looking statements include, but are not limited to: the adverse effect from a decline in the securities markets; a decline in the performance of our products; changes in interest rates; changes in national and local economic and political conditions, including the effects of implementation of the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012, the Jumpstart Our Business Startups Act of 2012 and the continuing economic uncertainty in various parts of the world; changes in government policy and regulation, including monetary policy; changes in our ability to attract or retain key employees; unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations; and other risks identified from time-to-time in other public documents on file with the U. S. Securities and Exchange Commission ("SEC"), including those discussed below in Item 1A. Throughout this Annual Report on Form 10-K, when we use the terms the "Company," "management," "we," "us," and "our," we mean Diamond Hill Investment Group, Inc. and its subsidiaries.

Overview

The Company, an Ohio corporation organized in April 1990, derives its consolidated revenue and net income from investment advisory and fund administration services provided by its subsidiaries Diamond Hill Capital Management, Inc. ("DHCM"), Beacon Hill Fund Services, Inc. ("BHFS"), and BHIL Distributors, Inc. ("BHIL"). BHFS and BHIL collectively operate as "Beacon Hill". DHCM is a registered investment adviser under the Investment Advisers Act of 1940. DHCM sponsors, distributes, and provides investment advisory and related services to U.S. and foreign clients through Diamond Hill Funds (the "Funds"), institutional accounts, and private investment funds (generally known as "hedge funds"). Beacon Hill provides fund administration and statutory underwriting services to U.S. and foreign clients, including the Funds.

The Company's primary objective is to fulfill our fiduciary duty to clients. Our secondary objective is to grow the intrinsic value of the Company in order to achieve an adequate long-term return for shareholders.

Investment Advisory Activities

Clients

The Company provides investment advisory services to a broad range of clients, including corporations, mutual funds, retirement plans, public pension funds, endowments, foundations, financial institutions and high net worth individuals. We strive to expand our client base by attracting new clients and earning additional business from existing clients.

Investment Philosophy

We believe that a company's intrinsic value is independent of its stock price. We also believe competitive long-term returns can be achieved by buying (shorting) companies when the current market price is at a discount (premium) to our estimate of intrinsic value, based upon a discounted cash flow methodology.

The following are the guiding principles for our philosophy:

- **Treat every investment as a partial ownership interest in that company.**
Investing is most intelligent when it is viewed through the lens of an owner.
- **Always invest with a margin of safety.**
Our discipline is to purchase (short) securities at a sufficient discount (premium) to our estimate of intrinsic value. We estimate the intrinsic value of the business independent of the current stock market price then compare our estimate to

the price to determine if an opportunity exists. When we successfully identify securities trading below (above) our estimate of intrinsic value, it increases the potential reward and serves as the most effective risk control.

- **Possess a long-term investment temperament.**
In the short term, emotion as much as economic fundamentals drives market prices. Over time, the economic performance of the business and the price paid, versus the market, will determine investment return.
- **Recognize that market price and intrinsic value tend to converge over a reasonable period of time.**
Investment opportunity lies in the ability to buy (or short), when the current market price does not reflect a company's intrinsic value, and to sell (or cover) when price and value converge.

Investment Process

DHCM's investment process begins with fundamental research focusing on estimating a company's intrinsic value independent of its current stock price. Bottom-up analysis, which takes into consideration earnings, revenue growth, operating margins and other economic factors, is of primary importance in estimating the intrinsic value of an individual company. A five-year discounted cash flow analysis is the primary methodology to determine whether there is a discrepancy between the current market price and DHCM's estimate of intrinsic value. In order to forecast the amount and timing of cash flows, the research analysts concentrate on the fundamental economic drivers of the business, including competitive positioning, quality of management, and balance sheet strength. Research analysts also evaluate each company within the context of sector and industry secular trends. Key factors in analyzing sectors and industries include relative pricing power, ability to earn excess returns, long-term capital flow, and other fundamental factors. DHCM also applies an intrinsic value philosophy to the analysis of fixed income securities.

Only securities selling at a discount (premium) to intrinsic value will be purchased (sold short). A portfolio manager assigns the highest weights to the highest conviction names. A strategy will often not have any exposure to certain industries in which we are unable to find attractive opportunities. A stock will be sold (or covered) if its price reaches DHCM's estimate of intrinsic value, if fundamentals deteriorate, if a more attractive opportunity is identified, or if the holding reaches the stated limit as a percent of the portfolio.

DHCM believes that many investors' short-term focus hinders their long-term results, which creates market inefficiencies and therefore opportunities. In addition, not all investors are valuation sensitive. We believe that we can exploit these market anomalies/inefficiencies by possessing a long-term investment temperament and practicing a consistent and repeatable business appraisal approach to investing. Furthermore, DHCM believes that investing in securities whose market prices are significantly below DHCM's estimate of intrinsic value (or selling short securities whose market prices are above DHCM's estimate of intrinsic value) is a reliable method to achieve above average relative returns as well as mitigate risk.

Investment Advisory Fees

The Company's principal source of revenue is investment advisory fee income earned from managing client accounts under investment advisory and sub-advisory agreements. The fees earned depend on the type of investment strategy, account size and servicing requirements. Revenues depend on the total value and composition of assets under management ("AUM"). Accordingly, net asset flows, market fluctuations in client portfolios, and the composition of AUM impact our revenues and results of operations. We also have certain agreements which allow us to earn variable fees in the event that investment returns exceed targeted amounts during a measurement period.

Investment Strategies

The Company offers several traditional and alternative investment strategies, which are all based on the same intrinsic value philosophy. As of December 31, 2013, we offered the following representative investment strategies to our clients:

1. *Small Cap* – Pursues long-term capital appreciation by investment in a portfolio of 50-80 small-capitalization U.S. equity securities.
2. *Small-Mid Cap* – Pursues long-term capital appreciation by investing in a portfolio of 50-70 small- and mid-capitalization U.S. equity securities.
3. *Large Cap* – Pursues long-term capital appreciation by investing in a portfolio of 40-60 large-capitalization U.S. equity securities.
4. *Select* – Pursues long-term capital appreciation by investing in a portfolio of 30-40 U.S. companies across a broad range of market capitalizations.

5. *Long-Short* – Pursues long-term capital appreciation by investing both long and selling short U.S. companies across a broad range of market capitalizations.
6. *Strategic Income* – Pursues high current income, preservation of capital, and total return by investing in corporate bonds across the credit spectrum.

Investment Results

The Company believes that one of the most important characteristics exhibited by the best investment firms is excellent investment returns for their clients over a long period of time. We are pleased that, during our history as an investment advisory firm, we have delivered what we believe are strong long-term investment returns for our clients. Investment returns have been a key driver in the long-term success we have achieved in growing AUM. U.S. equity markets finished 2013 on a strong note, and our Funds posted strong absolute and relative returns. Security selection and an overweight position in the financial sector were key drivers of outperformance across all equity strategies. After a very powerful two-year rally, we now expect U.S. equity market returns to be below historical averages over the next five years. However, it is our expectation that we can achieve better than market returns through active portfolio management and stock selection, and our return expectations for the financial sector remain a bit higher than our general equity market outlook. We believe that most of the key industries within the sector have addressed areas of weakness and are well positioned for modest growth combined with return of excess capital to shareholders. In the banking industry, strong balance sheet capacity should easily facilitate modest growth as well as increased capital return in the form of dividends and/or share repurchases. Within the insurance industry, many important areas are producing healthy returns on strong capital levels. However, unlike the prior two years, the pricing environment in the property and casualty commercial lines segment now appears to be moderating while, at the same time, valuations are a bit less favorable. More importantly, as of December 31, 2013, the since inception returns for nearly all of the Funds exceeded their respective benchmark returns. The only exception was the Research Opportunities Fund, which has less than a five-year track record - the time period that we use to evaluate our results. The following is a summary of the investment returns for each of our representative strategies as of December 31, 2013, relative to a respective passive benchmark.

	As of December 31, 2013					
	Inception	1 Year	3 Year	5 Year	10 Year	Since Inception
Diamond Hill Small Cap Fund	12/29/2000	40.08%	13.85%	18.71%	10.28%	12.45%
Russell 2000		38.82 %	15.67 %	20.08 %	9.07 %	8.42 %
Diamond Hill Small-Mid Cap Fund	12/30/2005	41.64%	16.38%	22.42%	N/A	9.84%
Russell 2500		36.80 %	16.28 %	21.77 %	N/A	9.00 %
Diamond Hill Large Cap Fund	6/29/2001	36.60%	16.43%	17.75%	9.97%	8.34%
Russell 1000		33.11 %	16.30 %	18.59 %	7.78 %	5.82 %
Diamond Hill Select Fund	12/1/2005	44.35%	16.32%	18.52%	N/A	8.35%
Russell 3000		33.55 %	16.24 %	18.71 %	N/A	7.61 %
Diamond Hill Long-Short Fund	6/30/2000	23.19%	11.44%	10.39%	8.09%	7.33%
60% Russell 1000 / 40% BofA ML US 0-3 Month T-Bill		18.93 %	9.73 %	11.18 %	5.56 %	3.56 %
Diamond Hill Strategic Income Fund	9/30/2002	5.30%	6.87%	13.00%	6.30%	7.78%
BofA ML US Corporate & High Yield		0.34 %	6.07 %	10.74 %	5.99 %	6.76 %

- Fund returns are Class I shares net of fees
- Index returns do not reflect any fees

Assets Under Management

The following tables show AUM by product and investment objective as well as net client cash flows for the past five years ended December 31, 2013:

(in millions)	Assets Under Management by Product As of December 31,				
	2013	2012	2011	2010	2009
Proprietary funds	\$ 7,600	\$ 5,251	\$ 4,405	\$ 4,409	\$ 3,714
Sub-advised funds	444	947	972	930	146
Institutional accounts	4,142	3,231	3,294	3,284	2,423
Total AUM	\$ 12,186	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283

(in millions)	Assets Under Management by Investment Objective As of December 31,				
	2013	2012	2011	2010	2009
Small Cap	\$ 1,402	\$ 939	\$ 932	\$ 948	\$ 625
Small-Mid Cap	780	364	277	196	146
Large Cap	6,254	5,211	4,885	4,631	2,654
Select (All Cap)	327	258	321	422	400
Long-Short	3,213	2,455	2,082	2,251	2,300
Strategic Income	210	202	174	175	158
Total AUM	\$ 12,186	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283

(in millions)	Change in Assets Under Management For the Year Ended December 31,				
	2013	2012	2011	2010	2009
AUM at beginning of the year	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283	\$ 4,510
Net cash inflows (outflows)					
proprietary funds	713	429	56	452	(161)
sub-advised funds	(758)	(149)	21	714	6
institutional accounts	(263)	(499)	(74)	532	734
	(308)	(219)	3	1,698	579
Net market appreciation and income	3,065	977	45	642	1,194
Increase during the year	2,757	758	48	2,340	1,773
AUM at end of the year	\$ 12,186	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283

Capacity

The Company's primary goal is to fulfill our fiduciary duty to clients. We understand that our ability to retain and grow assets as a firm has been, and will be, driven primarily by delivering attractive long-term investment results to our clients. Once we determine that the size of any of our strategies hinders our ability to add value over a passive alternative, we have closed, and will continue to close, those strategies to new clients, which will impact our ability to grow AUM. We have prioritized, and will continue to prioritize, investment results over asset accumulation. Currently, all of our investment strategies are open to new investors. We estimate our AUM capacity to be approximately \$20-\$30 billion, with AUM of \$12.2 billion as of December 31, 2013.

Distribution Channels

The Company's investment advisory services are distributed through multiple channels. Our institutional sales efforts include building relationships with institutional consultants and also establishing direct relationships with institutional clients. Our sales efforts for the Funds include wholesaling to third-party financial intermediaries, including independent registered investment

advisers, brokers, financial planners, and wealth advisers, who utilize the Funds in investment programs they construct for their clients.

AUM by Channel

Below is a summary of our AUM by distribution channel for the past five years ended December 31, 2013:

(in millions)	Assets by Distribution Channel As of December 31,				
	2013	2012	2011	2010	2009
Proprietary funds:					
Registered investment advisers	\$ 1,678	\$ 1,258	\$ 1,049	\$ 1,080	\$ 1,272
Independent broker/dealers	1,400	917	665	815	757
Wirehouse broker/dealers	1,261	758	674	775	824
Banks	1,668	1,407	927	797	43
Defined contribution	1,226	739	737	493	211
Other	367	172	353	449	607
Total proprietary funds	7,600	5,251	4,405	4,409	3,714
Sub-advised funds	444	947	972	930	146
Institutional accounts:					
Institutional consultant	1,965	1,857	1,836	1,602	1,044
Financial intermediary	1,488	1,164	1,237	1,246	908
Direct	689	210	221	436	471
Total institutional accounts	4,142	3,231	3,294	3,284	2,423
Total AUM	\$ 12,186	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283

Growth Strategy

The Company's growth strategy will remain focused on achieving excellent investment results in all our strategies and providing the highest level of client service. We will continue to focus on the development of distribution channels to enable us to offer our various investment strategies to a broad array of clients. We seek to continue to grow AUM through our proprietary funds and institutional accounts. We have a targeted strategic business plan to further penetrate our existing distribution channels. Our business development efforts are focused on expanding the institutional consultant channel and plan sponsor network on the separate account side, as well as our intermediary network on the fund side.

