

DIAMOND HILL INVESTMENT GROUP INC

Form 10-K

March 05, 2010

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**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, 2009

Commission file number 000-24498

DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio

65-0190407

(State of incorporation)

(I.R.S. Employer Identification No.)

325 John H. McConnell Blvd., Suite 200, Columbus,
Ohio 43215

614-255-3333

(Address of principal executive offices) (Zip Code)

(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

Common shares, no par value

The NASDAQ Stock Market LLC

Securities registered under Section 12(g) of the Exchange 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, 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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of \$40.18 on June 30, 2009 (end of the 2nd fiscal quarter) on the NASDAQ Global Select Market was

\$73,603,729. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that executive officers, directors, and persons holding five percent or more of the registrant's voting and non-voting common shares are affiliates.

2,764,408 Common Shares outstanding as of March 3, 2010.

Documents incorporated by reference: In Part III, the Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

Diamond Hill Investment Group, Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2009
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Throughout this Form 10-K, Diamond Hill Investment Group, Inc. (the Company) may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to such matters as anticipated operating results, prospects for achieving the critical threshold of assets under management, technological developments, economic trends (including interest rates and market volatility), expected transactions and acquisitions and similar matters. The words believe, expect, anticipate, estimate, should, hope, seek, plan, intend and similar expressions identify forward-looking statements that as of the date thereof. While the Company believes that the assumptions underlying its forward-looking statements are reasonable, investors are cautioned that any of the assumptions could prove to be inaccurate and accordingly, the actual results and experiences of the Company could differ materially from the anticipated results or other expectations expressed by the Company in its 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 the Company's products; changes in interest rates; a general or prolonged downturn in the economy; changes in government policy and regulation, including monetary policy; changes in the Company's 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 the Company's other public documents on file with the U. S. Securities and Exchange Commission (SEC), including those discussed below in Item 1A.

General

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 providing investment advisory services to individuals and institutional investors through Diamond Hill Funds, separate accounts, and private investment funds (generally known as hedge funds). Beacon Hill was incorporated during the first quarter of 2008, and provides certain fund administration services and underwriting services to mutual fund companies, including Diamond Hill Funds.

The Company sponsors, markets, and provides investment advisory and related services to various clients including mutual funds, separate accounts, and private investment funds. The Company's principal source of revenue is investment advisory fee income earned pursuant to investment advisory contracts with each client. This fee income is based primarily upon the net assets of the funds or separate accounts. The Company's investment advisory revenue depends largely on the total value and composition of assets under management (AUM). Accordingly, fluctuations in financial markets and in the composition of AUM impact our revenues and results of operations.

Investment Advisory Activities

DHCM executes its investment strategies through fundamental research and valuation disciplines. Analysts evaluate a company's prospects based upon its current business and financial position, future growth opportunities, and management capability and strategy. The intended result is an estimate of intrinsic value. Intrinsic value is the present value of estimated future cash flows, discounted at a rate that reflects the required return for the investment given the estimated level of risk. In other words, it is the estimated price a minority shareholder should pay in order to achieve a satisfactory or fair return on the investment. The estimate of intrinsic value is then compared to the current market price to evaluate whether, in the opinion of DHCM, an attractive investment opportunity exists. A proprietary valuation model, which takes into account projected cash flows for five years including a terminal value (the expected stock price in five years), assists in many of these intrinsic value estimations. DHCM also applies an intrinsic value philosophy to the analysis of fixed income securities.

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DHCM believes that although securities markets are competitive, pricing inefficiencies often exist allowing for attractive investment opportunities. 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 intrinsic value) is a reliable method to achieve above average relative returns as well as mitigate risk.

Current portfolio strategies managed include Small Cap, Small-Mid Cap, Large Cap, Select, Long-Short, Financial Long-Short, and Strategic Income. These strategies are available on a separately managed basis and/or through a mutual fund. The Long-Short strategy is also available through private investment funds that are offered to accredited and qualified investors in the United States and around the world. The Company believes its desire to grow AUM should never come before its fiduciary obligation to clients. Once the size of any of the Company's strategies hinders its ability to either differentiate its product or add value for its clients, the Company will close those strategies to new clients, which may impact the Company's ability to grow AUM. The Small Cap strategy was closed to new investors as of December 31, 2005 and re-opened on September 1, 2007. The Long-Short strategy was closed to new investors as of June 30, 2008 and re-opened on December 31, 2008.

