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DIAMOND HILL INVESTMENT GROUP INC

Form ARS

April 09, 2004

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Diamond Hill  
=====  
Investment Group, Inc.

April 12, 2004

Dear Fellow Shareholder,

Last year was a most welcome respite from the difficult market environment of the preceding three years. The Diamond Hill Investment Group, Inc. (the "Company") benefited greatly from the markets' strong upswing, resulting in an important leap forward for the Company. By virtually every measurement we had an excellent year:

- o Client portfolios enjoyed excellent returns, on both an absolute and relative basis,
- o Sales efforts resulted in \$107 million in new assets under management ("AUM"),
- o Operating losses narrowed considerably, with a net loss of \$1 million.

The third point is the proverbial "bottom line." Since we embarked on our path of building an outstanding investment management firm, we have absorbed considerable losses, as can be seen in the decline in the tangible book value per share. In effect, we have invested the Company's tangible financial resources in an intangible asset, that being our business of investment management.

The value of this business is what Benjamin Graham referred to as a company's intrinsic value. Warren Buffett has popularized this concept, and refers to his company's intrinsic value (in general terms) with every shareholder letter.

Our goals continue to be to:

- o Provide excellent investment results for our clients, and
- o Grow the intrinsic value per share of the Company.

As of March 31, 2004, AUM stood at \$300 million, up from \$250 million at December 31, 2003. Two important guideposts for AUM are the levels necessary for:

- o Breakeven, with AUM in the \$400-600 million range, and
- o Scale, with AUM in the \$2-4 billion range.

We are striving to achieve our first breakeven quarter in the next 6-18 months, while scale will most likely take several years to reach. The fact that the investment results for our clients have been excellent gives us confidence in the eventuality of achieving scale, yet the timing is difficult to predict. [The timing is very important in calculating the intrinsic value per share due to the time value of money.]

I would like to thank my colleagues, the Board of Directors and especially you for your support and for entrusting your capital with us. You can be confident that we will continue to work to justify that trust.

Sincerely,

/s/ Ric

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R.H. Dillon  
President

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-24498

DIAMOND HILL INVESTMENT GROUP, INC  
(Name of small business issuer in its charter)

Ohio

65-0190407

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(State or other jurisdiction of  
Employer incorporation or organization)

(I.R.S.  
Identification No.)

375 North Front Street, Suite 300, Columbus, Ohio 43215

-----  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (614) 255-3333  
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Securities registered under Section 12(b) of the Exchange Act:

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(Title of Class) (Name of each exchange on which registered)

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

Common Stock, no par value  
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(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB [X]

State issuer's revenues for its most recent fiscal year \$1,160,584

State the aggregate market value of the voting and non-voting common equity held

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by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

As of February 5, 2004: 1,332,908 Shares of Common Stock  
@ Bid of \$7.10 = \$9,463,647  
@ Asked of \$8.86 = \$11,809,564

State the number of shares outstanding of each of the issuer's classes of common equity, as of February 5, 2004:

Common Stock: 1,523,999 shares

Transitional Small Business Disclosure Format (check one): Yes  ; No

### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

#### Part I:

- Item 1. Description of Business
- Item 2. Description of Property
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

#### Part II:

- Item 5. Market for Common Equity and Related Stockholder Matters
- Item 6. Management's Discussion and Analysis or Plan of Operation
- Item 7. Financial Statements
- Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

- Item 8A Controls and Procedures

#### Part III:

- Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act
- Item 10. Executive Compensation
- Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 12. Certain Relationships and Related Transactions
- Item 13. Exhibits and Reports on Form 8-K
- Item 14. Principal Accountant Fees and Services

#### Signatures

### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

#### PART I

#### ITEM 1: DESCRIPTION OF BUSINESS

#### GENERAL

Diamond Hill Investment Group, Inc. ("the Company") is an Ohio corporation

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reincorporated in May 2002 and previously a Florida corporation since April 1990. The Company has two subsidiary operating companies.

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 Focus Fund, Diamond Hill Small Cap Fund, Diamond Hill Large Cap Fund, Diamond Hill Short Term Fixed Income Fund and Diamond Hill Strategic Income Fund, open-end mutual funds, and Diamond Hill Investment Partners, L.P. DHCM also offers advisory services to institutional and individual investors.

Diamond Hill Securities, Inc. ("DHS"), an Ohio corporation, is a wholly owned subsidiary of DHCM and a NASD registered broker-dealer. DHS is registered with the Securities and Exchange Commission and the securities commissions of six states (including Ohio). DHS trades securities on a fully-disclosed basis and clears customer transactions through an unaffiliated broker-dealer that also maintains the customer accounts. DHS is also a registered investment adviser and offers advisory services to institutional and individual investors. DHS is the investment adviser to the Diamond Hill Bank & Financial Fund.

The Company operates primarily as a holding company with investment advisory services provided by DHCM and DHS and underwriting and broker-dealer operations conducted by DHS. The Company maintains an investment portfolio, primarily composed of mutual funds and the investment partnership, which are managed by DHCM. References to the Company also include references to DHCM and DHS.

In May of 2000, with the change in executive management, the Company shifted its emphasis from its historical investment related activities through its DHS subsidiary, to the investment advisory services of its DHCM subsidiary. Staffing, other costs associated with this shift and various marketing initiatives have negatively impacted the Company in 2002 and 2003. Management believes that this process was necessary in order to achieve a critical threshold of assets under management to support operations in the future. However, there can be no assurance the Company will be able to achieve the critical threshold of assets under management to support future operations.

### ASSETS UNDER MANAGEMENT

As of December 31, 2003, assets under management totaled \$250,072,505, a 132% increase from December 31, 2002. The table below provides a summary of assets under management as of December 31, 2003 and 2002:

	12/31/2003	12/31/2002	% CHANGE
Individually Managed Accounts	\$142,606,649	\$ 55,839,370	155
Mutual Funds	95,864,575	44,831,827	114
Alternative Investments	11,601,281	7,210,934	61
Total Assets Under Management	\$250,072,505	\$107,882,131	132

### INVESTMENT ADVISORY ACTIVITIES

#### Diamond Hill Capital Management

DHCM executes its investment strategies through fundamental research. 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 a reasonably accurate determination of "intrinsic value". Intrinsic value is the present value of all future cash flows, which we estimate the investment will

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

generate, 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 current market prices to evaluate whether, in the opinion of the adviser, an attractive investment opportunity exists. A proprietary valuation model, which forecasts cash flows for five years including a "terminal value" (the expected stock price in five years), assists in many of these intrinsic value estimations. The adviser believes that although securities markets are competitive, pricing inefficiencies often exist allowing for attractive investment opportunities. Furthermore, the adviser believes that investing in securities whose market prices are significantly below the adviser's estimate of intrinsic value (or selling short securities whose market prices are above intrinsic value) is the most assured method to achieve above average returns as well as mitigate risk.