Fund Administration Activities

Fund Administration Services

The Company provides fund administration services to the Diamond Hill Funds and other third party mutual fund companies and investment advisers. Fund administration services are broadly defined as portfolio and regulatory compliance, treasury and financial oversight, statutory underwriting, oversight of back-office service providers such as the custodian, fund accountant, and transfer agent, and general business management of the mutual fund complex. These services are offered on a stand-alone basis, as well as through a series or "umbrella" trust whereby individual investment advisers can establish a mutual fund under a fund complex sponsored by the Company.

Fund Administration Fees

The Company earns revenue from performing various fund administration activities described above under individual client agreements. The fees earned depend on the type of service, fund size, and/or servicing requirements. Certain client agreements have a fixed fee arrangement while others have a fee derived as a percentage of assets under administration.

Competition

Competition in the area of investment management and fund administration is intense, and our competitors include investment management firms, broker-dealers, banks and insurance companies, some of whom offer various investment alternatives. Many competitors are better known than the Company, offer a broader range of investment products and have more offices,

employees and business development representatives. We compete primarily on the basis of philosophy, performance and client service.

Regulation

The Company and our business are subject to various federal, state and foreign laws and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of participants in those markets, including investment advisory clients and shareholders of investment funds. Under these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event the adviser fails to comply with such laws and regulations. Possible sanctions that may be imposed include civil and criminal liability, the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser, broker/dealer, and other registrations, censures and fines.

DHCM is registered with the SEC under the Investment Advisers Act of 1940 (the “Advisers Act”) and operates in a highly regulated environment. The Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. All Diamond Hill Funds are registered with the SEC under the Investment Company Act of 1940 and are required to make notice filings with all states where they are offered for sale. BHIL is registered with the SEC as a broker/dealer and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). Virtually all aspects of our investment advisory and fund administration business are subject to various federal and state laws and regulations.

To the extent that DHCM is a “fiduciary” under the Employee Retirement Income Security Act of 1974 (“ERISA”) with respect to benefit plan clients, it is subject to ERISA regulations. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries, prohibit certain transactions involving ERISA plan clients, and provide monetary penalties for violations of these prohibitions. The U.S. Department of Labor, which administers ERISA, has been increasingly active in proposing and adopting regulations affecting the asset management industry. Failure to comply with these requirements could have a material adverse effect on our business.

The Company’s trading activities for client accounts are regulated under the Securities Exchange Act of 1934 (the “Exchange Act”), as well as as various FINRA rules, including laws governing trading on inside information, market manipulation and a broad number of trading requirements (e.g., volume limitations, reporting obligations) and market regulation policies in the United States.

The financial services industry has been the subject of intense regulatory scrutiny in recent years. Our business has been subject to increasing regulation in the United States and other countries, and we expect this trend to continue in the future. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was enacted in July 2010, significantly altered the financial regulatory regime within which we operate. Some of the aspects of the Dodd-Frank Act have already been implemented. Other aspects will be established over the next several years. The Dodd-Frank Act is expansive in scope and the implications of the Act for our business will depend to a large extent on the rules that remain to be adopted by the SEC and other regulatory agencies implementing the legislation. It is difficult to predict the ultimate effects that the Dodd-Frank Act, or subsequent implementing regulations and decisions, will have upon our business and results of operations. The Dodd-Frank Act and its regulations, other new laws or regulations, changes in rules promulgated by either the SEC or other federal and state regulatory authorities or self-regulatory bodies, or changes in the interpretation or enforcement of existing laws and rules could materially and adversely impact the scope or profitability of our business. We continue to assess our business, risk management, and compliance practices to conform to developments in the regulatory environment.

The preceding descriptions of the regulatory and statutory provisions applicable to us are not complete and are qualified in their entirety by reference to their respective statutory or regulatory provisions.

Contractual Relationships with the Diamond Hill Funds

The Company is very dependent on our contractual relationships with the Funds. In the event our advisory or administration agreements with the Funds are terminated, not renewed, or amended to reduce fees, we would be materially and adversely affected. We generated approximately 71%, 65% and 61% of our 2013, 2012 and 2011 revenues, respectively, from our advisory and administrative contracts with the Funds. We consider our relationship with the Funds and their board of trustees to be good, and have no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with the Company. Please see Item 1A for risk factors regarding this relationship.

Employees

As of December 31, 2013, the Company and its subsidiaries employed 98 full-time equivalent employees. As of December 31, 2012, the comparable number was 79. We believe that our relationship with our employees is good and does not anticipate any material change in the number of employees.

SEC Filings

The Company maintains an Internet website at www.diamond-hill.com. Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, XBRL instance documents, Current Reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are made available free of charge, on or through our website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The contents of our website are not incorporated into, or otherwise made a part of, this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

The Company's future results of operations, financial condition, liquidity, and the market price of our common shares are subject to various risks, including those mentioned below and those that are discussed from time-to-time in our other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our common shares. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. The occurrence of any of these risks could have a material adverse effect on our financial condition, results of operations, liquidity, and value of our common shares. Please see "Forward Looking Statements" within Item 1 of Part I of this Form 10-K.

Poor investment results of our products could affect our ability to attract new clients or reduce the amount of assets under management, potentially negatively impacting revenue and net income.

If we fail to deliver acceptable investment results for our clients, both in the short and long term, we will likely experience diminished investor interest and potentially a diminished level of AUM.

The Company's success depends on our key personnel, and our financial performance could be negatively affected by the loss of their services.

Our success depends on highly skilled personnel, including portfolio managers, research analysts, and management, many of whom have specialized expertise and extensive experience in the investment management industry. Financial services professionals are in high demand, and we face significant competition for qualified employees. With the exception of our President and Chief Executive Officer, key employees do not have employment contracts and generally can terminate their employment at any time. The Company cannot assure that we will be able to retain or replace key personnel. In order to retain or replace our key personnel, we may be required to increase compensation, which would decrease net income. The loss of key personnel could damage our reputation and make it more difficult to retain and attract new employees and clients. A loss of client assets resulting from the departure of key personnel may materially decrease our revenues and net income.

The Company's AUM, which impacts revenue, is subject to significant fluctuations.

A large majority of our revenue is calculated as a percentage of AUM or is related to the general performance of the equity securities market. A decline in securities prices (such as that experienced during the last half of 2008 and first quarter of 2009) or in the sale of investment products, or an increase in fund redemptions, generally would reduce fee income. Financial market declines would generally negatively impact the level of our AUM and consequently our revenue and net income. A recession or other economic or political events, both in the United States as well as globally, could also adversely impact our revenue, if such events led to a decreased demand for products, a higher redemption rate, or a decline in securities prices.

The investment results and/or the growth in our AUM may be constrained if appropriate investment opportunities are not available or if we close certain of our portfolios.

The Company's ability to deliver strong investment results depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient investment opportunities for existing and new client assets on a timely basis, our investment results could be adversely affected. The risk that appropriate investment opportunities may be unavailable is influenced by a number of factors, including general market conditions, and is likely to increase if our AUM increases rapidly. In addition, if we determine that sufficient investment opportunities are not available for a portfolio strategy, or we believe that in order to continue to produce attractive returns from a portfolio, we will

consider closing the portfolio to new investors. If we misjudge the point at which it would be optimal to close a portfolio, the investment results of the portfolio could be negatively impacted.

The Company is subject to substantial competition in all aspects of our business.

Our investment products compete against a number of investment products and services from:

- asset management firms;
- mutual fund companies;
- commercial banks and thrift institutions;
- insurance companies;
- exchange traded funds;
- hedge funds; and
- brokerage and investment banking firms.

Many of these financial institutions have substantially greater resources than the Company and may operate in more markets or offer a broader range of products, including passively managed or “index” products. Some of these institutions operate in a different regulatory environment, which may give them certain competitive advantages in the investment products and portfolio structures that they offer. We compete with other providers of investment services primarily based upon our philosophy, performance and client service. Some institutions have a broad array of products and distribution channels that make it more difficult for us to compete with them. If current or potential customers decide to use one of our competitors, we could face a significant decline in market share, AUM, revenues, and net income. If we are required to lower our fees in order to remain competitive, our net income could be significantly reduced because some of our expenses are fixed, especially over shorter periods of time, and other expenses may not decrease in proportion to the decrease in revenues.

The loss of access to or increased fees required by third party distribution sources to market our portfolios and access our client base could adversely affect our results of operations.

The Company’s ability to attract additional assets to manage is dependent on our access to third-party intermediaries. We gain access to mutual fund investors and some retail and institutional clients through third parties, including mutual fund platforms and financial intermediaries. We compensate intermediaries for access to investors and for various services provided. These distribution sources and client bases may not continue to be accessible to us for reasonable terms, or at all. Limiting or the total absence of such access could have an adverse effect on our results of operations. The recent economic downturn and consolidation in the broker-dealer industry may lead to reduced distribution access and increases in fees the Company is required to pay to intermediaries. If such increased fees should be required, refusal to pay them could restrict our access to those client bases while paying them could adversely affect our profitability.

A significant portion of the Company’s revenues are based on contracts with the Funds that are subject to termination without cause and on short notice.

The Company is very dependent on our contractual relationships with the Funds. In the event our advisory or administration agreements with the Funds are terminated, not renewed, or amended to reduce fees, we would be materially and adversely affected. Generally, these agreements are terminable by either party upon 60 days written notice without penalty. The agreements are subject to annual approval by either (i) the board of trustees of the Funds or (ii) a vote of the majority of the outstanding voting securities of each Fund. The agreements automatically terminate in the event of their assignment by either the Company or the Fund. We generated approximately 71%, 65%, and 61% of our 2013, 2012 and 2011 revenues, respectively, from our advisory and administrative contracts with the Funds, including 30%, 14%, and 10% from the advisory contracts with the Diamond Hill Long-Short Fund, Large Cap Fund, and Small Cap Fund, respectively, during 2013. The loss of the Long-Short Fund, Large Cap Fund, or Small Cap Fund contracts would have a material adverse effect on the Company. We consider our relationship with the Funds and their board of trustees to be good, and we have no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with us.

Operational risks may disrupt our business, result in losses or limit our growth.

The Company is dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by the Company or by third parties. Operational risks such as trading or operational errors or interruption of our financial, accounting, trading, compliance and other data processing systems, many of which are out of our control, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus adversely affect our business.

The Company's business is subject to substantial governmental regulation.

Our business is subject to a variety of federal securities laws, including the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, and the U.S. Patriot Act of 2001. In addition, we are subject to significant regulation and oversight by the SEC and FINRA. Changes in legal, regulatory, accounting, tax and compliance requirements could have a significant effect on our operations and results, including but not limited to increased expenses and reduced investor interest in certain funds and other investment products we offer. We continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact our business.

We continue to seek to understand, evaluate and, when possible, manage and control these and other business risks.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company lease office space at two locations in Columbus, Ohio and one location in Berwyn, Pennsylvania.

The Company does not own any real estate or interests in real estate.

ITEM 3. Legal Proceedings

From time to time, the Company is party to ordinary routine litigation that is incidental to its business. There are currently no material legal proceedings.

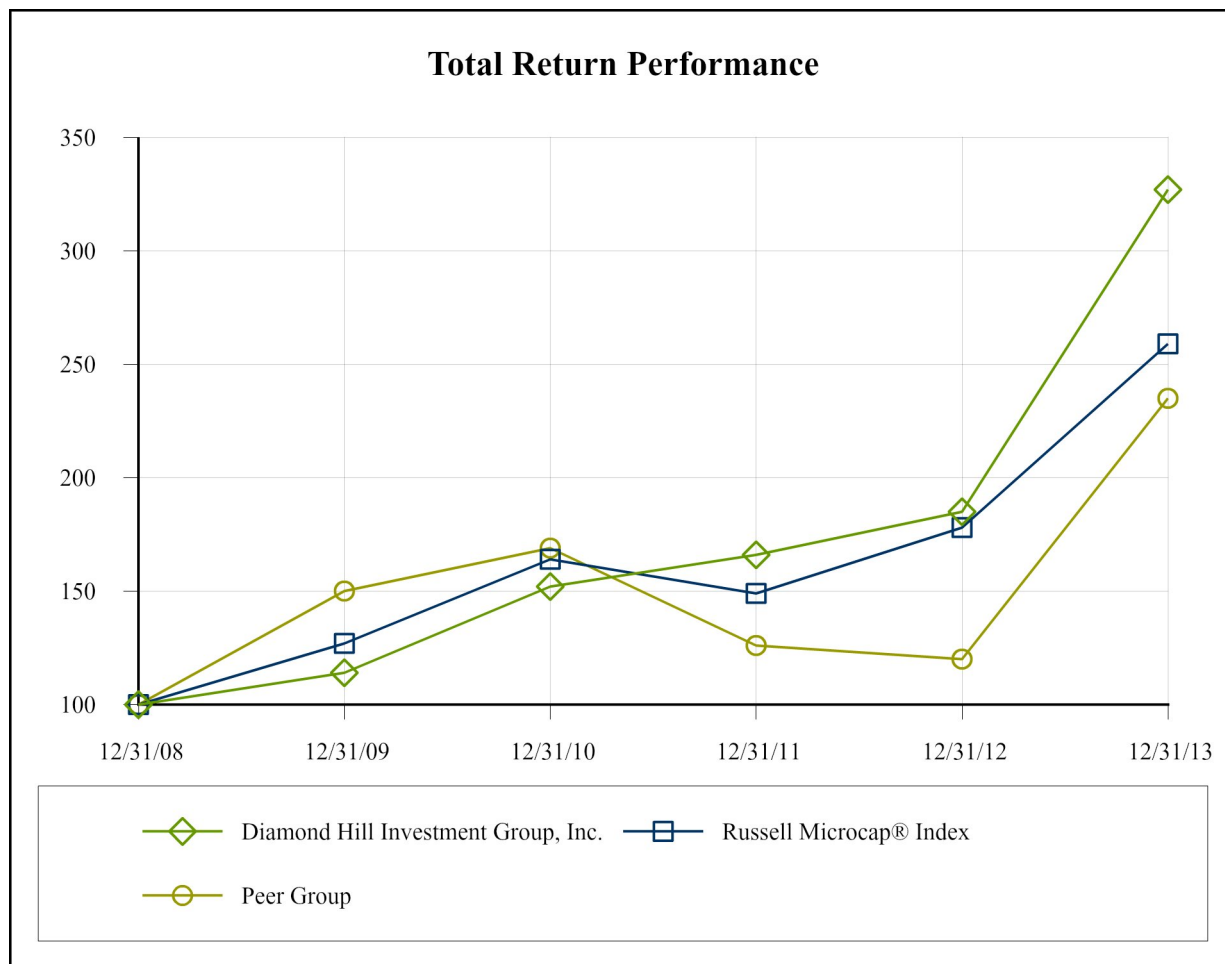
ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following performance graph compares the total shareholder return of an investment in our common shares to that of the Russell Microcap® Index, and to a peer group index of publicly traded asset management firms for the five-year period ending on December 31, 2013. The graph assumes that the value of the investment in our common shares and each index was \$100 on December 31, 2008. Total return includes reinvestment of all dividends. The Russell Microcap® Index makes up less than 3% of the U.S. equity market and is a market-value-weighted index of the smallest 1,000 securities in the small-cap Russell 2000® Index plus the next 1,000 smallest securities. Peer Group returns are weighted by the market capitalization of each firm at the beginning of the measurement period. The historical information set forth below is not necessarily indicative of future performance. We do not make or endorse any predictions as to future stock performance.