Marketing

DHCM primarily generates business for all three of its product lines (mutual funds, separately managed accounts, and private investment funds) through wholesaling to financial intermediaries, including independent registered investment advisors, brokers, financial planners, investment consultants and third party marketing firms.

Assets Under Management

As of December 31, 2009, AUM totaled \$6.3 billion, a 39% increase from December 31, 2008. The following tables show AUM by product and investment objective for the dates indicated and a roll-forward of the change in AUM for the years ended December 31, 2009, 2008, and 2007:

(in millions)	Assets Under Management by Product		
	As of December 31,		
	2009	2008	2007
Mutual funds	\$ 3,640	\$ 3,114	\$ 2,910
Separate accounts	2,423	1,175	998
Private investment funds	220	221	495
Total	\$ 6,283	\$ 4,510	\$ 4,403

(in millions)	Assets Under Management by Objective		
	As of December 31,		
	2009	2008	2007
Small and Small-Mid Cap	\$ 771	\$ 505	\$ 597
Large Cap and Select	3,054	1,524	1,031
Long-Short	2,300	2,331	2,500
Strategic and fixed income	158	150	275
Total	\$ 6,283	\$ 4,510	\$ 4,403

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(in millions)	Change in Assets Under Management For the Year Ended December 31,		
	2009	2008	2007
AUM at beginning of the period	\$ 4,510	\$ 4,403	\$ 3,708
Net cash inflows (outflows)			
mutual funds	(109)	1,328	362
separate accounts	740	812	70
private investment funds	(52)	(162)	170
	579	1,978	602
Net market appreciation (depreciation) and income	1,194	(1,871)	93
Increase during the period	1,773	107	695
AUM at end of the period	\$ 6,283	\$ 4,510	\$ 4,403

Diamond Hill Funds

The Diamond Hill Funds (the Funds) are used by over 6,500 financial representatives at over 1,300 financial intermediary firms. Below is a summary of the assets by distribution channel as of December 31, 2009, 2008 and 2007:

(in millions)	Diamond Hill Funds Assets by Distribution Channel As of December 31,		
	2009	2008	2007
Independent registered investment advisors and broker/dealers	\$ 1,986	\$ 1,792	\$ 1,405
Wirehouse and regional broker/dealers	1,116	951	1,020
Defined contribution (401k)	338	226	229
Institutions	12	8	105
Other			35
Total	\$ 3,452	\$ 2,977	\$ 2,794

Institutional Accounts

DHCM continues to develop institutional relationships for separately managed accounts primarily through consultant relationships and database research screens. During 2009 and 2008, the Company added additional resources to focus on further developing its relationships with institutional consultants.

Growth Prospects

DHCM's investment strategies have produced long-term investment returns that the Company views as strong and believes compare very favorably to competitors. Investment returns have been a key driver in the success the Company has achieved in growing AUM.

As a result, the Company has continued to invest in marketing throughout 2009 in an effort to expand distribution. Such expenditures included:

- adding additional marketing and support staff,
- attending and sponsoring key industry conferences, and
- adding systems infrastructure to support client service and portfolio administration.

The cost of these efforts was significant, but the Company believes the cost will be proportional to the increase in revenue during 2010 and future years. There can be no assurance that these efforts will prove successful; however,

given the strong investment results of the Funds and separately managed accounts, the Company believes the additional resources devoted to marketing are warranted.

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Also recognizing that the Company's primary responsibility is to investors in its Funds and its separate account clients, the Company will continue to invest in its investment team and close investment strategies to new investors when appropriate. In 2007, 2008, and 2009 the Company substantially increased its equity investment team by growing the team from 17 at the end of 2006 to 31 at the end of 2009. Most of the additional investment team staff has been on the research team, which now totals 17.