Currently available portfolio products managed by DHCM include All Cap Concentrated Equity, Small Cap Equity, Large Cap Equity, Long-Short Equity, Short-Term Fixed Income, Strategic Income and Balanced (portfolios consisting of stocks and bonds). These products are available on a separately managed basis or through a mutual fund.

Typically, an account with less than \$500,000 is invested in the applicable mutual fund. Clients investing \$500,000 to \$1 million typically are managed in "wrap programs" where the investor pays a fee, based on assets under management, for a variety of financial products and for investment advisory and management services, brokerage services, including commissions, and other related services. DHCM receives a portion of the "wrap fee" for managing the investor's assets. DHCM currently participates in wrap programs with DHS and Synovus Securities, Inc. Client accounts that are greater than \$1 million are separately managed and may be in a "wrap program" or directly served by DHCM with a variety of banks and brokerage firms acting as custodian for each client account.

The All Cap Concentrated Equity product is typically comprised of 20-30 stocks, which are also included in either the Small Cap Equity or Large Cap Equity products. These stocks are selected to comprise the All Cap Concentrated Equity portfolio based on the portfolio manager's view of their attractiveness. The Diamond Hill Focus Fund (Ticker: DIAMX) is constructed in the same manner as the All Cap Concentrated Equity, with the exception that the adviser also has the ability to sell securities short. In a short sale, stock is borrowed and immediately sold for the proceeds. The intention is to be able to buy the stock later at a lower price, returning the borrowed stock and benefiting from a price decline.

The Company also offers an alternative investment, the Diamond Hill Investment Partners, L.P. ("DHIP"), a limited partnership that invests in and trades securities. DHCM is the managing member of the DHIP general partner and offers interests in the partnership to certain high net worth clients who typically invest at least \$500,000 in the partnership.

Diamond Hill Securities  
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Diamond Hill Securities serves as the adviser to the Diamond Hill Bank & Financial Fund, a financial services sector fund. The Diamond Hill Bank & Financial Fund principally invests in banks and thrifts as well as specialty finance and insurance companies using the same investment approach and methodology as DHCM (i.e., investing in stocks that are deemed to be available

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at a substantial discount to an estimate of intrinsic value). The Fund is typically invested in a relatively concentrated number, 25-35, of stocks from the financial services sector. Currently, there are no separate accounts managed as a bank and financial sector portfolio.

### Business Development

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The Company develops business with clients through direct contact or strategic alliances. The primary geographic areas are Columbus, Ohio and Georgia, with current efforts outside this area on an opportunistic basis.

As of December 31, 2003, the Company managed approximately \$77 million in assets for clients of Synovus Securities, Inc. ("Synovus"), a broker-dealer located in Columbus, Georgia. The Company has a Sub-

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

Advisory Agreement with Synovus. These assets which are in both the Company's managed account and mutual fund products make up approximately 30% of the Company's assets under management.

The Company currently relies upon existing relationships where prospects have knowledge sufficient to have confidence in the Company's policies. Many of these relationships are with former clients/contacts of DHCM associates. High net worth individuals, retirement plans and charitable foundations are the categories of clients DHCM expects to develop. Alliances with brokers, consultants, legal and financial advisers and selected individuals constitute a large part of the business development effort.

### MARKET MAKING AND BROKERAGE ACTIVITIES

Historically, the Company's brokerage subsidiary had specialized in community and regional bank stocks, selecting those bank stocks which DHS believes to be most likely to show an increase in value over both the short and the long term. With the change in executive management in May 2000, the Company has shifted its emphasis from its traditional investment related activities through its DHS subsidiary, to the investment advisory services of its DHCM subsidiary. Therefore, market-making activities have significantly declined since that date. DHS continues to transact trades for the separately managed accounts, which the Company manages.

### COMPETITION

Competition in the area of investment management services and mutual funds is intense and includes investment management firms, broker-dealers, banks and insurance companies. Many competitors are better known than the Company, are better capitalized, 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.

### INVESTMENT PORTFOLIO

DHCM holds positions in the Company's fixed income mutual fund products and DHIP, the Company's limited partnership product.

### REGULATION

The securities industry is subject to extensive regulation under both federal

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and state laws. The principal purpose of regulation of investment advisers and broker-dealers is the protection of retail investors in the securities markets rather than protection of stockholders of investment advisers and broker-dealers. The SEC is the federal agency charged with the administration of federal securities laws. The Ohio Division of Securities is charged with the administration and enforcement of the Ohio Securities Act. Much of the regulation of broker-dealers, which do business on an interstate basis, has been delegated by the SEC to self-regulatory organizations, principally the National Association of Securities Dealers ("NASD") and the national securities exchanges. These self-regulatory organizations adopt rules (which are subject to approval by the SEC), which govern the industry and conduct periodic examinations of member broker-dealers. Investment advisers are subject to regulation by the SEC and state securities commissions in the states in which they are registered.

The regulations to which broker-dealers are subject cover all aspects of the securities business, including sales methods, trading practices among broker-dealers, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. Additional legislation, changes in rules promulgated by regulatory organizations or changes in the interpretation or enforcement of existing laws and rules often affect directly the method of operation and profitability of broker-dealers. In addition, securities regulators may conduct administrative proceedings, which can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees.

DHCM and DHS each operate in this highly regulated environment and are subject to examination and licensing requirements by federal and state authorities. DHS is subject to regulation by the SEC and the state

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

securities regulatory agencies in the states in which it operates; DHS also is a member of the NASD. DHCM and DHS are registered investment advisers and subject to regulation by the SEC pursuant to the Investment Advisers Act of 1940.

### EMPLOYEES

The Company currently has 14 full-time employees, none of whom are members of a union. The Company generally believes that its relationship with employees is good.

### SEC FILINGS

This Form 10-KSB report includes financial statements for the years ended December 31, 2003 and December 31, 2002. The Company files Forms 10-KSB annually with the SEC and files Forms 10-QSB after each of the first three fiscal quarters.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

The Company will distribute copies of this Form 10-KSB to shareholders in lieu of preparing a separate annual report.

### ITEM 2: DESCRIPTION OF PROPERTY

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The Company sub-leases approximately 8,500 square feet of office space in the Arena Office Building at 375 North Front Street, Suite 300, Columbus, Ohio 43215, from an unaffiliated third party for an aggregate current monthly rental of \$10,000. This lease expires May 31, 2005. The Company moved on May 13, 2002, to this more strategic location in downtown Columbus.

### ITEM 3: LEGAL PROCEEDINGS

The Company is not engaged in any litigation, other than routine litigation that is incidental to its business.