	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	Cumulative 5 Year Total Return
Diamond Hill Investment Group, Inc.	100	114	152	166	185	327	227%
Russell Microcap® Index	100	127	164	149	178	259	159%
Peer Group*	100	150	169	126	120	235	135%

* The Peer Group is based upon all asset managers with market cap of less than \$5 billion excluding firms whose primary business is hedge fund or private equity, and firms with multiple lines of business. The following companies are included in the Peer Group: Westwood Holdings Group, Inc.; Epoch Holding Corp. (Total return only reflected through 2012 in the index as acquired in 2013); Eaton Vance Corp.; Waddell & Reed Financial, Inc.; Federated Investors, Inc.; GAMCO Investors, Inc.; Affiliated Managers Group, Inc.; Legg Mason, Inc.; U.S. Global Investors, Inc.; Alliance Bernstein Holding L.P.; Janus Capital Group, Inc.; SEI Investments, Co.; Cohen & Steers, Inc.; Calamos Asset Management, Inc.; and Pzena Investment Management, Inc.

The Company's common shares trade on the NASDAQ Global Select Market under the symbol DHIL. The following table sets forth the high and low sales prices during each quarter of 2013 and 2012:

Quarter ended:	2013			2012		
	High Price	Low Price	Dividend Per Share	High Price	Low Price	Dividend Per Share
March 31	\$ 79.30	\$ 67.34	\$ —	\$ 79.37	\$ 72.95	\$ —
June 30	\$ 85.59	\$ 72.50	\$ —	\$ 78.29	\$ 64.75	\$ —
September 30	\$ 113.16	\$ 86.21	\$ —	\$ 79.30	\$ 70.27	\$ —
December 31	\$ 124.25	\$ 104.86	\$ 3.00	\$ 80.79	\$ 67.73	\$ 8.00

Due to the relatively low volume of traded shares, bid/ask spreads can be fairly wide at times and therefore, quoted prices may not be indicative of the price a shareholder may receive in an actual transaction. During the years ended December 31, 2013 and 2012, approximately 2,663,334 and 1,677,428, respectively, of our common shares were traded. The dividends indicated above were special dividends. We have not paid regular quarterly dividends in the past, and have no present intention of paying regular dividends in the future. The approximate number of record holders of our common shares at December 31, 2013 was 218, although we believe that the number of beneficial owners of our common shares is substantially greater.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company did not purchase any of our common shares during the year ended December 31, 2013. The following table sets forth information regarding our repurchase program of our common shares during the fourth quarter of fiscal year 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(a)
October 1, 2013 through October 31, 2013	—	—	—	318,433
November 1, 2013 through November 30, 2013	—	—	—	318,433
December 1, 2013 through December 31, 2013	—	—	—	318,433

- (a) The Company's current share repurchase program was announced on August 9, 2007. The board of directors authorized management to repurchase up to 350,000 of our common shares in the open market and in private transactions in accordance with applicable securities laws. Our repurchase program is not subject to an expiration date.

ITEM 6. Selected Financial Data

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K.

(in thousands, except per share data)	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
Income Statement Data:					
Total revenues	\$ 81,432	\$ 66,657	\$ 63,895	\$ 56,795	\$ 43,606
Compensation and related costs	40,852	33,868	32,875	30,991	24,114
Other expenses	9,898	8,361	7,959	7,331	7,380
Total expenses	50,750	42,229	40,834	38,322	31,494
Net operating income	30,682	24,428	23,061	18,473	12,112
Operating profit margin	37.7%	36.6%	36.1%	32.5%	27.8%
Net income	22,155	16,931	14,353	12,402	11,374
Per Share Information:					
Basic earnings	\$ 7.05	\$ 5.44	\$ 4.86	\$ 4.48	\$ 4.40
Diluted earnings	6.94	5.44	4.86	4.48	4.40
Cash dividend declared	3.00	8.00	5.00	13.00	10.00
Weighted Average Shares Outstanding					
Basic	3,142	3,111	2,952	2,767	2,583
Diluted	3,194	3,111	2,952	2,768	2,588
Balance Sheet Data (in thousands):					
Total assets	\$ 75,353	\$ 41,236	\$ 37,720	\$ 28,566	\$ 40,505
Long-term debt	—	—	—	—	—
Shareholders equity	44,943	21,736	18,050	7,498	22,981
Assets Under Management (in millions)	\$ 12,186	\$ 9,429	\$ 8,671	\$ 8,623	\$ 6,283
Net Client Flows (in millions)	(308)	(219)	3	1,698	579

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

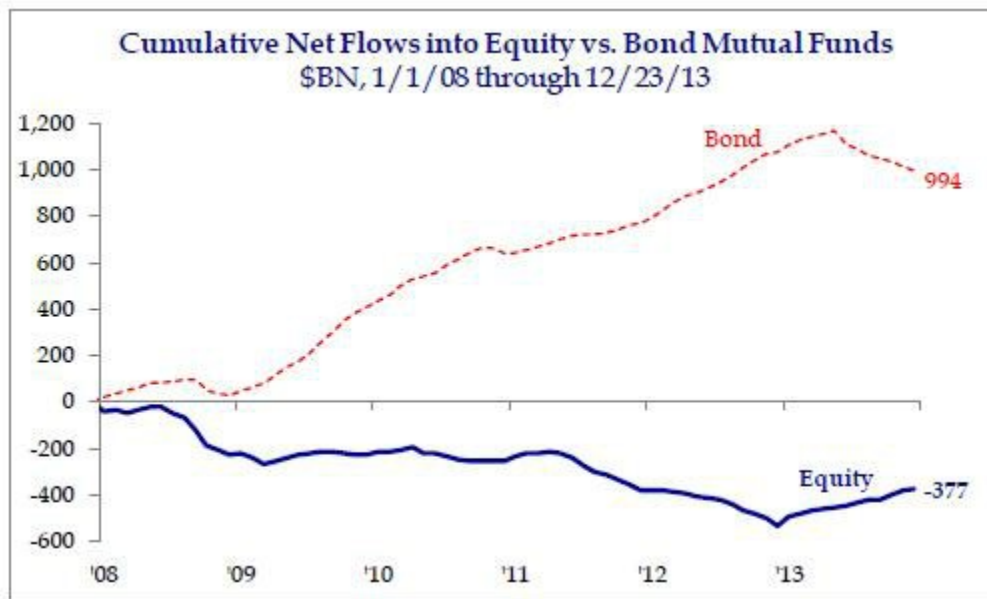
In this section, we discuss and analyze the consolidated results of operations for the past three fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Selected Financial Data contained in this Form 10-K.

Business Environment

U.S. equity markets finished 2013 on a strong note with the S&P 500 Index posting a 32.4% total return for the full year. Since its low during the financial crisis on March 9, 2009, the S&P 500 Index has increased 173% excluding dividends.

Several variables fueled the gains in 2013. At the beginning of the year, the Federal Reserve's (the "Fed") efforts to keep interest rates low through its bond purchase program (Quantitative Easing) was in full swing, U.S. equity market valuations were below historical averages, and economic fundamentals were showing signs of solid gains - although expectations remained low. As the year progressed, corporate earnings growth was positive, prices for existing homes rose, real GDP increased, employment rose, and inflation remained under control. All of these factors contributed to a favorable environment for equity market appreciation. In contrast, U.S. Treasury bond yields rose (as bond prices declined) in 2013 as investors began to anticipate a 'tapering' of the Fed's Quantitative Easing program. The yield on the 10-Year Treasury note rose to 3.03% in 2013 from 1.76% at the end of 2012. After more than two quarters of speculation, the Fed announced its intention to reduce its monthly bond purchases in January 2014; however, we continue to believe the Fed is likely to maintain a very accommodative overall monetary policy for the foreseeable future. This accommodative monetary policy, in the absence of meaningful

inflation, could fuel continued equity market rallies in the near term. In addition, five-year trailing equity returns as of December 31, 2013 were favorable relative to bond returns over the same period. This was reflected in net flows into equity mutual funds, providing a tailwind for equity valuations.



Source: Strategas Research Partners

The U.S. economy continued to expand as employment continued to steadily improve. Housing activity and automobile production continued to provide key areas of support for the economy. In addition, retail sales were strong at the end of 2013, as consumer confidence rose and initial jobless claims fell during the quarter. Although still modest, the improvement in consumer confidence likely reflects surging stock prices, increasing employment, less political uncertainty, and low inflation.

Consumer debt-service burdens have improved significantly over the past few years and are now at relatively low levels by historical standards. However, total household debt, when compared to asset levels or disposable income, remains above long-term averages. In other words, the healthy debt service picture remains very much tied to historically low (despite the recent rise) interest and mortgage rates. Longer-term rates have clearly moved higher since last spring and likely represent a key risk to growth if we experience meaningful additional increases in those rates.

Although the U.S. economy is seemingly poised to pick up in the near term, we continue to expect positive but below average equity market returns over the next five years as above average price/earnings multiples applied to already strong levels of corporate profit margins will likely temper prospective returns. We believe that we can achieve better than market returns over the next five years through active portfolio management and stock selection.

A large majority of our revenue is calculated as a percentage of AUM and is therefore impacted by the overall business and economic environment described above. Financial market declines or deterioration in the economic environment would generally negatively impact the level of our AUM, and consequently our revenue and net income.

Key Financial Performance Indicators

There are a variety of key performance indicators the Company monitors in order to evaluate our business results. The following table presents the results of certain key performance indicators over the past three fiscal years:

	For the Years Ended December 31,		
	2013	2012	2011
Ending AUM (in millions)	\$ 12,186	\$ 9,429	\$ 8,671
Average AUM (in millions)	10,817	9,249	8,825
Total Revenue (in thousands)	81,432	66,657	63,895
Total Expenses (in thousands)	50,750	42,229	40,834
Average Advisory Fee Rate	0.65%	0.62%	0.63%
Operating Profit Margin	37.7%	36.6%	36.1%

Assets Under Management

Our revenue is derived primarily from investment advisory and administration fees. Investment advisory and administration fees paid to the Company are generally based on the value of the investment portfolios we manage and fluctuate with changes in the total value of the AUM. Substantially all of our AUM (98.3%) is valued based on readily available market quotations. AUM in the Strategic Income strategy (1.7%) is valued using evaluated prices from an independent third-party provider. We have no AUM that is valued using significant unobservable inputs. Fees are recognized in the period that the Company manages these assets.

Revenues are highly dependent on both the value and composition of AUM. The following is a summary of our AUM by product, investment objective, and a roll-forward of the change in AUM for the years ended December 31, 2013, 2012, and 2011:

(in millions)	Assets Under Management by Product As of December 31,		
	2013	2012	2011
Proprietary funds	\$ 7,600	\$ 5,251	\$ 4,405
Sub-advised funds	444	947	972
Institutional accounts	4,142	3,231	3,294
Total AUM	\$ 12,186	\$ 9,429	\$ 8,671

(in millions)	Assets Under Management by Investment Objective As of December 31,		
	2013	2012	2011
Small Cap	\$ 1,402	\$ 939	\$ 932
Small-Mid Cap	780	364	277
Large Cap	6,254	5,211	4,885
Select (All Cap)	327	258	321
Long-Short	3,213	2,455	2,082
Strategic Income	210	202	174
Total AUM	\$ 12,186	\$ 9,429	\$ 8,671

(in millions)	Change in Assets Under Management For the Year Ended December 31,		
	2013	2012	2011
AUM at beginning of the year	\$ 9,429	\$ 8,671	\$ 8,623
Net cash inflows (outflows)			
proprietary funds	713	429	56
sub-advised funds	(758)	(149)	21
institutional accounts	(263)	(499)	(74)
	(308)	(219)	3
Net market appreciation and income	3,065	977	45
Increase during the year	2,757	758	48
AUM at end of the year	\$ 12,186	\$ 9,429	\$ 8,671

Consolidated Results of Operations

The following is a discussion of our consolidated results of operations.