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. The Company is pleased that during its history as an investment advisory firm, it has delivered what it believes are excellent investment returns for its clients. However, the Company is mindful that if it fails to do so in the future, its business growth will likely be negatively impacted. There are certain additional business risks that may prevent the Company from achieving the above growth prospects. These risks are detailed in Item 1A.

Fund Administration Activities

DHCM and Beacon Hill provide fund administration services to Diamond Hill Funds and other third party mutual fund companies. Fund administration services are broadly defined as portfolio and regulatory compliance, treasury and financial oversight, underwriting, and general oversight of other back-office services providers such as the custodian, fund accountant, and transfer agent. During the past three years, there has been a continuing consolidation in the mutual fund servicing industry, whereby large financial services firms purchased independent mutual fund service providers. These larger financial services firms have made the decision not to offer statutory underwriting services to mutual funds, due to regulatory and other business conflicts. This consolidation, along with a growing desire for transparent and independent oversight of mutual fund financial reporting and compliance program activities, has provided opportunities in the marketplace for the Company to grow its fund administration services. During 2008, Beacon Hill completed the build out of its infrastructure and began operations. During 2009, Beacon Hill continued to grow its client base. The Company expects Beacon Hill to generate a profit in 2010.

Competition

Competition in the area of investment management services and mutual funds is intense, and the Company's 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 sales representatives. The Company competes primarily on the basis of investment philosophy, performance and customer service.

Corporate Investment Portfolio

From time to time the Company will hold investment positions in Diamond Hill Funds, its private investment funds, and other equity securities.

Regulation

DHCM is registered with the Securities and Exchange Commission (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 it is offered for sale. Virtually all aspects of the Company's investment management business are subject to various federal and state laws and regulations. BHIL is registered with the SEC as a broker/dealer and is a member of the Financial Industry Regulatory Authority ("FINRA").

Generally, these laws and regulations are intended to benefit shareholders of the funds and separately managed account investment clients and grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the Company from carrying on its investment management and mutual fund underwriting business in the event that it fails to comply with such laws and regulations. In such event, possible sanctions which may be imposed include the suspension of individual employees, limitations on engaging in various activities for specified periods of time, the revocation of broker-dealer or investment adviser registration, and other censures or fines.

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Contractual Relationships with the Diamond Hill Funds

The Company is very dependent on its contractual relationships with the Funds. In the event the Company's advisory or administration agreements with the Funds are terminated, not renewed, or amended to reduce fees, the Company would be materially and adversely affected. Generally, these agreements are terminable 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 shall also terminate in the event of their assignment. The Company generated approximately 69%, 72% and 69% of its 2009, 2008 and 2007 revenues, respectively, from its advisory and administrative contracts with the Funds, including 38% specifically from the advisory contract with the Diamond Hill Long-Short Fund. The loss of this contract would have a material adverse effect on the Company. The Company considers its relationship with the Funds and their Board of Trustees to be good, and it has 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.

Employees

As of December 31, 2009, the Company and its subsidiaries employed 66 full-time and part-time employees. As of December 31, 2008, the comparable number was 57. The Company generally believes that its relationship with its employees is good and does not anticipate any material change in the number of employees.

SEC Filings

This Form 10-K includes financial statements for the years ended December 31, 2009, 2008, and 2007. The Company files Forms 10-K annually with the SEC and files Forms 10-Q after each of the first three fiscal quarters. A copy of this Form 10-K, as filed with the SEC, will be furnished without charge to any shareholder who contacts the Company's Secretary at 325 John H. McConnell Blvd., Suite 200, Columbus, OH 43215 or 614.255.3333. The Company also makes its SEC filings available, free of charge, on its web site at www.diamond-hill.com.

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ITEM 1A: Risk Factors

An investment in the Company's common shares involves various risks, including those mentioned below and those that are discussed from time-to-time in the Company's 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 the Company's common shares. There may be additional risks of which the Company is currently unaware, or which it currently considers immaterial. All of these risks could have a material adverse effect on its financial condition, results of operations, and value of its common shares.

Poor investment performance of our products could affect our sales or reduce the amount of assets under management, potentially negatively impacting revenue and net income.