### 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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## DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

### PART II

#### ITEM 5: MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the NASDAQ Small Cap Market under the symbol DHIL. The range of high and low prices for each quarter since January 1, 2002, are shown below:

BEGINNING DATE	ENDING DATE	HIGH	LOW
January 1, 2002	March 31, 2002	\$4.00	\$3.91
April 1, 2002	June 30, 2002	\$8.75	\$3.92
July 1, 2002	September 30, 2002	\$8.24	\$4.10
October 1, 2002	December 31, 2002	\$8.00	\$3.61
January 1, 2003	March 31, 2003	\$6.11	\$4.00
April 1, 2003	June 30, 2003	\$5.20	\$3.90
July 1, 2003	September 30, 2003	\$5.10	\$3.52
October 1, 2003	December 31, 2003	\$7.14	\$4.51

The source of this bid information is Bloomberg L.P. These quotations reflect inter-dealer prices, without retail markup, markdown or commissions and may not represent actual transactions. In addition, due to the relatively "thin" market in the Company's Common Stock, quoted prices cannot be considered indicative of any viable market for such stock. During the year ended December 31, 2003, approximately 389,400 shares of the Company's Common Stock were traded.

Information regarding recent sales of unregistered Company securities is disclosed in the Company's Form 10-QSB filing for the period ended September 30, 2003, filed with the Securities and Exchange Commission on November 14, 2003.

As of December 31, 2003, there were approximately 1,000 holders of record of common shares. The Company has not paid any dividends during the last two fiscal years and has no present intention of paying dividends.



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Information with respect to securities authorized for issuance under equity compensation plans is disclosed in Item 11 of this Form 10-KSB.

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

#### ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

##### Forward-looking Statements

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Throughout this discussion, the Company may make forward-looking statements 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. While the Company believes that the assumptions underlying its forward-looking statements are reasonable, 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; a general downturn in the economy; changes in government policy and regulation; 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 SEC.

##### General

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With the change in executive management in May of 2000, the Company has shifted its emphasis from its traditional investment related activities through its DHS subsidiary, to the investment advisory services of its DHCM subsidiary. DHCM manages portfolios of stocks representing interests in entities operating in various economic sectors, as opposed to a portfolio of bank stocks only. Staffing and costs associated with this shift and the various marketing initiatives at DHCM negatively impacted the Company in 2002 and 2003. Management believes that this process was necessary in order to achieve a critical threshold of assets under management to support operations in the future. However, there can be no assurance that the Company will be able to achieve the critical threshold of assets under management to support future operations.

##### Year ended December 31, 2003 compared to Year ended December 31, 2002

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Investment management revenues for the year ended December 31, 2003 increased to \$1,160,584 compared to \$669,058 for the year ended December 31, 2002, a 73% increase. This increase results primarily from the increase in assets under management from which the Company derives its revenues.

The Company increased its investment management fees from all three of its investment products: mutual funds, managed accounts and a private investment partnership, Diamond Hill Investment Partners, L.P. ("DHIP"). Fees from mutual funds were up 25%, for the year ended December 31, 2003, from \$370,163 to \$465,549. Fees from managed accounts posted the largest dollar increase over the year ended December 31, 2002, with a dollar increase of \$329,779, or a 119% increase. Investment management fees collected from the DHIP improved the most,

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relatively, over the year ended December 31, 2002. These fees, which include a performance incentive fee of approximately \$30,000, grew by a multiple of 4, increasing from \$22,505 to 88,866. In conjunction with the shift in emphasis to the investment advisory services of DHCM, a program has been initiated to attempt to gather new assets under management at DHCM. Assets under management increased to \$250,072,505 as of December 31, 2003, a 132% increase since December 31, 2002. However, there can be no assurance that the Company will be able to achieve the critical threshold of assets under management at DHCM to support future operations.

Operating expenses for the year ended December 31, 2003 decreased to \$2,184,801 compared to \$2,521,421 for the year ended December 31, 2002, a decrease of 13%. Salaries, benefits and payroll taxes decreased slightly to \$1,520,150 in 2003 from \$1,602,243 in 2002, a decrease of 5%. This decrease reflects personnel changes. Legal and audit expense dropped to \$70,481 from \$185,382 for the year ended December 31, 2003 versus the year ended December 31, 2002, a 62% decrease. Since there are no current

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

plans for major administrative projects or new products, management expects legal and audit professional expense to remain steady in 2004 as compared to 2003. General and administrative expenses decreased to \$443,802 in 2003 compared to \$511,689 in 2002, a decrease of 13%. Management expects general and administrative expenses to remain steady in 2004 as compared to 2003. Sales and marketing expense for the year ended December 31, 2003 decreased by 32% to \$150,368 from \$222,107 for the year ended December 31, 2002. This decrease is primarily due the reduction in expenditures for consulting services. Management expects sales and marketing expenses to increase in 2004 as compared to 2003 due to increased sales efforts.

Mutual fund administration, which is administrative services fees collected in connection with the Company's mutual fund products net of all mutual fund administrative expenses paid by the Company, decreased from a net expense of \$331,425 for the year ended December 31, 2002 to \$258,226 for the year ended December 31, 2003, a 22% improvement. Administrative fees collected increased, while administrative expenses paid were relatively flat for the year ended December 31, 2003 versus the year ended December 31, 2002. This increase in fees is primarily due to the increase in assets under management in the Company's mutual fund products. DHCM has an administrative, fund accounting and transfer agency services agreement with the Diamond Hill Funds, where DHCM performs certain services for each series of the trust. These services include mutual fund administration, accounting, transfer agency and other related functions. For performing these administrative services, each series of the trust compensates DHCM a fee at an annual rate of 0.45% times each series' average daily net assets. DHCM collected \$268,164 and \$179,647 for mutual fund administration revenue for the year ended December 31, 2003 and 2002, respectively. In fulfilling its role under this agreement, DHCM has engaged several third-party providers and the cost for their services are paid by DHCM. Mutual fund administration expense for the year ended December 31, 2003 and 2002 was \$526,390 and \$511,072, respectively. As assets under management grow in the mutual fund products, the Company expects fees collected to increase, while the Company expects expenses paid to remain steady; therefore, causing the net mutual fund administration expense to continue to decrease.