(in thousands, except per share data)	2013	2012	% Change	2012	2011	% Change
Net operating income	\$ 30,682	\$ 24,428	26%	\$ 24,428	\$ 23,061	6%
Net operating income after tax ^(a)	\$ 19,077	\$ 15,857	20%	\$ 15,857	\$ 14,394	10%
Net income	\$ 22,155	\$ 16,931	31%	\$ 16,931	\$ 14,353	18%
Net operating income after tax per share ^(a)						
Basic	\$ 6.07	\$ 5.10	19%	\$ 5.10	\$ 4.88	5%
Diluted	\$ 5.97	\$ 5.10	17%	\$ 5.10	\$ 4.88	5%
Net income per share						
Basic	\$ 7.05	\$ 5.44	30%	\$ 5.44	\$ 4.86	12%
Diluted	\$ 6.94	\$ 5.44	28%	\$ 5.44	\$ 4.86	12%
Operating profit margin	37.7%	36.6%	NM	36.6%	36.1%	NM

- (a) Net operating income after tax is a non-GAAP performance measure. See Use of Supplemental Data as Non-GAAP Performance Measure on page 22 of this report.

Year Ended December 31, 2013 compared with Year Ended December 31, 2012

The Company earned net income of \$22.2 million (\$6.94 per diluted share) for the year ended December 31, 2013, compared with net income of \$16.9 million (\$5.44 per diluted share) for the year ended December 31, 2012. Operating income increased by \$6.3 million from 2012 to 2013 primarily due to an increase in AUM, resulting in a \$14.8 million increase in revenue. The revenue increase was offset by an increase in operating expenses of \$8.5 million, primarily related to higher compensation due to staffing and merit increases and increases in incentive compensation and restricted stock expenses. A positive return on our corporate investments further contributed to the overall increase in net income offset by a change in the effective tax rate from 35.1% in 2012 to 37.8% in 2013. Investment income increased \$3.3 million from the year ended December 31, 2012 to December 31, 2013 due to \$2.0 million in portfolio appreciation, \$638 thousand in realized gains from corporate investment redemptions, and \$651 thousand in distributions from mutual funds. Income tax provision increased \$4.3 million from the year ended December 31, 2012 to December 31, 2013 primarily due to an overall increase in book income and an increase in the effective tax rate as a result of interest expense and additional state and city income tax resulting from the recently settled IRS exam. In addition, the effective tax rate for the year ended December 31, 2012 was lower as a result of the items mentioned in the following paragraph. Operating profit margin increased to 37.7% for 2013 from 36.6% for 2012. We expect that our operating margin will fluctuate from year to year based on various factors including revenues; investment results; employee performance; staffing levels; development of investment strategies, products, or channels; and industry comparisons.

Year Ended December 31, 2012 compared with Year Ended December 31, 2011

The Company earned net income of \$16.9 million (\$5.44 per diluted share) for the year ended December 31, 2012, compared with net income of \$14.4 million (\$4.86 per diluted share) for the year ended December 31, 2011. Operating income increased by \$1.4 million from 2011 to 2012 primarily due to an increase in AUM, resulting in a \$2.8 million increase in revenue. The revenue increase was offset by an increase in operating expenses of \$1.4 million, primarily related to higher compensation related to staffing increases. A positive return on our corporate investments and a change in the effective tax rate from 37.6% in 2011 to 35.1% in 2012 due to a reduction of certain tax accruals further contributed to the overall increase in net income. Operating profit margin increased to 36.6% for 2012 from 36.1% for 2011.

Revenue

<u>(in thousands)</u>	<u>2013</u>	<u>2012</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Investment advisory	\$ 69,967	\$ 57,783	21%	\$ 57,783	\$ 56,017	3%
Mutual fund administration, net	11,465	8,874	29%	8,874	7,878	13%
Total	81,432	66,657	22%	66,657	63,895	4%

Revenue for the Year Ended December 31, 2013 compared with Year Ended December 31, 2012

As a percent of total 2013 revenues, investment advisory fees accounted for 86% and mutual fund administration fees made up the remaining 14%. This compared to 87% and 13%, respectively, for 2012.

Investment Advisory Fees. Investment advisory fees increased by \$12.2 million, or 21%, from the year ended December 31, 2012 to the year ended December 31, 2013. Investment advisory fees are calculated as a percentage of average net AUM at various rates depending on the investment product. The increase in investment advisory fees was driven by an increase of 17% in average AUM year over year and an increase of three basis points in the average advisory fee rate to 0.65% in 2013 from 0.62% for the year ended December 31, 2012. The increase in the average advisory fee rate is primarily due to a shift in the overall composition of AUM to higher fee rate strategies.

Mutual Fund Administration Fees. Mutual fund administration fees increased by \$2.6 million, or 29%, from the year ended December 31, 2012 to the year ended December 31, 2013. Mutual fund administration fees include administration fees received from Diamond Hill Funds, which are calculated as a percentage of average mutual fund AUM, and all Beacon Hill fee revenue. The increase in the mutual fund administration fee is due to a 33% increase in average mutual fund AUM from \$4.8 billion for the year ended December 31, 2012 to \$6.3 billion for the year ended December 31, 2013 while the overall blended net administration fee rate remained flat at 0.15% year over year.

Revenue for the Year Ended December 31, 2012 compared with Year Ended December 31, 2011

As a percent of total 2012 revenues, investment advisory fees accounted for 87% and mutual fund administration fees made up the remaining 13%. This compared to 88% and 12%, respectively, for 2011.

Investment Advisory Fees. Investment advisory fees increased by \$1.8 million, or 3%. Investment advisory fees are calculated as a percentage of average net AUM at various rates depending on the investment product. While the average AUM increased 5% year over year, the average advisory fee rate declined one basis point to 0.62% for the year ended December 31, 2012 compared to 0.63% for the year ended December 31, 2011. Contributing to the decrease in the average advisory fee rate is the large cap fee reduction where we voluntarily lowered the investment advisory fee we charge on the Diamond Hill Large Cap Fund and certain large cap separate accounts by 0.05% effective October 1, 2011. The large cap strategy fees were reduced to better align our investment advisory fees with our investment management goals.

Mutual Fund Administration Fees. Mutual fund administration fees increased by \$1.0 million, or 13%, during 2012. Mutual fund administration fees include administration fees received from Diamond Hill Funds, which are calculated as a percentage of average mutual fund AUM, and all Beacon Hill fee revenue. The increase in the mutual fund administration fee is due to a 13% increase in average mutual fund AUM from \$4.2 billion for the year ended December 31, 2011 to \$4.8 billion for the year ended December 31, 2012 while the overall blended net administration fee rate remained flat at 0.15% year over year.

Expenses

(in thousands)	2013	2012	% Change	2012	2011	% Change
Compensation and related costs	\$ 40,852	\$ 33,868	21 %	\$ 33,868	\$ 32,875	3 %
General and administrative	6,043	4,987	21 %	4,987	4,738	5 %
Sales and marketing	1,389	1,065	30 %	1,065	832	28 %
Third party distribution	710	752	(6)%	752	885	(15)%
Mutual fund administration	1,756	1,557	13 %	1,557	1,504	4 %
Total	<u>50,750</u>	<u>42,229</u>	20 %	<u>42,229</u>	<u>40,834</u>	3 %

Expenses for the Year Ended December 31, 2013 compared with Year Ended December 31, 2012

Compensation and Related Costs. Employee compensation and benefits increased by \$7.0 million, or 21%, due to an increase of \$1.7 million in salaries and related benefits due to an increase in staffing and merit levels, an increase of \$1.5 million in restricted stock expense primarily due to accelerated vesting of a restricted stock grant during fiscal year 2013, and an increase of \$3.8 million in incentive compensation during fiscal year 2013 due to growth in the business.

General and Administrative. General and administrative expenses increased by \$1.1 million, or 21%, from the year ended December 31, 2012 to the year ended December 31, 2013. This increase was primarily due to additional research expenses to support our investment team, an increase in system infrastructure and information technology expenses, additional rent related to the expansion of our office space during fourth quarter 2013, and an increase in corporate legal expenses and non-income related taxes.

Sales and Marketing. Sales and marketing expenses increased by \$324 thousand, or 30%, from the year ended December 31, 2012 to the year ended December 31, 2013. This increase was due to an overall increase in travel and other expenses related to business development and retention efforts and expenses related to a review and update of marketing materials.

Third Party Distribution. Third party distribution expense represents payments made to intermediaries related to sales of the Company's investment products. This expense is directly correlated with the investments made by the intermediaries in our proprietary funds. The period-over-period change directly corresponds to the change in the investment advisory fees we earned related to the client assets subject to the distribution expense.

Mutual Fund Administration. Mutual fund administration expenses increased by \$199 thousand, or 13%, from the year ended December 31, 2012 to the year ended December 31, 2013. Mutual fund administration expenses consist of both variable and fixed expenses. The variable expenses are based on mutual fund AUM and the number of shareholder accounts. The increase is due to an increase in average Funds AUM of 33% from the year ended December 31, 2012 to December 31, 2013, offset by a reduction in shareholder maintenance expenses during the current fiscal year and a reduction in expenses incurred by Beacon Hill related to servicing clients.

Expenses for the Year Ended December 31, 2012 compared with Year Ended December 31, 2011

Compensation and Related Costs. Employee compensation and benefits increased by \$993 thousand, or 3%, primarily due to an increase of \$1.5 million in salaries and related benefits due to an increase in staffing levels, offset by a decrease of \$511 thousand in incentive compensation during the year ended December 31, 2012 compared to the year ended December 31, 2011.

General and Administrative. General and administrative expenses increased by \$249 thousand, or 5%, from 2011 to 2012. This increase is primarily due to additional research expenses to support our investment team, an increase in general system and information technology expenses, additional rent related to the expansion of our office space during third quarter 2011, and employee professional development, offset by a reduction in corporate legal expenses and a decrease in non-income related taxes.

Sales and Marketing. Sales and marketing expenses increased by \$232 thousand, or 22%, from 2011 to 2012. This increase was primarily due to an overall increase in travel and other expenses related to business development and retention efforts during 2012.

Third Party Distribution. Third party distribution expense represents payments made to intermediaries related to sales of the Company's investment products. This expense is directly correlated with the investments made by the intermediaries in our

proprietary funds. The period-over-period change directly corresponds to the change in the investment advisory fees we earned related to those products.

Mutual Fund Administration. Mutual fund administration expenses increased by \$53 thousand, or 4%, from 2011 to 2012. The majority of mutual fund administration fees are variable based upon the amount of mutual fund AUM or the number of shareholder accounts. While average mutual fund AUM increased by 13% from 2011 to 2012, this increase in the expense was offset due to a shift in the servicing of shareholder accounts from the fund's transfer agent to omnibus shareholder accounting at third party intermediaries. The costs associated with servicing these shareholder accounts are now reflected as Fund Related Expenses (see Note 2: Revenue Recognition – Mutual Fund Administration).

Liquidity and Capital Resources

Sources of Liquidity

The Company's main source of liquidity is cash flow from operating activities which are generated from investment advisory and fund administration fees. Our entire investment portfolio is in readily marketable securities, which provide for cash liquidity, if needed. Investments in mutual funds are valued at their quoted current net asset value. Investments in private investment funds are valued independently based on readily available market quotations. Inflation is expected to have no material impact on our performance. Cash and cash equivalents, accounts receivables, and investments represent approximately 86% and 84% of total assets as of December 31, 2013 and 2012 respectively. We believe these sources of liquidity, as well as our continuing cash flows from operating activities, will be sufficient to meet our current and future operating needs for at least the next 12 months.

Uses of Liquidity

In line with the Company's primary objective to fulfill our fiduciary duty to clients and secondary objective to achieve an adequate long-term return for shareholders, we anticipate our main uses of cash will be operating expenses.

The Board of Directors and management regularly review various factors to determine whether we have capital in excess of that required for the business and the appropriate use of any excess capital. The factors considered include our investment opportunities, risks, and future dividend and capital gain tax rates. Evaluating management's stewardship of capital for shareholders is a central part of our investment discipline that we practice for our clients. We hold ourselves to the same standard that we look for when evaluating investments for our clients.

While this is the sixth consecutive year that the Company has paid a special dividend, there can be no assurance that we will pay a dividend in the future. We have paid out special dividends totaling \$49.00 per share from 2008 through 2013. These special dividends reduced shareholders' equity by \$136.9 million over the past six years. The 2013 special dividend reduced shareholders' equity by \$9.8 million. It was a qualified dividend for tax purposes and was recorded as a reduction to retained earnings, which contributed to the accumulated deficit of \$16.3 million as of December 31, 2013. Our accumulated deficit is not expected to impact our future ability to operate given our total shareholder equity, continuing profitability and strong cash and financial position. A portion of the dividends paid in 2012, 2010, and 2009 were a return of capital for tax purposes and we elected to record the dividends as a reduction to retained earnings, which contributed to the accumulated deficit. The 2011 dividend was a qualified dividend for tax purposes and was recorded through retained earnings, which contributed to the accumulated deficit.