If the Company fails to deliver excellent investment performance for its clients, both in the short and long term, it will likely experience diminished investor interest and potentially a diminished level of AUM.

The Company's AUM, which impact revenue, are subject to significant fluctuations.

Substantially all revenue for the Company is calculated as a percentage of AUM or is based on 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 the Company's AUM and consequently its revenue and net income. A recession or other economic or political events could also adversely impact the Company's revenue, if it led to a decreased demand for products, a higher redemption rate, or a decline in securities prices.

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

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

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

The Company's 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,

hedge funds, and

brokerage and investment banking firms.

Many of these financial institutions have substantially greater resources than the Company and may offer a broader range of products or operate in more markets. Some operate in a different regulatory environment, which may give them certain competitive advantages in the investment products and portfolio structures that they offer. The Company competes with other providers of investment advisory services primarily based upon its investment performance. Some institutions have proprietary products and distribution channels that make it more difficult for the Company to compete with them. If current or potential customers decide to use one of the Company's competitors, the Company

could face a significant decline in market share, AUM, revenues, and net income. If the Company is required to lower its fees in order to remain competitive, its net income could be significantly reduced because some of its expenses are fixed, especially over shorter periods of time, and other expenses may not decrease in proportion to the decrease in revenues.

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

The Company is very dependent on its contractual relationships with the Funds. In the event the advisory or administration agreements with Funds are terminated, not renewed, or amended to reduce fees, the Company would be materially and adversely affected. Generally, these agreements are terminable by the Funds upon 60 days' written notice without penalty. Each of these agreements is subject to annual approval by either (i) the Board of Trustees of the applicable Fund or (ii) a vote of the majority of the outstanding voting securities of the Fund. The agreements automatically terminate in the event of their assignment by either the Company or the Fund. The Company considers its relationship with the Funds and their Board of Trustees to be good, and it has no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there can be no assurance that the Funds will choose to continue their relationships with the Company. The Company generated approximately 69%, 72% and 69% of its 2009, 2008 and 2007 revenues, respectively, from its advisory and administrative contracts with the Funds.

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

The Company's 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, the Company is 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 the Company's operations and results, including but not limited to increased expenses and reduced investor interest in certain funds and other investment products offered by the Company. The Company continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact its business.

The Company will 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 leases approximately 19,000 square feet of office space at its principal office under an operating lease agreement which terminates on July 31, 2016. In addition, the Company leases approximately 2,200 square feet of office space for a subsidiary company under an operating lease agreement which terminates on February 28, 2011.

The Company's current policy is not to invest in real estate or interests in real estate primarily for possible capital gain or primarily for income.

ITEM 3: Legal Proceedings

From time to time, the Company is party to various claims that are incidental to its business. The Company believes these claims will not have a material adverse effect on its consolidated financial condition, liquidity or results of operations.

ITEM 4: Submission of Matters to a Vote of Security Holders

There were no matters submitted during the most recent quarter to a vote of security holders.

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The following performance graph compares the total shareholder return of an investment in Diamond Hill's Common Stock 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, 2009. The graph assumes that the value of the investment in Diamond Hill's Common Stock and each index was \$100 on December 31, 2004. Total return includes reinvestment of all dividends. According to Russell, the 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. Diamond Hill does not make or endorse any predictions as to future stock performance.

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Diamond Hill Investment Group, Inc.	100.0	186.9	499.9	436.4	444.4	512.1
Russell Microcap™ Index	100.0	102.6	119.5	110.0	66.2	84.4
Peer Group*	100.0	130.1	143.9	151.6	55.9	84.7

* The following companies are included in the Peer Group:
 Westwood Holdings Group, Inc.;
 Epoch Holding Corp.; 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.