Mutual fund distribution, which includes distribution fees collected in connection with sales of the Company's mutual funds net of all mutual fund distribution expenses paid by the Company, increased to a net expense of \$93,689 for the year ended December 31, 2003 from \$69,716 for the year ended December

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31, 2002, a 34% increase. Mutual fund distribution fees collected and expenses paid both increased during the year ended December 31, 2003 versus the year ended December 31, 2002. For performing these distribution functions, DHS collects front-end and back-end sales loads, ranging from 1.00% to 5.75% or underwriting fees of 0.50% on fund investments. DHS also collects 12b-1 fees at an annual rate ranging from 0.25% to 1.00% times each series' average daily net assets. Mutual fund distribution revenue for the year ended December 31, 2003 and 2002 were \$164,732 and \$114,792, respectively. This increase in fees is primarily due to the increase in assets under management in the Company's mutual fund products. DHS is the principal underwriter for Diamond Hill Funds, an Ohio business trust, and may pay third-party financial institutions a fee for distribution or for performing certain servicing functions for mutual fund shareholders. DHS also pays for the production of marketing materials used in the distribution of the Diamond Hill Funds. Mutual fund distribution expense for the year ended December 31, 2003 and 2002 were \$258,421 and \$184,508, respectively. This increase is the result of increased sales of the mutual fund shares in 2003 versus 2002, in which DHS finances the commissions paid, and decreased expense in 2002 due to an adjustment made, during the year ended December 31, 2002, for a change in accounting treatment for commissions paid to brokers for the sale of the Company's mutual fund C shares. Previously, the commission was expensed when paid, despite the fact that the revenue, which offsets this expense, is collected over a twelve-month period. Therefore, the portion of commission expense that has not yet been offset by the matching revenue was capitalized and is amortized over twelve months. As assets under management grow in the mutual fund products, the Company expects fees collected to increase, while the Company expects expenses paid to remain steady or increase; therefore, causing the net mutual fund distribution expense to remain steady or increase.

Broker-dealer activity, which is revenue from security transactions and market-making activity net of broker-dealer expenses which are comprised principally of clearing costs and regulatory fees, decreased to a net expense of 18,062 for the year ended December 31, 2003 from \$143,924 for the year ended December 31, 2002, an 87% improvement. DHS, a registered full-service broker-dealer, transacts security trades through its

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

clearing broker under a correspondent agreement. For the year ended December 31, 2003 and 2002, broker-dealer activity expenses were \$44,449 and \$153,159, respectively. This decrease is largely due to the reduction in overhead and commission expense from reduced activity. DHS earns commissions and service fees related to business transacted through its clearing broker, along with gains and losses from market-making activities. Broker-dealer activity revenue for the year ended December 31, 2003 and 2002 were \$26,387 and \$9,235, respectively. Commission revenue decreased by 62% from 2002 to 2003. However market-making losses negatively impacted the year ended December 31, 2002 by \$60,225. In conjunction with the Company's shift in emphasis from its traditional investment related activities through DHS, to the investment advisory services of DHCM, broker dealer activities through DHS have declined. It is expected for 2004, that this level of expense in 2003 will decrease.

The Company's net operating loss decreased to \$1,394,194 for the year ended December 31, 2003 from \$2,397,428 for the year ended December 31, 2002, a 41% improvement.

Investment return, net of interest expense, increased to a gain of \$400,660 for the year ended December 31, 2003 from a loss of \$66,195 for the year ended December 31, 2002. This investment gain results primarily from increases in

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market values of investments in the limited partnership interest and the Company's fixed income mutual funds. Management is unable to predict how future fluctuations in market values will impact the performance of the Company's investment portfolios. Dividend income increased by a multiple of 3 to \$89,031 for the year ended December 31, 2003 compared to \$29,156 for the year ended December 31, 2002. In 2004, dividend income may decrease versus 2003 since the Company's investment in its fixed income mutual funds, which pay monthly dividends, may yield an anticipated average of four percent (4%) down from 2003 yields. As a result of positive company portfolio investment performance, the Company's net operating loss was reduced further, causing the net loss to decrease by 60% for the year ended December 31, 2003 compared to the same time period for 2002.

### Liquidity and Capital Resources

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Nearly 100% of the Company's investment portfolio is readily marketable. Investments in securities traded on national securities markets and securities not traded on national securities markets, but with readily ascertainable market values, are valued at market value. Other securities, for which market quotations are not readily available, due to infrequency of transactions, are valued at fair value as determined in good faith by management of the Company. While management employs objective criteria to ascertain these values, there is no independent benchmark by which the values assigned by management can be judged. Accordingly, the value of these securities may be overstated.

By the end of 2002, the Company reallocated its investment portfolio to provide more liquidity and reduce its equity exposure. In doing so, the Company transferred \$2 million out of its investment in the limited partnership, DHIP, and invested approximately \$1.5 million into the Company's fixed income mutual funds. The remaining cash was used to pay-off the Company's line of credit and provide short-term liquidity for current operating expenses. On July 22, 2003, the Company sold 110,000 shares of the Company's Common Stock, from Treasury Stock, to certain directors, officers and employees through a private placement at a price of \$4.50, thereby increasing the liquidity and capital resources by approximately \$495,000.

DHS, under a correspondent agreement with its clearing broker, has agreed to indemnify the clearing broker from damages or losses resulting from customers' transactions. The Company is, therefore, exposed to off-balance sheet risk of loss in the event that customers are unable to fulfill contractual obligations. The Company manages this risk by requiring customers to have sufficient cash in their account before a buy order is executed and to have the subject securities in their account before a sell order is executed. The Company has not incurred any losses from customers being unable to fulfill contractual obligations.

In the normal course of business, the Company may sell securities it has not yet purchased (short sales) for its own account, and may write options. The establishment of short positions and option contracts exposes the Company to off-balance sheet market risks in the event prices change, as the Company may be obligated to cover such positions at a loss.

### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

At December 31, 2003, the Company had no short security positions, had not written any option contracts, and did not own any options. The Company did not experience any credit losses due to the failure of any counter parties to perform during the year ended December 31, 2003. Senior management of the Company is responsible for reviewing trading positions, exposures, profits and

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losses, trading strategies and hedging strategies on a daily basis.

As of December 31, 2003, the Company had working capital of approximately \$2.8 million compared to \$3.3 million at December 31, 2002. The decrease during the year ended December 31, 2003 is primarily due to the net loss as part of operating activities. The decrease was partly offset by financing activities, which includes the private placement that occurred on July 22, 2003. Working capital includes cash, securities owned and accounts and notes receivable, net of all liabilities. The Company has no long-term debt.

The Company's net cash balance decreased by \$638,190 during the year ended December 31, 2003. Net cash used by operating activities was \$1,154,250. The primary use of cash flow was the net loss of \$993,534. Investing activities used \$3,582 for property and equipment purchased during the year ended December 31, 2003. Financing activities provided \$519,642 of cash during the year ended December 31, 2003, mostly from the \$495,000 private placement on July 22, 2003.

The Company's net cash balance decreased by \$484,851 during the year ended December 31, 2002. Net cash used by operating activities was \$73,216. The primary use of cash flow was the net loss of \$2,463,623, which was offset by the decrease in the investment portfolio. Investing activities used \$118,935 during the year ended December 31, 2002 for furnishings and a new phone system for the new office space the Company began leasing in May 2002. Financing activities used \$292,700 of cash during the year ended December 31, 2002, from the purchase of Company common stock.