Working Capital

As of December 31, 2013, the Company had working capital of approximately \$34.4 million compared to \$17.6 million at December 31, 2012. Working capital includes cash, securities owned and current receivables, net of all liabilities. On November 22, 2013, our board of directors declared a \$3.00 per share dividend payable on December 16, 2013 to shareholders of record on December 10, 2013. The payment of the special cash dividend reduced our working capital balance. The Company has no debt, and believe our available working capital is sufficient to cover current expenses. We expect to have sufficient working capital to cover anticipated capital expenditures that could range from \$500 thousand to \$1 million in 2014 related to office expansion to support our growth and \$10 million for seed capital in the Diamond Hill Mid Cap Fund, which commenced operations on January 1, 2014.

Cash Flow Analysis

Cash Flows from Operating Activities

The Company's cash flows from operating activities are calculated by adjusting net income to reflect other significant operating sources and uses of cash, certain significant non-cash items such as share-based compensation, and timing differences in the cash settlement of operating assets and liabilities.

As of December 31, 2013, 2012, and 2011, net cash provided by operating activities totaled \$34.6 million, \$24.5 million, and \$22.7 million, respectively. The changes in net cash provided by operating activities generally reflects net income plus the effect of non-cash items and the timing differences in the cash settlement of assets and liabilities.

Cash Flows from Investing Activities

The Company's cash flows from investing activities consist primarily of capital expenditures and the purchase and redemption of our investment portfolio.

Cash flows provided by investing activities totaled \$1.5 million for the year ended December 31, 2013 related to the net redemptions in corporate investments offset by capital expenditures during the period. Cash flows used in investing activities totaled \$7.4 million for the year ended December 31, 2012 related to net purchases in corporate investments and capital expenditures during the period. Cash flows provided by investing activities totaled \$3.0 million for the year ended December 31, 2011 related to net redemptions in corporate investments offset by capital expenditures the period.

Cash Flows from Financing Activities

The Company's cash flows from financing activities consist primarily of the payment of special dividends, the repurchase of common shares, and shares withheld related to employee tax withholding.

As of December 31, 2013, 2012, and 2011, net cash used by financing activities totaled \$10.9 million, \$24.5 million, and \$16.2 million, respectively. The primary cash flows used in financing activities for the periods were special dividends of \$9.8 million, \$25.2 million, and \$15.0 million, respectively. During 2011, we repurchased \$1.1 million in common shares pursuant to the share repurchase program announced on August 9, 2007. No shares were repurchased during 2013 or 2012.

Selected Quarterly Information

Our unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 are summarized below:

	At or For the Quarter Ended							
	2013				2012			
(in thousands, except per share data)	12/31	09/30	06/30	03/31	12/31	09/30	06/30	03/31
Assets under management (in millions)	\$ 12,186	\$ 11,040	\$ 10,427	\$ 10,574	\$ 9,429	\$ 9,681	\$ 9,164	\$ 9,360
Total revenue	22,324	20,819	19,914	18,375	16,982	16,869	16,175	16,632
Total operating expenses	12,890	13,350	12,762	11,748	10,435	10,839	10,344	10,611
Operating income	9,434	7,469	7,152	6,627	6,547	6,030	5,831	6,021
Investment income (loss)	1,482	914	729	1,825	229	621	(468)	1,272
Net income	\$ 6,750	\$ 5,362	\$ 4,712	\$ 5,331	\$ 4,825	\$ 4,167	\$ 3,328	\$ 4,611
Diluted EPS	\$ 2.10	\$ 1.67	\$ 1.45	\$ 1.67	\$ 1.53	\$ 1.32	\$ 1.07	\$ 1.52
Diluted weighted shares outstanding	3,222	3,212	3,248	3,197	3,159	3,154	3,101	3,031

Contractual Obligations

The following table presents a summary of the Company's future obligations under the terms of operating leases and lease commitments, other contractual purchase obligations, and deferred compensation obligations at December 31, 2013. Other purchase obligations include contractual amounts that will be due for the purchase of services to be used in our operations, such as mutual fund sub-administration and portfolio accounting software. These obligations may be cancelable at earlier times than those indicated and, under certain conditions, may involve termination fees. The deferred compensation obligations includes compensation that will be paid out upon satisfactory completion of certain performance-based criteria (see Note 2: Deferred

Compensation Liability). Because these obligations are of a normal recurring nature, we expect to fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2014 and future years:

(in thousands)	Total	Payments Due by Period			
		2014	2015-2016	2017-2018	Later
Operating lease obligations	\$ 6,935	\$ 683	\$ 1,386	\$ 1,322	\$ 3,544
Purchase obligations	6,809	3,231	3,578	—	—
Deferred compensation obligations	1,288	—	1,288	—	—
Total	\$ 15,032	\$ 3,914	\$ 6,252	\$ 1,322	\$ 3,544

The total operating lease obligations and purchase obligations include \$354 thousand and \$56 thousand, respectively, of obligations resulting from a contractual expense reimbursement agreement ("Expense Agreement") with a third party. Under the Expense Agreement, these amounts are expected to be reimbursed to the Company by the third party. The obligation of the third party to reimburse us for these expenses survives the termination of the Expense Agreement. See Note 2: Contractual Expense Reimbursements.

Use of Supplemental Data as Non-GAAP Performance Measure

Net Operating Income After Tax

As supplemental information, we provide performance measures that are based on methodologies other than generally accepted accounting principles ("non-GAAP") for "Net Operating Income After Tax" that management uses as benchmarks in evaluating and comparing the period-to-period operating performance of the Company and subsidiaries.

The Company defines "net operating income after tax" as our net operating income less income tax provision excluding investment income and the tax impact related to the investment income. We believe that "net operating income after tax" provides a good representation of our operating performance, as it excludes the impact of investment income on financial results. The amount of the investment portfolio and market fluctuations on the investments may change significantly from one period to another, which can distort the underlying earnings potential of a company. We also believe "net operating income after tax" is an important metric in estimating the value of an asset management business. This non-GAAP measure is provided in addition to net income and net operating income and is not a substitute for net income or net operating income and may not be comparable to non-GAAP performance measures of other companies.

(in thousands, except per share data)	Year Ended December 31,		
	2013	2012	2011
Net operating income, GAAP basis	\$ 30,682	\$ 24,428	\$ 23,061
Non-GAAP adjustments:			
Tax provision excluding impact of investment income	11,605	8,571	8,667
Net operating income after tax, non-GAAP basis	\$ 19,077	\$ 15,857	\$ 14,394
Net operating income after tax per basic share, non-GAAP basis	\$ 6.07	\$ 5.10	\$ 4.88
Net operating income after tax per diluted share, non-GAAP basis	\$ 5.97	\$ 5.10	\$ 4.88
Basic weighted average shares outstanding, GAAP basis	3,142	3,111	2,952
Diluted weighted average shares outstanding, GAAP basis	3,194	3,111	2,952

The tax provision excluding impact of investment income is calculated by applying the tax rate calculated from the income statement to net operating income.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements. We do not have any obligation under a guarantee contract, or a retained or contingent interest in assets or similar arrangement that serves as credit, liquidity or market risk support for such assets, or any other obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument or arising out of a variable interest.

Critical Accounting Policies and Estimates

Provisions for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns.

Revenue Recognition on Incentive-Based Advisory Contracts. We have certain investment advisory contracts in which a portion of the fees are based on investment performance achieved in the respective client portfolio in excess of a specified hurdle rate. For management fees based on a formula, there are two methods by which incentive revenue may be recorded. Under "Method 1," incentive fees are recorded at the end of the contract year. Under "Method 2," incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen the more conservative Method 1, in which performance fees are recorded at the end of the contract period provided for by the contract terms.

Revenue Recognition when Acting as an Agent vs. Principal. The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds' shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required fund shareholder mailings, registration services, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that the Funds pay to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund expenses, as it is the appropriate accounting treatment for this agency relationship.

Beacon Hill has underwriting agreements with certain clients, including registered mutual funds. Part of Beacon Hill's role as underwriter is to act as an agent on behalf of its mutual fund clients to receive 12b-1/service fees and commission revenue and facilitate the payment of those fees and commissions to third parties who provide services to the funds and their shareholders. The amount of 12b-1/service fees and commissions are determined by each mutual fund client and Beacon Hill bears no financial risk related to these services. As a result, 12b-1/service fees and commission revenue has been recorded net of the expense payments to third parties, as it is the appropriate accounting treatment for this agency relationship.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's revenues and net income are based primarily on the value of AUM. Accordingly, declines in financial market values directly and negatively impact our investment advisory revenues and net income.

We invest in Diamond Hill Funds and our private investment funds, which are market risk sensitive financial instruments. These investments have inherent market risk in the form of equity price risk; that is, the potential future loss of value that would result from a decline in their fair value. Market prices fluctuate and the amount realized upon subsequent sale may differ significantly from the reported market value.

The table below summarizes our market risks as of December 31, 2013, and shows the effects of a hypothetical 10% increase and decrease in equity investments.

	Fair Value as of December 31, 2013	Fair Value Assuming a Hypothetical 10% Increase	Fair Value Assuming a Hypothetical 10% Decrease
Equity investments	\$ 18,726,070	\$ 20,598,677	\$ 16,853,463

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Diamond Hill Investment Group, Inc.:

We have audited the accompanying consolidated balance sheets of Diamond Hill Investment Group, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Diamond Hill Investment Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Columbus, Ohio
March 7, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Diamond Hill Investment Group, Inc.:

We have audited Diamond Hill Investment Group Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of the Company's December 31, 2013 annual report on Form 10-K. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diamond Hill Investment Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013, and our report dated March 7, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Columbus, Ohio
March 7, 2014

Report of Independent Registered Public Accounting Firm

To Shareholders and Board of Directors of
Diamond Hill Investment Group, Inc.

We have audited the consolidated statements of income, shareholders' equity, and cash flows of Diamond Hill Investment Group, Inc. and its subsidiaries for the year ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Diamond Hill Investment Group, Inc. and its subsidiaries for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

March 7, 2012
Columbus, Ohio

Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 33,106,972	\$ 7,870,908
Investment portfolio	18,726,070	16,503,731
Accounts receivable	13,002,295	10,438,598
Prepaid expenses	1,489,713	953,526
Furniture and equipment, net of depreciation	964,943	745,476
Income tax receivable	—	2,271,704
Deferred taxes	8,063,425	2,451,974
Total assets	<u>\$ 75,353,418</u>	<u>\$ 41,235,917</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 4,049,240	\$ 2,797,483
Accrued incentive compensation	19,606,881	15,908,083
Deferred compensation liability	1,287,745	794,644
Income taxes payable	5,466,562	—
Total liabilities	<u>30,410,428</u>	<u>19,500,210</u>
Commitments and contingencies	—	—
Shareholders' Equity		
Common stock, no par value 7,000,000 shares authorized; 3,257,247 issued and outstanding at December 31, 2013 (inclusive of 312,099 unvested shares); 3,169,987 issued and outstanding at December 31, 2012 (inclusive of 319,988 unvested shares)	72,642,933	65,255,813
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(11,397,560)	(14,829,470)
Accumulated deficit	(16,302,383)	(28,690,636)
Total shareholders' equity	<u>44,942,990</u>	<u>21,735,707</u>
Total liabilities and shareholders' equity	<u>\$ 75,353,418</u>	<u>\$ 41,235,917</u>
Book value per share	\$ 13.80	\$ 6.86

The accompanying notes are an integral part of these consolidated financial statements.

Diamond Hill Investment Group, Inc.
Consolidated Statements of Income

	Year Ended December 31,		
	2013	2012	2011
REVENUES:			
Investment advisory	\$ 69,966,377	\$ 57,783,131	\$ 56,016,708
Mutual fund administration, net	11,465,327	8,874,177	7,878,556
Total revenue	<u>81,431,704</u>	<u>66,657,308</u>	<u>63,895,264</u>
OPERATING EXPENSES:			
Compensation and related costs	40,851,722	33,868,225	32,874,606
General and administrative	6,042,781	4,986,559	4,737,831
Sales and marketing	1,388,792	1,064,643	832,429
Third party distribution	710,123	752,481	885,280
Mutual fund administration	1,756,366	1,556,909	1,504,005
Total operating expenses	<u>50,749,784</u>	<u>42,228,817</u>	<u>40,834,151</u>
NET OPERATING INCOME	<u>30,681,920</u>	<u>24,428,491</u>	<u>23,061,113</u>
Investment income (loss)	4,950,245	1,654,124	(66,664)
INCOME BEFORE TAXES	<u>35,632,165</u>	<u>26,082,615</u>	<u>22,994,449</u>
Income tax provision	(13,477,337)	(9,151,723)	(8,641,481)
NET INCOME	<u>\$ 22,154,828</u>	<u>\$ 16,930,892</u>	<u>\$ 14,352,968</u>
Earnings per share			
Basic	<u>\$ 7.05</u>	<u>\$ 5.44</u>	<u>\$ 4.86</u>
Diluted	<u>\$ 6.94</u>	<u>\$ 5.44</u>	<u>\$ 4.86</u>
Weighted average shares outstanding			
Basic	<u>3,142,083</u>	<u>3,111,328</u>	<u>2,951,751</u>
Diluted	<u>3,194,263</u>	<u>3,111,328</u>	<u>2,951,751</u>

The accompanying notes are an integral part of these consolidated financial statements.