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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 sale and closing prices during each quarter of 2009 and 2008:

Quarter ended:	2009			2008		
	High Price	Low Price	Dividend Per Share	High Price	Low Price	Dividend Per Share
March 31	\$ 67.74	\$ 28.51		\$ 82.99	\$ 66.88	
June 30	\$ 45.50	\$ 36.26		\$ 100.00	\$ 72.30	
September 30	\$ 62.00	\$ 38.48		\$ 100.00	\$ 73.30	
December 31	\$ 71.95	\$ 52.33	\$ 10.00	\$ 91.00	\$ 46.25	\$ 10.00

Due to the relatively low volume of traded shares, quoted prices cannot be considered indicative of any viable market for such shares. During the years ended December 31, 2009, and 2008, approximately 2,957,900 and 1,571,000, respectively, of the Company's common shares were traded. The dividends indicated above were special dividends. The Company has not paid quarterly dividends for any other quarters in the past two years, and has no present intention of paying regular dividends in the future. The approximate number of registered holders of record of the Company's common shares at December 31, 2009 was 241.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company did not purchase any shares of its common stock during the three months ended December 31, 2009. There remain 333,895 shares available to be purchased under a repurchase program approved by the Board of Directors and announced on August 9, 2007. This stock 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 the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K.

	2009	For the Years Ended December 31,			2005
		2008	2007	2006	
Income Statement Data					
(in thousands):					
Total revenues	\$ 43,562	\$ 47,019	\$ 41,308	\$ 31,905	\$ 10,246
Net operating income	12,112	13,729	14,078	9,769	1,394
Net income	11,374	3,276	9,932	8,065	3,651
Per Share Information:					
Basic earnings	\$ 4.40	\$ 1.36	\$ 4.61	\$ 4.51	\$ 2.21
Diluted earnings	4.40	1.36	4.39	3.63	1.83
Cash dividend declared	10.00	10.00			
Weighted Average Shares					
Outstanding					
Basic	2,582,998	2,400,142	2,155,829	1,787,390	1,654,935
Diluted	2,587,751	2,408,476	2,264,234	2,219,580	1,996,176

	2009	2008	At December 31,		
			2007	2006	2005
Balance Sheet Data					
(in thousands):					
Total assets	\$ 40,505	\$ 44,540	\$ 53,284	\$ 37,236	\$ 12,748

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Long-term debt					
Shareholders equity	22,981	30,246	39,308	20,483	10,861
Assets Under Management (in millions):	\$ 6,283	\$ 4,510	\$ 4,403	\$ 3,708	\$ 1,531

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In this section, the Company discusses and analyzes 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 the consolidated Financial Statements, Notes to the Consolidated Financial Statements, and Selected Financial Data.

The Company's 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 managed by the Company and fluctuate with changes in the total value of the AUM. Such fees are recognized in the period that the Company manages these assets. Performance incentive fees are generally 20% of the amount of client annual investment performance in excess of a specified hurdle. Because performance incentive fees are based primarily on the performance of client accounts, they can be volatile from period to period. The Company's primary expense is employee compensation and benefits.

Revenues are highly dependent on both the value and composition of AUM. The following is a summary of the firm's AUM for each of the years ended December 31, 2009, 2008, and 2007:

(in millions)	Assets Under Management by Product		
	As of December 31,		
	2009	2008	2007
Mutual funds	\$ 3,640	\$ 3,114	\$ 2,910
Separate accounts	2,423	1,175	998
Private investment funds	220	221	495
Total AUM	\$ 6,283	\$ 4,510	\$ 4,403

(in millions)	Change in Assets Under Management		
	For the Year Ended December 31,		
	2009	2008	2007
AUM at beginning of year	\$ 4,510	\$ 4,403	\$ 3,708
Net cash inflows (outflows)			
mutual funds	(109)	1,328	362
separate accounts	740	812	70
private investment funds	(52)	(162)	170
	579	1,978	602
Net market appreciation / (depreciation) and income	1,194	(1,871)	93
Increase during the year	1,773	107	695
AUM at end of year	\$ 6,283	\$ 4,510	\$ 4,403

Table of Contents**Consolidated Results of Operations**

The following is a discussion of the consolidated results of operations of the Company and a detailed discussion of the Company's revenues and expenses.

(in thousands, except per share data)	2009	2008	% Change	2008	2007	% Change
Net operating income	\$ 12,112	\$ 13,729	-12%	\$ 13,729	\$ 14,078	-2%
Net operating income after tax ^(a)	\$ 8,158	\$ 9,256				