Investment management fees primarily fund the operations of the Company. Management believes that the Company's existing resources, including available cash and cash provided by operating activities, will be sufficient to satisfy its working capital requirements in the foreseeable future. However, no assurance can be given that additional funds will not be required. To the extent that returns on investments are less than anticipated, or expenses are greater than anticipated, the Company may be required to reduce its activities, liquidate the investment portfolio or seek additional financing. Further, this additional financing may not be available on acceptable terms, if at all. No significant capital expenditures are expected in the foreseeable future.

### Impact of Inflation and Other Factors

-----

The Company's operations have not been significantly affected by inflation. The Company's investment portfolios of equity and fixed income securities, are carried at current market values. Therefore, the Company's profitability is affected by general economic and market conditions, the volume of securities trading and fluctuations in interest rates. The Company's business is also subject to government regulation and changes in legal, accounting, tax and other compliance requirements. Changes in these regulations may have a significant effect on the Company's operations.

DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
For the Years Ended December 31, 2003 and 2002

### ITEM 7: FINANCIAL STATEMENTS

To the Board of Directors  
Diamond Hill Investment Group, Inc.  
Columbus, Ohio

We have audited the consolidated statement of financial condition of Diamond

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Hill Investment Group, Inc. and its subsidiaries as of December 31, 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2003 and 2002. 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 have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of Diamond Hill Investment Group, Inc. and its subsidiaries as of December 31, 2003, and the consolidated results of their operations and cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

BKR Longanbach Giusti, LLC  
Columbus, Ohio

January 22, 2004

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL CONDITION As of December 31, 2003

#### ASSETS

Cash	\$	50,985
Investment portfolio (note 3 and 4):		
Mutual fund shares and limited partnership interests		2,717,226
Not readily marketable equity securities, at estimated fair value		15,108
Accounts receivable:		
Investment products		173,070
Pending settlements and other		229
Property and equipment, net of accumulated depreciation of \$135,661		129,664
Deposits and other		227,366
		-----
Total assets	\$	3,313,648
		-----

#### LIABILITIES

Accounts payable to broker-dealers and other	\$	1,589
Accrued expenses		137,245
		-----

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Total liabilities	138,834
	-----

SHAREHOLDERS' EQUITY

Common stock: (note 5)

No par value, 7,000,000 shares authorized, 1,827,972 shares issued and 1,523,999 shares outstanding	10,025,711
Treasury stock, at cost (303,973 shares)	(1,739,206)
Deferred compensation	(3,744)
Accumulated deficit	(5,107,947)
	-----
Total shareholders' equity	3,174,814
	-----
Total liabilities and shareholders' equity	\$ 3,313,648
	-----

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

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
December 31, 2003 and 2002

AUDITED

	2003	2002
	-----	-----
INVESTMENT MANAGEMENT FEES:		
Mutual funds	\$ 465,549	\$ 370,163
Managed accounts	606,169	276,390
Private partnership	88,866	22,505
	-----	-----
Total investment management fees	1,160,584	669,058
	-----	-----
OPERATING EXPENSES:		
Salaries, benefits and payroll taxes	1,520,150	1,602,243
Legal and audit	70,481	185,382
General and administrative	443,802	511,689
Sales and marketing	150,368	222,107
	-----	-----
Total operating expenses	2,184,801	2,521,421
	-----	-----
OTHER OPERATING ACTIVITIES		
Mutual fund administration, net (Note 8)	(258,226)	(331,425)
	-----	-----

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Mutual fund distribution, net (Note 9)	(93,689)	(69,716)
	-----	-----
Broker-dealer, net (Note 10)	(18,062)	(143,924)
	-----	-----
NET OPERATING LOSS	(1,394,194)	(2,397,428)
	-----	-----
Investment return, net of interest expense	400,660	(66,195)
LOSS BEFORE TAXES	(993,534)	(2,463,623)
	-----	-----
Income tax provision (credit)	--	--
	-----	-----
NET LOSS	\$ (993,534)	\$ (2,463,623)
	=====	=====
BASIC EARNINGS (LOSS) PER SHARE	\$ (0.68)	\$ (1.73)
	=====	=====
DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.68)	\$ (1.73)
	=====	=====

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

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
December 31, 2003 and 2002

AUDITED

	Shares Outstanding	Amount	Treasury Stock	Deferred Compensation	Re Ea (D
	-----	-----	-----	-----	-----
Balance at December 31, 2001	1,479,767	\$ 10,023,703	(\$ 2,101,810)	(\$ 36,793)	(\$ 1
Amortization of deferred Compensation	--	--	--	21,619	
Purchase of treasury stock	(71,300)	--	(292,700)	--	
Net loss	--	--	--	--	(2
	-----	-----	-----	-----	-----
Balance at December 31, 2002	1,408,467	10,023,703	(2,394,510)	(15,174)	(3
Exercise of stock options	1,000	3,910	--	--	
Amortization of deferred					



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Compensation	--	--	--	11,430	
Sale of treasury stock	114,532	(1,902)	655,304	--	
Net loss	--	--	--	--	
Balance at December 31, 2003	1,523,999	\$ 10,025,711	(\$ 1,739,206)	(\$ 3,744)	(\$ 5)

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

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
December 31, 2003 and 2002

AUDITED

	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (993,534)	\$ (2,463,623)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,336	
Loss on disposal of property and equipment	732	40,176
Amortization of deferred compensation	11,430	
Unrealized (gain) loss	(401,794)	209,686
(Increase) decrease in certain assets-		
Investment portfolio	459,942	1,930,591
Accounts receivable		
Investment products	(83,211)	4,941
Pending settlements and other	(111)	(3,727)
Refundable income taxes	--	414,251
Deposits and other	(68,678)	(44,905)
Increase (decrease) in certain liabilities-		
Accounts payable to broker-dealers and other	1,589	--
Accrued expenses and other	(118,951)	(235,571)
Net cash used in operating activities	(1,154,250)	(73,216)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,582)	(122,567)
Proceeds from sale of property and equipment	--	3,632
Net cash used in investing activities	(3,582)	(118,935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options	3,910	--
Purchase of treasury stock	--	(292,700)
Sale of treasury stock	515,732	--
Net cash provided (used) in financing activities	519,642	(292,700)

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NET DECREASE IN CASH	(638,190)	(484,851)
CASH, BEGINNING OF PERIOD	689,175	1,174,026
	-----	-----
CASH, END OF PERIOD	\$ 50,985	\$ 689,175
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 758	\$ 1,569
Income taxes	--	--

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

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

Note 1 ORGANIZATION AND NATURE OF BUSINESS

Diamond Hill Investment Group, Inc. (the Company) is an Ohio corporation incorporated in May 2002, previously a Florida corporation since April 1990. The Company has two subsidiary operating companies.