Diamond Hill Investment Group, Inc.
Consolidated Statements of Shareholders' Equity

	Shares Outstanding	Common Stock	Deferred Compensation	Retained Earnings (Accumulated Deficit)	Total
Balance at January 1, 2011	2,795,683	\$ 34,423,011	\$ (7,137,729)	\$ (19,787,030)	\$ 7,498,252
Issuance of restricted stock grants	109,333	8,686,586	(8,686,586)	—	—
Amortization of restricted stock grants	—	—	3,742,909	—	3,742,909
Issuance of stock grants	103,899	7,691,800	—	—	7,691,800
Issuance of common stock related to 401k plan match	12,754	960,888	—	—	960,888
Net excess tax benefit from vested restricted stock grants	—	7,007	—	—	7,007
Shares withheld related to employee tax withholding	(2,025)	(158,988)	—	—	(158,988)
Forfeiture of restricted stock grants	(8,368)	(541,774)	541,774	—	—
Repurchase of common stock	(15,462)	(1,072,908)	—	—	(1,072,908)
Cash Dividend Paid of \$5.00 per share	—	—	—	(14,971,570)	(14,971,570)
Net income	—	—	—	14,352,968	14,352,968
Balance at December 31, 2011	<u>2,995,814</u>	<u>\$ 49,995,622</u>	<u>\$ (11,539,632)</u>	<u>\$ (20,405,632)</u>	<u>\$ 18,050,358</u>
Issuance of restricted stock grants	107,600	8,139,135	(8,139,135)	—	—
Amortization of restricted stock grants	—	—	4,693,926	—	4,693,926
Issuance of stock grants	71,949	5,540,792	—	—	5,540,792
Issuance of common stock related to 401k plan match	14,239	1,057,056	—	—	1,057,056
Tax benefit from dividend payments related to restricted stock grants	—	1,992,298	—	—	1,992,298
Net excess tax benefit from vested restricted stock grants	—	34,543	—	—	34,543
Shares withheld related to employee tax withholding	(17,438)	(1,348,262)	—	—	(1,348,262)
Forfeiture of restricted stock grants	(2,177)	(155,371)	155,371	—	—
Cash Dividend Paid of \$8.00 per share	—	—	—	(25,215,896)	(25,215,896)
Net income	—	—	—	16,930,892	16,930,892
Balance at December 31, 2012	<u>3,169,987</u>	<u>\$ 65,255,813</u>	<u>\$ (14,829,470)</u>	<u>\$ (28,690,636)</u>	<u>\$ 21,735,707</u>
Issuance of restricted stock grants	32,000	2,740,030	(2,740,030)	—	—
Amortization of restricted stock grants	—	—	6,161,047	—	6,161,047
Issuance of stock grants	59,006	4,606,008	—	—	4,606,008
Issuance of common stock related to 401k plan match	12,894	1,158,354	—	—	1,158,354
Tax benefit from dividend payments related to restricted stock grants	—	357,188	—	—	357,188
Net excess tax benefit from vested restricted stock grants	—	420,620	—	—	420,620
Shares withheld related to employee tax withholding	(16,500)	(1,884,187)	—	—	(1,884,187)
Forfeiture of restricted stock grants	(140)	(10,893)	10,893	—	—
Cash Dividend Paid of \$3.00 per share	—	—	—	(9,766,575)	(9,766,575)
Net income	—	—	—	22,154,828	22,154,828
Balance at December 31, 2013	<u>3,257,247</u>	<u>\$ 72,642,933</u>	<u>\$ (11,397,560)</u>	<u>\$ (16,302,383)</u>	<u>\$ 44,942,990</u>

The accompanying notes are an integral part of these consolidated financial statements.

Diamond Hill Investment Group, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 22,154,828	\$ 16,930,892	\$ 14,352,968
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on furniture and equipment	306,005	305,897	330,971
Stock-based compensation	7,319,401	5,750,981	4,933,613
Increase in accounts receivable	(2,563,697)	(142,875)	(1,600,620)
Change in current income taxes	8,520,834	(105,166)	(976,574)
Change in deferred income taxes	(5,616,211)	(368,572)	(1,221,328)
Net investment (gain) loss	(4,270,928)	(1,135,598)	111,078
Increase in accrued compensation	8,797,907	5,469,062	8,125,191
Excess income tax benefit from stock-based compensation	(425,380)	(34,543)	(7,007)
Income tax benefit from dividends paid on unvested shares	(357,188)	(1,992,298)	—
Other changes in assets and liabilities	715,570	(131,087)	(1,339,002)
Net cash provided by operating activities	<u>34,581,141</u>	<u>24,546,693</u>	<u>22,709,290</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of furniture and equipment	(525,472)	(221,592)	(253,082)
Cost of investments purchased and other portfolio activity	(2,306,947)	(7,463,796)	(925,507)
Proceeds from sale of investments	4,355,536	304,152	4,133,000
Net cash provided by (used in) investing activities	<u>1,523,117</u>	<u>(7,381,236)</u>	<u>2,954,411</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment for repurchase of common shares	—	—	(1,072,908)
Shares withheld related to employee tax withholding	(1,884,187)	(1,348,262)	(158,988)
Excess income tax benefit from stock-based compensation	425,380	34,543	7,007
Income tax benefit from dividends paid on unvested shares	357,188	1,992,298	—
Payment of dividends	(9,766,575)	(25,215,896)	(14,971,570)
Net cash used in financing activities	<u>(10,868,194)</u>	<u>(24,537,317)</u>	<u>(16,196,459)</u>
CASH AND CASH EQUIVALENTS			
Net change during the year	25,236,064	(7,371,860)	9,467,242
At beginning of year	7,870,908	15,242,768	5,775,526
At end of year	<u>\$ 33,106,972</u>	<u>\$ 7,870,908</u>	<u>\$ 15,242,768</u>
Supplemental cash flow information:			
Interest paid	\$ —	\$ —	\$ —
Income taxes paid	10,575,000	9,636,000	10,849,000
Supplemental disclosure of non-cash transactions:			
Common stock issued as incentive compensation	4,606,008	5,540,792	7,461,984

The accompanying notes are an integral part of these consolidated financial statements.

Diamond Hill Investment Group, Inc.
Notes to Consolidated Financial Statements

Note 1 Business and Organization

Diamond Hill Investment Group, Inc. (the “Company”), an Ohio Corporation, derives its consolidated revenues and net income from investment advisory and fund administration services. The Company has three operating subsidiaries.

Diamond Hill Capital Management, Inc. (“DHCM”), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment adviser. DHCM is the investment adviser to the Diamond Hill Funds (the “Funds”), a series of open-end mutual funds, private investment funds (“Private Funds”), and other institutional accounts. In addition, DHCM is administrator for the Funds.

Beacon Hill Fund Services, Inc. (“BHFS”), an Ohio corporation, is a wholly owned subsidiary of the Company. BHFS provides certain compliance, treasury, and other fund administration services to mutual fund companies. BHIL Distributors, Inc. (“BHIL”), an Ohio corporation, is a wholly owned subsidiary of BHFS. BHIL provides underwriting to mutual funds. BHFS and BHIL collectively operate as “Beacon Hill”.

Note 2 Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses for the periods. Actual results could differ from those estimates. Certain prior period amounts and disclosures have been reclassified to conform to the current period financial presentation. Book value per share is computed by dividing total shareholders’ equity by the number of shares issued and outstanding at the end of the measurement period. The following is a summary of the Company’s significant accounting policies:

Principles of Consolidation

The accompanying consolidated financial statements include the operations of the Company and its subsidiaries. All material inter-company transactions and balances have been eliminated in consolidation.

Segment Information

Management has determined that the Company operates in one business segment, namely providing investment management and administration services to mutual funds, institutional accounts, and private investment funds. Therefore, no disclosures relating to operating segments are required in annual or interim financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market mutual funds.

Accounts Receivable

Accounts receivable are recorded when they are due and are presented on the balance sheet net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance for doubtful accounts is estimated based on the Company’s historical losses, existing conditions in the industry, and the financial stability of those individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2013 or December 31, 2012.

Valuation of Investment Portfolio

Investments held by the Company are valued based upon the definition of Level 1 inputs and Level 2 inputs. Level 1 inputs are defined as fair values which use quoted prices in active markets for identical assets or liabilities. Level 2 inputs are defined as quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or that may be corroborated indirectly with observable market data. The following table summarizes the values of the Company’s investments based upon Level 1 and Level 2 inputs as of December 31, 2013 and December 31, 2012:

Note 2 Significant Accounting Policies (Continued)

	As of December 31,	
	2013	2012
Level 1 Inputs	\$ 32,528,367	\$ 16,922,720
Level 2 Inputs	3,001,461	3,650,561

Level 1 investments are all registered investment companies (mutual funds) and include \$16.8 million and \$4.1 million, respectively, of money market mutual funds that the Company classifies as cash equivalents. Level 2 investments are all limited partnerships whose value was determined based upon readily available market quotations of individual securities held by the partnerships. The Company determines transfers between fair value hierarchy levels at the end of the reporting period. There were no transfers in or out of the levels.

The changes in fair values on the investments are recorded in the Consolidated Statements of Income as investment income (loss).

Limited Partnership Interests

DHCM is the managing member of Diamond Hill General Partner, LLC (the “General Partner”), the general partner of Diamond Hill Investment Partners, L.P. (“DHIP”), Diamond Hill Global Fund, L.P. (“DHGF”), formerly Diamond Hill Research Partners – International, L.P., and Diamond Hill Valuation-Weighted 500, L.P. (“DHVW”) collectively (the “Partnerships”), each a limited partnership whose underlying assets consist of marketable securities.

DHCM, in its role as managing member of the General Partner, has the power to direct each Partnerships’ economic activities and the right to receive investment advisory and performance incentive fees that may be significant to the Partnerships. The Company evaluated these Partnerships to determine whether or not to consolidate the entities in accordance with FASB ASC 810, *Consolidation*. Certain of these Partnerships are considered to be variable interest entities (“VIEs”) while others are considered to be voting rights entities (“VREs”), both of which are subject to consolidation consideration. The Company would consolidate VIEs where the Company is considered the primary beneficiary or VREs where the General Partner is considered to control the Partnership. For the Partnerships that were considered VIEs, the Company was not deemed to be the primary beneficiary. For the Partnerships that were considered VREs, it was determined that the DHCM in its role of managing member of the General Partner did not control the Partnerships. Therefore, the investments are accounted for under the equity method rather than being consolidated in the accompanying financial statements.

DHCM’s investments in these Partnerships are reported as a component of the Company’s investment portfolio, valued at DHCM’s proportionate interest in the net asset value of the marketable securities held by the Partnerships. Gains and losses attributable to changes in the value of DHCM’s interests in the Partnerships are included in the Company’s reported investment income. The Company’s exposure to loss as a result of its involvement with the Partnerships is limited to the amount of its investments. DHCM is not obligated to provide financial or other support to the Partnerships, other than its investments to date and its contractually provided investment advisory responsibilities, and has not provided such support. The Company has not provided liquidity arrangements, guarantees or other commitments to support the Partnerships’ operations, and the Partnerships’ creditors and interest holders have no recourse to the general credit of the Company.

Certain board members, officers and employees of the Company invest in DHIP. These individuals receive no remuneration as a result of their personal investment in DHIP. The capital of the General Partner is not subject to a management fee or an incentive fee.

Furniture and Equipment

Furniture and equipment, consisting of computer equipment, furniture, and fixtures, are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over estimated lives of three to seven years.

Deferred Compensation Liability

Deferred compensation liability represents compensation that will be paid out upon satisfactory completion of certain performance-based criteria specified in employee award agreements issued pursuant to the 2011 Equity and Cash Incentive Plan. See Note 5.

Note 2 Significant Accounting Policies (Continued)

Revenue Recognition—General

The Company earns substantially all of its revenue from investment advisory and fund administration services. Investment advisory and administration fees, generally calculated as a percentage of assets under management ("AUM"), are recorded as revenue as services are performed. In addition to fixed fees based on a percentage of AUM, certain client accounts also provide periodic variable incentive fees.

Revenue Recognition – Incentive Revenue

The Company manages certain client accounts that provide for variable incentive fees. These fees are currently based on client investment results over rolling five-year periods. For variable incentive fees based on a formula, there are two methods by which incentive revenue may be recorded. Under "Method 1", incentive fees are recorded at the end of the contract measurement period; under "Method 2", the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen Method 1, in which incentive fees are recorded at the end of the contract measurement period for the specific client in which the incentive fee applies. The table below shows AUM subject to incentive fees and the incentive fees, as calculated under each of the above methods:

	As of December 31,		
	2013	2012	2011
AUM Contractual Period Ends:			
Calendar Quarter-End	\$ —	\$ —	\$ 89,070,421
Calendar Year-End	—	—	81,362,029
Quarter Ended June 30, 2017	380,073,000	274,302,549	—
Quarter Ended December 31, 2018	90,653,000	—	—
Total AUM Subject to Incentive Fees	\$ 470,726,000	\$ 274,302,549	\$ 170,432,450
	For the Year Ended December 31,		
	2013	2012	2011
Incentive Fees Under Method 1:			
Contractual Period Ends:			
Calendar Quarter-End	\$ —	\$ —	\$ 507
Calendar Year-End	—	—	2,090
Quarter Ended June 30, 2017	—	3,301	—
Quarter Ended December 31, 2018	—	—	—
Total Incentive Fees Under Method 1	\$ —	\$ 3,301	\$ 2,597
Incentive Fees Under Method 2:			
Contractual Period Ends:			
Calendar Quarter-End	\$ —	\$ —	\$ 507
Calendar Year-End	—	—	2,090
Quarter Ended June 30, 2017	3,900,649	361,700	—
Quarter Ended December 31, 2018	—	—	—
Total Incentive Fees Under Method 2	\$ 3,900,649	\$ 361,700	\$ 2,597

Method 2 in the table illustrates the revenue that would be recognized if the variable incentive fee contract was terminated as of December 31, 2013, 2012, or 2011. The contractual end dates highlight the time remaining until the variable incentive fees are schedule to be earned. The amounts under Method 2 above will increase or decrease based on future client investment results through the contractual period end and there is no assurance that the above amounts will ultimately be earned.