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 Focus Fund, Diamond Hill Small Cap Fund, Diamond Hill Large Cap Fund, Diamond Hill Short Term Fixed Income Fund and Diamond Hill Strategic Income Fund, open-end mutual funds, which are each a series in the Diamond Hill Funds trust. DHCM is also the investment adviser to the Diamond Hill Investment Partners, L.P. and offers advisory services to institutional and individual investors.

Diamond Hill Securities, Inc. (DHS), an Ohio corporation, is a wholly owned subsidiary of DHCM and a NASD registered broker-dealer. DHS is registered with the Securities and Exchange Commission and the securities commissions of six states (including Ohio). DHS trades securities on a fully-disclosed basis and clears customer transactions through an unaffiliated broker-dealer that also maintains the customer accounts. DHS is also a registered investment adviser and offers advisory services to institutional and individual investors. DHS is the investment adviser to the Diamond Hill Bank & Financial Fund, which is a series in the Diamond Hill Funds trust.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods. Actual results could differ from those estimates. The following is a summary of the Company's significant accounting policies:

Principles of Consolidation

-----

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

### Cash

----

The Company has defined cash as demand deposits, certificate of deposits and money market accounts. The Company maintains its cash in seven accounts with two financial institutions.

### Accounts Receivable

-----

Accounts receivable are recorded when they are due and are presented in the statement of financial condition 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 on the Company's historical losses, existing conditions in the industry, and the financial stability of those individuals that owe the receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2003.

### Valuation of Investment Portfolio

-----

Securities and related options traded on national securities markets and securities not traded on national securities markets, but with readily ascertainable market values, are valued at market value. Other securities, for which market quotations are not readily available, due to infrequency of transactions, are valued at fair value as determined in good faith by the management of the Company. Realized and unrealized gains and losses are included in investment profits and losses.

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## DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003 and 2002

### Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Limited Partnership Interests

-----

DHCM is the managing member of Diamond Hill General Partner, LLC, the General Partner of Diamond Hill Investment Partners, L.P. (DHIP), a limited partnership whose underlying assets consist of marketable securities. DHCM's investment in DHIP is accounted for using the equity method, under which DHCM's share of the net earnings or losses of the partnership is reflected in income as earned and distributions received are reflected as reductions of the investment. The Company is actively seeking additional unaffiliated investors for DHIP. Several board members, officers and employees of the Company are members in Diamond Hill General Partner, LLC. The capital of Diamond Hill General Partner, LLC is not subject to a management fee or an incentive fee.

#### Property and Equipment

-----

Property and equipment, consisting of computer equipment, furniture, and fixtures, is carried at cost less accumulated depreciation. Depreciation is

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calculated using the straight-line method over estimated lives of five to seven years.

### Reclassifications

-----  
The consolidated statement of operations for the year ended December 31, 2002, has been reclassified to conform to the presentation of the consolidated statement of operations for the year ended December 31, 2003. These reclassifications have had no effect on the operating results for the year ended December 31, 2002.

### Revenues

-----  
Securities transactions and commissions are accounted for on the trade date basis. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Realized gains and losses from sales of securities are determined utilizing the first-in, first-out method (FIFO).

### Earnings Per Share

-----  
Basic and diluted earnings per common share are computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." A reconciliation of the numerators and denominators used in these calculations is shown below:

For the year ended December 31, 2003:

	Numerator	Denominator	Amount
	-----	-----	-----
Basic Earnings	\$ (993,534)	1,458,264	\$(0.68)
Diluted Earnings	\$ (993,534)	1,458,264	\$(0.68)

For the year ended December 31, 2002:

	Numerator	Denominator	Amount
	-----	-----	-----
Basic Earnings	\$(2,463,623)	1,424,602	\$(1.73)
Diluted Earnings	\$(2,463,623)	1,424,602	\$(1.73)

Stock options and warrants have not been included in the denominator of the diluted per-share computations because the effect of their inclusion would be anti-dilutive.

DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are carried at fair value or amounts approximating fair value. Assets, including accounts receivable, notes and interest receivable and securities owned are carried at amounts that approximate fair value. Similarly, liabilities, including accounts

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payable and accrued expenses are carried at amounts approximating fair value.

### Note 3 INVESTMENT PORTFOLIO

Investment portfolio balances, which consist of securities classified as trading, are comprised of the following at December 31, 2003:

	Market -----	Cost -----	Unrealized Gains -----	Unrealized Losses -----
Mutual fund shares and limited partnership interest	\$2,717,226	\$2,290,260	\$ 428,171	\$ (1,205)
Not readily marketable equity securities	15,108	195,125	--	(180,017)
	-----	-----	-----	-----
Total	\$2,732,334	\$2,485,385	\$ 428,171	\$ (181,222)
	=====	=====	=====	=====

Investment portfolio balances, which consist of securities classified as trading, are comprised of the following at December 31, 2002:

	Market -----	Cost -----	Unrealized Gains -----	Unrealized Losses -----
Mutual fund shares and limited partnership interest	\$2,612,555	\$2,577,989	\$ 116,584	\$ (82,018)
Marketable equity securities	40,519	31,638	23,525	(14,644)
Not readily marketable equity securities	137,409	335,700	900	(199,191)
	-----	-----	-----	-----
Total	\$2,790,483	\$2,945,327	\$ 141,009	\$ (295,853)
	=====	=====	=====	=====

Marketable equity securities at December 31, 2002, consist primarily of bank stocks, at market value, which are traded on national securities markets. As of December 31, 2002, the Company had two individual equity security investments representing 77% and 23% of its marketable equity securities.

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

### Note 3 INVESTMENT PORTFOLIO (Continued)

DHCM is the managing member the General Partner of Diamond Hill Investment Partners, L.P., whose underlying assets consist primarily of marketable securities. The General Partner is contingently liable for all of the partnership's liabilities.

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Summary financial information, including the Company's carrying value and income from this partnership at December 31, 2003 and 2002 and for the years then ended, is as follows:

	2003	2002
	-----	-----
Total assets	\$ 21,505,686	\$ 12,534,274
Total liabilities	9,904,405	5,323,340
Net assets	11,601,281	7,210,934
Net fair market value of earnings	1,967,729	168,073
DHCM's carrying value	1,363,450	1,109,708
DHCM's income	223,852	45,273
Incentive Fee	29,890	0

DHCM withdrew \$2,000,000 of capital from its investment in Diamond Hill Investment Partners, L.P. during the year ended December 31, 2002. DHCM's income from this partnership includes its pro-rata capital allocation and its share of an incentive allocation from the limited partners. In addition, DHCM earns an administrative fee payable quarterly at the rate of .25% of the value of the limited partners' capital accounts.

### Note 4      LINE OF CREDIT

The Company renewed a line of credit loan with a maximum principal amount of \$325,000 on August 28, 2003 at an annual percentage interest rate of prime plus 0.50%, which is currently 4.50%. The balance due on the line of credit loan at December 31, 2003 was zero (\$0). The Company has pledged \$390,000 of its fixed income mutual fund investments to secure this line. The line of credit loan is due to mature on August 28, 2004, at which time management intends to renew the line.

### Note 5      CAPITAL STOCK

#### Common Stock

-----

The Company has only one class of securities, Common Stock.

#### Treasury Stock

-----

On July 17, 2000, the Company announced a program to repurchase up to 400,000 shares of its Common Stock through open market purchases and privately negotiated transactions. From July 17, 2000 through December 31, 2001, the Company purchased 281,597 shares of its Common Stock for \$1,716,407. For the year ended December 31, 2002, the Company purchased 71,300 shares of its Common Stock for \$292,700. For the year ended December 31, 2003, the Company did not purchase any of its shares of Common Stock. As of December 31, 2003, the Company has purchased 352,897 shares for \$2,009,107 pursuant to the aforementioned 400,000 share repurchase program. On July 22, 2003, the Company issued 110,000 shares out of Treasury Stock in a private placement to certain directors, officers and employees of the Company. The shares were sold at \$4.50 per share, and Treasury Stock was reduced by an average cost of \$5.72 per share. On December 31, 2003, the Company issued 4,532 shares out of Treasury Stock to fund the Company match portion of the Company's 401(k) retirement plan. The shares were issued at an average price of \$5.15 per share, and Treasury Stock was reduced by an average cost of \$5.72 per share. The Company's total Treasury Stock share balance as of December 31, 2003 is 303,973.

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## DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003 and 2002

### Note 5 CAPITAL STOCK (Continued)

#### Authorization of Preferred Stock

-----

The Company's Articles of Incorporation authorize the issuance of 1,000,000 shares of "blank check" preferred stock 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 empowered, without shareholder approval, to issue preference stock with dividend, liquidation, conversion, voting, or other rights, which could adversely affect the voting or other rights of the holders of the Common Stock. There were no shares of preferred stock issued or outstanding at December 31, 2003 or 2002.

### Note 6 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 liability or assets.

	2003	2002
	-----	-----
Current income tax provision (benefit)	\$ --	\$ --
Deferred income tax provision (benefit)	--	--
	-----	-----
Provision (benefit) for income taxes	\$ --	\$ --
	=====	=====

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

	2003	2002
	-----	-----
Income tax expense expected statutory rate xxx	34%	34%
Prior year provision adjustment	0	0
Dividends received deduction	0	0
Unrealized gain	0	0
Valuation allowance	(34)	(34)
	-----	-----
Income tax expense effective rate	0%	0%
	=====	=====

Deferred tax assets and liabilities consist of the following at December 31, 2003 and 2002:

	2003	2002
	-----	-----
Deferred tax benefit of NOL carryforward	\$ 1,819,000	\$ 1,441,000
Stock options and warrants	--	--
Investment write down	--	--
Unrealized (gains) losses	(62,000)	36,000
Other liabilities	(14,000)	(14,000)
Valuation allowance	(1,743,000)	(1,463,000)
	-----	-----

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Net deferred tax assets (liabilities)	\$	--	\$	--
		=====		=====

As of December 31, 2003, the Company and its subsidiaries had net operating loss (NOL) carry forwards for tax purposes of approximately \$7,274,000. These NOL's will expire from 2016 to 2023. Any future changes in control may limit the availability of NOL carryforwards.

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2003 and 2002

Note 7 OPERATING LEASES

The Company leases office space under an operating lease. Under the previous operating lease, which expired July 2002, total lease expenses were approximately \$85,500 for the seven months ended July 31, 2002. The Company entered into a new lease agreement effective May 1, 2002, which terminates on May 31, 2005. Under this new lease agreement, total lease expenses for the years ended December 31, 2002 and 2003 were \$50,000 and \$120,000, respectively. The future minimum lease payments under the operating lease are as follows:

Year Ended	Amount
-----	-----
2004	120,000
2005	50,000

Note 8 MUTUAL FUND ADMINISTRATION

DHCM has an administrative, fund accounting and transfer agency services agreement with Diamond Hill Funds, an Ohio business trust, under which DHCM performs certain services for each series of the trust. These services include mutual fund administration, accounting, transfer agency and other related functions. For performing these services, each series of the trust compensates DHCM a fee at an annual rate of 0.45% times each series' average daily net assets. DHCM collected \$268,164 and \$179,647 for mutual fund administration revenue for the year ended December 31, 2003 and 2002, respectively. In fulfilling its role under this agreement, DHCM has engaged several third-party providers, and the cost for their services are paid by DHCM. Mutual fund administration expense for the year ended December 31, 2003 and 2002 was \$526,390 and \$511,072, respectively.

Note 9 MUTUAL FUND DISTRIBUTION

DHS is the principal underwriter for Diamond Hill Funds, an Ohio business trust, and may pay third-party financial institutions a fee for distribution or for performing certain servicing functions for mutual fund shareholders. For performing distribution functions, DHS collects front-end and back-end sales loads, ranging from 1.00% to 5.75% or underwriting fees of 0.50% on fund investments. DHS also collects 12b-1 fees at an annual rate ranging from 0.25% to 1.00% times each series' average daily net assets. Mutual fund distribution revenue for the year ended December 31, 2003 and 2002 was \$164,732 and \$114,792, respectively. DHS also pays for the production of marketing materials used in the distribution of the Diamond Hill Funds. Mutual fund distribution expense for the year ended December 31, 2003 and 2002 was \$258,421 and \$184,508, respectively.

Note 10 BROKER-DEALER



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DHS is a registered full-service broker-dealer transacting security trades through its clearing broker under a correspondent agreement. For the year ended December 31, 2003 and 2002, broker-dealer activity expenses, principally clearing charges and regulatory fees, totaled \$44,449 and \$153,159, respectively. DHS earns commissions and service fees related to business transacted through its clearing broker, along with gains and losses from market-making activities. Broker-dealer activity revenue for the year ended December 31, 2003 and 2002 was \$26,387 and \$9,235, respectively.