Note 2 Significant Accounting Policies (Continued)

Revenue Recognition – Mutual Fund Administration

DHCM has an administrative and transfer agency services agreement with the Funds, under which DHCM performs certain services for each fund. These services include mutual fund administration, transfer agency and other related functions. For performing these services, each fund compensates DHCM a fee, which is calculated using an annual rate of 0.25% for Class A, C, and I shares and 0.10% for Class Y shares, times the average daily net assets of each respective series and share class.

The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds' shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required fund shareholder mailings, federal and state registrations, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that each Fund pays to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund related expenses, in accordance with FASB ASC 605-45, *Revenue Recognition – Principal Agent Considerations*. In addition, DHCM finances the upfront commissions which are paid to brokers who sell Class C shares of the Funds. As financier, DHCM advances the commission amount to be paid to the selling broker at the time of sale. These advances are capitalized and amortized over 12 months to correspond with the repayments DHCM receives from the principal underwriter to recoup this commission advancement.

Beacon Hill has underwriting and administrative service agreements with certain clients, including registered mutual funds. The fee arrangements vary from client to client based upon services provided and are recorded as revenue under Mutual Fund Administration on the Consolidated Statements of Income. Part of Beacon Hill's role as underwriter is to act as an agent on behalf of its mutual fund clients to receive 12b-1/service fees and commission revenue and facilitate the payment of those fees and commissions to third parties who provide services to the funds and their shareholders. The amount of 12b-1/service fees and commissions are determined by each mutual fund client and Beacon Hill bears no financial risk related to these services. As a result, 12b-1/service fees and commission revenue has been recorded net of the expense payments to third parties, in accordance with the appropriate accounting treatment for this agency relationship.

Mutual fund administration gross and net revenue are summarized below:

	Year Ended December 31,		
	2013	2012	2011
Mutual fund administration:			
Administration revenue, gross	\$ 16,692,093	\$ 13,074,707	\$ 11,617,140
12b-1/service fees and commission revenue received from fund clients	8,481,442	6,868,974	7,058,471
12b-1/service fees and commission expense payments to third parties	(7,404,361)	(5,597,757)	(5,577,925)
Fund related expense	(6,321,374)	(5,469,023)	(5,254,733)
Revenue, net of fund related expenses	11,447,800	8,876,901	7,842,953
DHCM C-Share financing:			
Broker commission advance repayments	365,380	217,227	352,740
Broker commission amortization	(347,853)	(219,951)	(317,137)
Financing activity, net	17,527	(2,724)	35,603
Mutual fund administration revenue, net	\$ 11,465,327	\$ 8,874,177	\$ 7,878,556

Third Party Distribution Expense

Third party distribution expenses are earned by various third party financial services firms based on sales and/or assets of the Company's investment products generated by the respective firms. Expenses recognized represent actual payments made to the third party firms and are recorded in the period earned based on the terms of the various contracts.

Note 2 Significant Accounting Policies (Continued)

Contractual Expense Reimbursements

During 2013, BHIL entered into an agreement with a third party investment adviser to provide staff to support the wholesaling functions and sales support services to distribute shares of the registered investment companies managed by the third party investment adviser and distributed by BHIL. Under the agreement, the third party investment adviser is obligated to reimburse BHIL for all expenses incurred in association with these efforts. The amount of expense incurred and reimbursed for the year was \$375,825. In addition, the third party investment adviser is obligated to reimburse BHIL for any contractual obligations entered into by BHIL as a result of this arrangement. See Note 6.

Income Taxes

The Company accounts for current and deferred income taxes through an asset and liability approach. Deferred taxes are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company is subject to examination by various federal, state and local jurisdictions for various tax periods. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities may differ from actual payments or assessments. The Company regularly assesses its position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of FASB ASC 740, *Income Taxes*. The Company records interest and penalties, if any, within the income tax provision on the income statement. As of December 31, 2013, the Company has not recorded any liability for uncertain tax positions.

Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income by the weighted average number of Common Shares outstanding for the period, which includes participating securities. Diluted EPS reflects the potential dilution of EPS due to unvested restricted stock grants with forfeitable rights to dividends. For the periods presented, the Company has unvested stock-based payment awards that contain both forfeitable and nonforfeitable rights to dividends. See Note 8.

Note 3 Investment Portfolio

As of December 31, 2013, the Company held investments (excluding money market funds, included with cash and cash equivalents) worth \$18.7 million and an estimated cost basis of \$11.6 million. The following table summarizes the fair value of these investments as of December 31, 2013 and 2012:

	<u>As of December 31,</u>	
	<u>2013</u>	<u>2012</u>
Diamond Hill Small Cap Fund	\$ —	\$ 215,550
Diamond Hill Small-Mid Cap Fund	—	239,316
Diamond Hill Large Cap Fund	—	246,744
Diamond Hill Select Fund	—	242,252
Diamond Hill Long-Short Fund	1,287,745	1,036,045
Diamond Hill Financial Long-Short Fund	1,131,034	—
Diamond Hill Research Opportunities Fund	13,305,830	10,658,665
Diamond Hill Strategic Income Fund	—	214,598
Diamond Hill Investment Partners, L.P.	1,133	7,336
Diamond Hill Global Fund, L.P. ^(a)	—	1,384,976
Diamond Hill Valuation-Weighted 500, L.P.	3,000,328	2,258,249
Total Investment Portfolio	<u>\$ 18,726,070</u>	<u>\$ 16,503,731</u>

(a) - Diamond Hill Global Fund, L.P. ("DHGF"), formerly Diamond Hill Research Partners – International, L.P.

Note 3 Investment Portfolio (Continued)

DHCM is the managing member of Diamond Hill General Partner LLC, which is the general partner of the Partnerships. The underlying assets of the Partnerships are cash and marketable equity securities. Summary financial information, including the Company's carrying value and income from the Partnerships, is as follows:

	As of December 31,		
	2013	2012	2011
Total partnership assets	\$ 122,106,403	\$ 105,472,952	\$ 130,880,368
Total partnership liabilities	25,217,600	17,786,579	21,570,822
Net partnership assets	\$ 96,888,803	\$ 87,686,373	\$ 109,309,546
DHCM's portion of net assets	\$ 3,001,461	\$ 3,650,561	\$ 6,977,929
	For the Year Ended December 31,		
	2013	2012	2011
Net partnership income (loss)	\$ 24,294,495	\$ 15,054,951	\$ (11,007,617)
DHCM's portion of net income (loss)	\$ 899,958	\$ 472,659	\$ (75,082)

Note 4 Capital StockCommon Shares

The Company has only one class of securities outstanding, Common Shares, no par value per share.

Authorization of Preferred Shares

The Company's Amended and Restated Articles of Incorporation authorize the issuance of 1,000,000 shares of "blank check" preferred shares with such designations, rights and preferences as may be determined from time to time by the Company's Board of Directors. The Board of Directors is authorized, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights, which could adversely affect the voting or other rights of the holders of the Common Shares. There were no shares of preferred stock issued or outstanding at December 31, 2013 or December 31, 2012.

Note 5 Compensation PlansEquity Incentive Plans*2011 Equity and Cash Incentive Plan*

At the Company's annual shareholder meeting on April 26, 2011, shareholders approved the 2011 Equity and Cash Incentive Plan ("2011 Plan"). The 2011 Plan is intended to facilitate the Company's ability to attract and retain staff, provide additional incentives to employees, directors and consultants, and promote the success of the Company's business. The 2011 Plan authorizes the issuance of 600,000 Common Shares of the Company in various forms of equity awards. The 2011 Plan also authorizes cash incentive awards. As of December 31, 2013, there were 232,300 Common Shares available for awards under the 2011 Plan. The 2011 Plan provides that the Board of Directors, or a committee appointed by the Board, may grant awards and otherwise administer the 2011 Plan. Restricted stock grants issued under the 2011 Plan, which vest over time, are recorded as deferred compensation in the equity section of the balance sheet on the grant date and then recognized as compensation expense based on the grant date price over the vesting period of the respective grant. Stock grants issued under the 2011 Plan are recorded as compensation expense based on the grant date price.

2005 Employee and Director Equity Incentive Plan

At the Company's annual shareholder meeting on May 12, 2005, shareholders approved the 2005 Employee and Director Equity Incentive Plan ("2005 Plan"). There are no longer any Common Shares available for future issuance under the 2005 Plan, although outstanding grants under the 2005 Plan remain issued and outstanding. Restricted stock grants issued under the 2005 Plan, which vest over time, are recorded as deferred compensation in the equity section of the balance sheet on the grant date and then recognized as compensation expense based on the grant date price over the vesting period of the respective grant. Stock grants issued under the 2005 Plan are recorded as compensation expense based on the grant date price.

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Note 5 Compensation Plans (Continued)

Restricted Stock Grant Transactions

The following table represents a roll-forward of outstanding restricted stock grants issued pursuant to the 2011 and 2005 Plans and related activity during the years ended December 31, 2013 and 2012:

	Shares	Weighted-Average Grant Date Price per Share
Outstanding restricted stock grants as of December 31, 2011	260,621	\$ 73.78
Grants issued	107,600	75.64
Grants vested	(46,056)	75.22
Grants forfeited	(2,177)	71.37
Outstanding restricted stock grants as of December 31, 2012	<u>319,988</u>	\$ 74.22
Grants issued	32,000	85.63
Grants vested	(39,749)	80.77
Grants forfeited	(140)	77.81
Total outstanding restricted stock grants as of December 31, 2013	<u><u>312,099</u></u>	\$ 74.17

The total outstanding restricted stock grants shown above are included in issued and outstanding shares. Total deferred compensation related to unvested restricted stock grants was \$11.4 million as of December 31, 2013. Compensation expense related to the restricted stock grants is calculated based upon the fair market value of the common stock on grant date adjusted for estimated forfeitures. Compensation expense recognition of deferred compensation over the remaining vesting periods, adjusted for estimated forfeitures, is as follows:

2014	2015	2016	2017	2018	Total
\$ 4,647,324	\$ 3,588,155	\$ 1,641,218	\$ 1,024,797	\$ 261,197	\$ 11,162,691

Stock Grant Transactions

The following table represents stock grant transactions during the years ended December 31, 2013, 2012, and 2011:

	Shares Issued	Grant Date Value
December 31, 2013	59,006	\$ 4,606,008
December 31, 2012	71,949	5,540,792
December 31, 2011	103,899	7,691,800

401(k) Plan

The Company sponsors a 401(k) plan in which all employees participate. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions of common shares of the Company with a value equal to 200 percent of the first six percent of an employee's compensation contributed to the plan. Employees become fully vested in the matching contributions after six plan years of employment. The following table summarizes the Company's expenses attributable to the plan during the years ended December 31, 2013, 2012 and 2011:

2013	2012	2011
\$ 1,171,154	\$ 1,044,255	\$ 960,888

Deferred Compensation Plans

On April 24, 2013, the Board of Directors approved the Diamond Hill Fixed Term Deferred Compensation Plan and the Diamond Hill Variable Term Deferred Compensation Plan (collectively the "Plans"). Under the Plans, participants may elect to voluntarily defer, for a minimum of five years, certain incentive compensation, which the Company then contributes into the Plans. Each participant is responsible for designating investment options for assets they contribute, and the distribution paid to

Note 5 Compensation Plans (Continued)

each participant reflects any gains or losses on the assets realized while in the Plans. Assets held in the Plans will be included in the Company's investment portfolio, and the associated obligation to participants is included in deferred compensation liability. Assets held in the Plans will consist of the Funds and be recorded at fair value. The first deferrals into the Plans are expected to be made in the first quarter of 2014.

Note 6 Operating Leases

The Company leases office space at three locations. The following table summarizes the total lease and operating expenses for the years ended December 31, 2013, 2012 and 2011:

For the year ended December 31,		
2013	2012	2011
\$ 730,845	\$ 686,747	\$ 620,360

The approximate future minimum lease payments under the operating leases are as follows:

Total	Future Minimum Lease Payments by Year					
	2014	2015	2016	2017	2018	Thereafter
\$ 6,935,000	\$ 683,000	\$ 693,000	\$ 693,000	\$ 693,000	\$ 629,000	\$ 3,544,000

The total approximate future minimum lease payments of \$6.9 million include \$354 thousand of obligations resulting from a contractual expense reimbursement agreement ("Expense Agreement") with a third party. Under the Expense Agreement, these amounts are required to be reimbursed to the Company by the third party. The obligation of the third party to reimburse the Company for these expenses survives the termination of the Expense Agreement.

In addition to the above lease payments, the Company is also responsible for normal operating expenses of the properties. Such operating expenses were approximately \$9.80 per square foot in 2013, on a combined basis, and are expected to be approximately \$10.12 per square foot in 2014.

Note 7 Income Taxes

The Company files a consolidated federal income tax return. It is the policy of the Company to allocate the consolidated tax provision to subsidiaries as if each subsidiary's tax liability or benefit were determined on a separate company basis. As part of the consolidated group, subsidiaries transfer to the Company their current federal tax liabilities or assets.

	As of December 31,		
	2013	2012	2011
Current city income tax provision	\$ 952,957	\$ 406,814	\$ 658,106
Current state income tax provision	268,920	122,704	271,776
Current federal income tax provision	17,866,911	8,990,777	8,921,527
Deferred federal income tax benefit	(5,611,451)	(368,572)	(1,209,928)
Provision for income taxes	\$ 13,477,337	\$ 9,151,723	\$ 8,641,481

A reconciliation of income tax expense at the statutory federal rate to the Company's income tax expense is as follows:

	2013	2012	2011
Income tax computed at statutory rate	\$ 12,471,258	\$ 9,128,915	\$ 8,048,057
City and state income taxes, net of federal benefit	794,220	344,187	604,423
Other	211,859	(321,379)	(10,999)
Income tax expense	\$ 13,477,337	\$ 9,151,723	\$ 8,641,481

In addition to the income tax expense listed above for the years ended December 31, 2013, 2012 and 2011, income tax benefit recorded in shareholders' equity for the same periods was \$778 thousand, \$2.0 million, and \$7 thousand, respectively. Included in 2012 is \$2.0 million which relates to tax benefits not previously claimed by the Company.

Note 7 Income Taxes (Continued)

Deferred tax assets and liabilities consist of the following at December 31, 2013 and 2012:

	2013	2012
Stock-based compensation	\$ 4,433,293	\$ 3,289,885
Accrued incentive compensation	4,075,735	—
Unrealized (gains) losses	(316,926)	(763,235)
Other assets and liabilities	(128,677)	(74,676)
Net deferred tax assets	<u>\$ 8,063,425</u>	<u>\$ 2,451,974</u>

The net temporary differences incurred to date will reverse in future periods as the Company generates taxable earnings. The Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets recorded. The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2013, no valuation allowance was deemed necessary.

FASB ASC 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company did not record an accrual for tax related uncertainties or unrecognized tax positions as of December 31, 2013. The Company does not expect a change to the reserve for uncertain tax positions within the next twelve months that would have a material impact on the consolidated financial statements. As of December 31, 2013, the Company recorded through the tax provision net interest expense of \$321 thousand as a result of an IRS examination.

The Company files income tax returns in the federal and all applicable state and local jurisdictions. The Company is subject to federal, state and local examinations by tax authorities for tax years ended December 31, 2009 through 2013.

Note 8 Earnings Per Share

The Company's common shares outstanding consist of all shares issued and outstanding, including unvested restricted shares. Basic and diluted EPS are calculated under the two-class method. Pursuant to the two-class method, the Company's unvested restricted stock grants with nonforfeitable rights to dividends are considered participating securities. Dividends are paid on all common shares outstanding at the same rate. Accordingly, the Company has evaluated the impact of earnings per share of all participating securities under the two-class method, noting no impact on earnings per share. Restricted stock grants with forfeitable rights to dividends are considered dilutive. The following table sets forth the computation for basic and diluted earnings per share ("EPS"):

	Year Ended December 31,		
	2013	2012	2011
Net income	\$ 22,154,828	\$ 16,930,892	\$ 14,352,968
Weighted average number of outstanding shares			
Basic	3,142,083	3,111,328	2,951,751
Diluted	3,194,263	3,111,328	2,951,751
Earnings per share			
Basic	\$ 7.05	5.44	4.86
Diluted	\$ 6.94	5.44	4.86

Note 9 Regulatory Requirements

BHIL, a wholly owned subsidiary of the Company and principal underwriter for mutual funds, is subject to the U.S. Securities and Exchange Commission (“SEC”) uniform net capital rule, which requires the maintenance of minimum net capital. BHIL’s net capital exceeded its minimum net capital requirement at December 31, 2013 and December 31, 2012. The net capital balances, minimum net capital requirements, and ratio of aggregate indebtedness to net capital for BHIL are summarized below as of December 31, 2013 and December 31, 2012:

	As of December 31,	
	2013	2012
Net Capital	\$ 338,568	\$ 354,029
Minimum Net Capital Requirement	90,931	46,597
Ratio of Aggregate Indebtedness to Net Capital	4.03 to 1	1.97 to 1

Note 10 Commitments and Contingencies

The Company indemnifies its directors and certain of its officers and employees for certain liabilities that might arise from their performance of their duties to the Company. Additionally, in the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and which provide general indemnifications. Certain agreements do not contain any limits on the Company’s liability and would involve future claims that may be made against the Company that have not yet occurred. Therefore, it is not possible to estimate the Company’s potential liability under these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures

We changed our independent registered public accounting firm in October 2012 from Plante & Moran PLLC to KPMG LLP. Information regarding the change in independent registered public accounting firm was reported in our Current Report on Form 8-K filed with the SEC on October 30, 2012. There were no disagreements or any reportable events subject to Item 304(b) of Regulation S-K requiring disclosure.

ITEM 9A. Controls and Procedures

Management, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act of 1934) as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management of Diamond Hill Investment Group, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

The Company's independent registered public accounting firm, KPMG LLP, has audited the Company's 2013 and 2012 consolidated financial statements included in this Annual Report on Form 10-K and the Company's internal control over financial reporting as of December 31, 2013, and has issued its Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements, which is included in this Annual Report on Form 10-K.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information required by this Item 10 is incorporated herein by reference from the Company’s definitive proxy statement for its 2014 annual meeting of shareholders to be filed with the SEC pursuant to Regulation 14A of the Exchange Act (the “2014 Proxy Statement”), under the captions: “Section 16(a) Beneficial Ownership Reporting Compliance”, “Proposal 1 – Election of Directors”, “Proposal 1 – Election of Directors – The Board of Directors and Committees”, “Proposal 1 – Election of Directors – Corporate Governance”, and “Proposal 1 – Election of Directors – Executive Officers and Compensation Information”.

ITEM 11. Executive Compensation

Information required by this Item 11 is incorporated herein by reference from the Company’s 2014 Proxy Statement under the captions: “Proposal 1 – Election of Directors—The Board of Directors and Committees”, “Proposal 1 – Election of Directors – Corporate Governance”, “Proposal 1 – Election of Directors – Corporate Governance – Compensation Committee Interlocks and Insider Participation”, “Proposal 1 – Election of Directors – Executive Officers and Compensation Information”, and “Proposal 1 – Election of Directors – Compensation Committee Report”.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information concerning our equity compensation plans at December 31, 2013:

Equity Compensation Plan Information

Plan category	(a)	(b)	(c)
	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	\$ —	232,300 ¹

¹ This amount relates to common shares that may be issued under our 2011 Equity and Cash Incentive Plan.

The other information required by this Item 12 is incorporated herein by reference from the Company’s 2014 Proxy Statement under the captions: “Security Ownership of Certain Beneficial Owners and Management” and “Proposal 1 – Election of Directors – Executive Officers and Compensation Information”.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item 13 is incorporated herein by reference from the Company’s 2014 Proxy Statement under the caption: “Proposal 1 – Election of Directors – Director Independence” and “Proposal 1 – Election of Directors – Corporate Governance”.

ITEM 14. Principal Accounting Fees and Services

Information required by this Item 14 is incorporated herein by reference from the Company’s 2014 Proxy Statement under the caption: “Proposal 2 – Ratification of the Appointment of Independent Registered Public Accounting Firm”.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

- (a) (1) Financial Statements: See “Part II. Item 8, Financial Statements and Supplementary Data”.
- (2) Financial Statement Schedules: All financial statement schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because they are not required or the required information is included in the accompanying financial statements or notes thereto.
- (3) Exhibits:
- 3.1 Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference from Exhibit 3(i) to the Current Report on Form 8-K filed with the SEC on May 7, 2002; File No. 000-24498.)
- 3.2 Regulations of the Company. (Incorporated by reference from Exhibit 3(ii) to the Current Report on Form 8-K filed with the SEC on May 7, 2002; File No. 000-24498.)
- 10.1 Amended and Restated Investment Management Agreement between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds dated as of May 23, 2013. (Incorporated by reference from Exhibit 29(h)(iii) to Post-Effective Amendment Nos. 41 and 42 to Registration Statement on Form N1-A (File Nos. 333-22075 and 811-08061) filed by Diamond Hill Funds on December 19, 2013)
- 10.2 Amended and Restated Administrative and Transfer Agency Services Agreement dated as of May 31, 2002, as amended November 17, 2011, between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds. (Incorporated by reference from Exhibit 28h(ix) to Post-Effective Amendment Nos. 28 and 29 to Registration Statement on Form N1-A (File Nos. 333-22075 and 811-08061) filed by Diamond Hill Funds on February 29, 2012)
- 10.3* 2011 Equity and Cash Incentive Plan and Form of Restricted Stock Award Agreement referenced therein. (Incorporated by reference from Exhibit 10.2 and 10.3 to the Current Report on Form 8-K filed with the SEC on April 29, 2011; File No. 000-24498.)
- 10.4* Amended and Restated Employment Agreement between the Company and Roderick H. Dillon, Jr. dated March 22, 2011. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2011; File No. 000-24498.)
- 10.5* Amended and Restated 2005 Employee and Director Equity Incentive Plan. (Incorporated by reference from Exhibit 10.6 to the Annual Report on Form 10-K filed with the SEC on March 14, 2008; File No. 000-24498.)
- 10.6* 2005 Employee and Director Equity Incentive Plan First Amendment dated November 2, 2010 and Form of Restricted Stock Agreement reference therein. (Incorporated by reference from Exhibit 10.4 to the Annual Report on Form 10-K filed with the SEC on February 25, 2011; File No. 000-24498.)
- 10.7* Diamond Hill Investment Group, Inc. Compensation Recoupment and Restitution Policy. (Incorporated by reference from Exhibit 99 to the Current Report on Form 8-K filed with the SEC on February 20, 2013; File No. 000-24498.)
- 10.8* Diamond Hill Investment Group, Inc. Compensation Recoupment and Restitution Policy Acknowledgement and Agreement. (Incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K filed with the SEC on February 20, 2013; File No. 000-24498.)
- 10.9* Diamond Hill Fixed Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 30, 2013; File No. 000-24498.)
- 10.10* Diamond Hill Variable Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on April 30, 2013; File No. 000-24498.)
- 10.11* First Amendment to the Diamond Hill Fixed Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 28, 2013; File No. 000-24498.)
- 10.12* First Amendment to the Diamond Hill Variable Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 28, 2013; File No. 000-24498.)
- 10.13* Loan Agreement by and between Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc. and The Huntington National Bank dated November 8, 2013. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on November 14, 2013; File No. 000-24498.)

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10.14*	Line of Credit Demand Note with Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc. and The Huntington National Bank dated November 8, 2013. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on November 14, 2013; File No. 000-24498.)
14.1	Amended Code of Business Conduct and Ethics. (File herewith)
21.1	Subsidiaries of the Company. (Filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm, KPMG LLP. (Filed herewith)
23.2	Consent of Independent Registered Public Accounting Firm, Plante & Moran, PLLC. (Filed herewith)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
32.1	Section 1350 Certifications. (Furnished herewith)
101.ins	XBRL Instance Document.
101.sch	XBRL Taxonomy Extension Schema Document.
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document.
101.def	XBRL Taxonomy Extension Definition Linkbase Document.
101.lab	XBRL Taxonomy Extension Label Linkbase Document.
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document.

* Denotes management contract or compensatory plan or arrangement.

(b) Exhibits: Reference is made to Item 15(a)(3) above.

(c) Financial Statement Schedules: None required.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

DIAMOND HILL INVESTMENT GROUP, INC.

By: /s/ R. H. Dillon

R. H. Dillon, President, Chief Executive Officer and a Director

March 7, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ R. H. Dillon</u> R. H. Dillon	President, Chief Executive Officer, and a Director	March 7, 2014
<u>/s/ James F. Laird</u> James F. Laird	Chief Financial Officer, Treasurer, Secretary, and a Director	March 7, 2014
<u>/s/ Gary R. Young</u> Gary R. Young	Controller	March 7, 2014
<u>Randolph J. Fortener*</u> Randolph J. Fortener	Director	March 7, 2014
<u>Peter J. Moran III*</u> Peter J. Moran III	Director	March 7, 2014
<u>Donald B. Shackelford*</u> Donald B. Shackelford	Director	March 7, 2014
<u>Bradley C. Shoup*</u> Bradley C. Shoup	Director	March 7, 2014
<u>Frances A. Skinner*</u> Frances A. Skinner	Director	March 7, 2014

* By /s/ Gary R. Young
Gary R. Young
Executed by Gary R. Young
on behalf of those indicated pursuant to Powers of Attorney

INVESTOR INFORMATION

CORPORATE HEADQUARTERS

Diamond Hill Investment Group, Inc.
325 John H. McConnell Blvd., Suite 200
Columbus, OH 43215
614.255.3333
info@diamond-hill.com
www.diamond-hill.com

STOCK LISTING

Diamond Hill Investment Group, Inc. is listed on the NASDAQ Global Select Market
Ticker Symbol: **DHIL**

SHAREHOLDER INFORMATION

The Transfer Agent for Diamond Hill is Continental Stock Transfer & Trust Company. Shareholders who wish to transfer their stock or change the name in which the shares are registered should contact:

Continental Stock Transfer & Trust Co.
17 Battery Place
New York, NY 10004
212.509.4000

LEGAL COUNSEL

Vorys, Sater, Seymour and Pease LLP
Columbus, OH

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

KPMG LLP
Columbus, OH

FORM 10-K AND OTHER FINANCIAL REPORTS

The Company's Annual Report on Form 10-K, as filed with the U.S. Securities and Exchange Commission, which includes the complete financial statements of the company, has been included with the proxy materials mailed to each shareholder.

Additional copies are available without charge by contacting the Company at:

325 John H. McConnell Blvd., Suite 200
Columbus, OH 43215
614.255.3333
info@diamond-hill.com





www.diamond-hill.com

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