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### DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003 and 2002

#### Note 11 EMPLOYEE INCENTIVE PLANS

##### Incentive Compensation Plan -----

All full-time employees of the Company are eligible to participate in the Diamond Hill Investment Group Incentive Compensation Plan. The Plan provides that a bonus fund will be established in an amount equal to 20% of the pre-tax realized profits of the Company in excess of a 15% pre-tax return on equity. The amount of the bonus fund is calculated each fiscal quarter on a cumulative basis. The allocation of the bonus fund is to be made by the President of the Company. The Company did not incur any expense under the Plan for the years ended December 31, 2003 and 2002.

##### Stock Option Plan -----

The Company has a Non-Qualified and Incentive Stock Option Plan that authorizes the grant of options to purchase an aggregate of 500,000 shares of the Company's Common Stock. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant options and otherwise administer the Option Plan. The exercise price of each incentive stock option or non-qualified stock option must be at least 100% of the fair market value of the Common Stock at the date of grant, and no such option may be exercisable for more than ten years after the date of grant. However, the exercise price of each incentive stock option granted to any shareholder possessing more than 10% of the combined voting power of all classes of capital stock of the Company on the date of grant must not be less than 110% of the fair market value on that date, and no such option may be exercisable more than five years after the date of grant. This Plan was adopted in 1993 and expired by its terms in November 2003. Options issued under this Plan are not affected by the Plan's expiration.

During the year ended December 31, 2003, options to purchase 20,000 shares of Common Stock were issued to employees at an exercise price of \$4.50, vesting immediately. Additionally, options to purchase 100,000 shares of Common Stock were issued to employees at an exercise price of \$4.50, vesting 20% each year over five years. All of the options have ten-year terms. No options to purchase shares of Common Stock were granted during the year ended December 31, 2002.

The Company applies Accounting Principles Board Opinion 25 and related Interpretations (APB 25) in accounting for stock options and warrants issued to employees and Directors. Accordingly, compensation cost is recognized, when appropriate, based on the intrinsic value of the stock options or warrants.

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## DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003 and 2002

### Note 11 EMPLOYEE INCENTIVE PLANS (Continued)

#### Stock Option Plan (Continued)

Had compensation cost for all of the Company's stock-based awards been determined in accordance with FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		Year Ended December 31, 2003	Year Ended December 31, 2002
		-----	-----
Net income (loss)	As reported	\$ (993,534)	\$ (2,463,623)
	Pro forma	\$ (1,205,998)	\$ (2,894,517)
Basic earnings per share	As reported	\$ (0.68)	\$ (1.73)
	Pro forma	\$ (0.83)	\$ (2.03)
Diluted earnings per share	As reported	\$ (0.68)	\$ (1.73)
	Pro forma	\$ (0.83)	\$ (2.03)

To make the computations of pro forma results under FAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield for all years and expected lives of ten years. For the year ended December 31, 2003, the average expected volatility was approximately 27%, and the average assumed risk-free interest rate was 1.06%. The options and warrants granted under these plans are not registered and, accordingly, there is no quoted market price.

A summary of the status of the Company's stock option and warrants plans as of December 31, 2003 and December 31, 2002 and changes during the periods ending on those dates is presented below:

	Options		Warrants	
	Shares	Exercise Price	Shares	Exercise Price
	-----	-----	-----	-----
Outstanding January 1, 2002	186,902	\$17.245	280,400	\$12.897
Granted	--	--	--	--
Expired unexercised	(10,350)	23.583	--	--
Forfeited	(10,650)	12.803	--	--
	-----		-----	
Outstanding December 31, 2002	165,902	17.124	280,400	12.897
	=====		=====	
Exercisable December 31, 2002	100,762	\$23.759	200,400	\$14.852
	=====		=====	
Outstanding January 1, 2003	165,902	\$17.124	280,400	\$12.897
Granted	120,000	4.500	--	--

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Exercised	(1,000)	3.910	--	
Expired unexercised	(11,510)	28.983	--	--
Forfeited	(13,190)	22.008	--	--
	-----		-----	
Outstanding December 31, 2003	260,202	10.581	280,400	12.897
	=====		=====	
Exercisable December 31, 2003	116,202	\$17.465	240,400	\$13.712
	=====		=====	

Weighted-average fair value of options granted during the year ended December 31, 2003, computed in accordance with FAS 123 \$ 1.340

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

Note 11 EMPLOYEE INCENTIVE PLANS (Continued)

Stock Option Plan (Continued)

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The following table summarizes information about fixed stock options and warrants outstanding at December 31, 2003:

	Options	Warrants
	-----	-----
Range of exercise prices	\$ 73.750	\$ 73.750
Number outstanding	16,202	14,000
Weighted-average remaining		
Contractual life in years	4.367	4.359
Weighted-average exercise price	\$ 73.750	\$ 73.750
Number exercisable	16,202	14,000
Range of exercise prices	\$ 7.950 - \$ 14.375	\$ 22.20 - \$ 22.50
Number outstanding	54,000	16,400
Weighted-average remaining		
Contractual life in years	3.854	5.361
Weighted-average exercise price	\$ 11.461	\$ 22.495
Number exercisable	46,000	16,400
Range of exercise prices	\$ 5.250 - \$ 8.450	\$ 8.00 - \$ 14.375
Number outstanding	70,000	250,000
Weighted-average remaining		
Contractual life in years	7.504	5.794
Weighted-average exercise price	\$ 5.707	\$ 8.860
Number exercisable	34,000	210,000
Range of exercise prices	\$ 4.500	
Number outstanding	120,000	
Weighted-average remaining		
Contractual life in years	9.436	
Weighted-average exercise price	\$ 4.500	
Number exercisable	20,000	

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## DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003 and 2002

### Note 12 REGULATORY REQUIREMENTS

DHS is subject to the uniform net capital rule of the Securities and Exchange Commission (Rule 15c3-1), which requires that the ratio of "aggregate indebtedness" to "net capital" not exceed 15 to 1 (as those terms are defined by the Rule). DHS had net capital of \$107,386 as of December 31, 2003, which was in excess of its required minimum net capital of \$50,000. The ratio of aggregate indebtedness to net capital was 0.16 to 1 as of December 31, 2003. DHS is also subject to regulations of six states in which it is registered as a licensed broker-dealer.

DHCM and DHS are registered investment advisers and subject to regulation by the SEC pursuant to the Investment Advisors Act of 1940.

### Note 13 CONCENTRATIONS OF CREDIT RISK AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

DHS, under a correspondent agreement with its clearing broker, has agreed to indemnify the clearing broker from damages or losses resulting from customer transactions. The Company is, therefore, exposed to off-balance sheet risk of loss in the event that customers are unable to fulfill contractual obligations. The Company manages this risk by requiring customers to have sufficient cash in their account before a buy order is executed and to have the subject securities in their account before a sell order is executed. The Company has not incurred any losses from customers unable to fulfill contractual obligations.

In the normal course of business, the Company periodically sells securities not yet purchased (short sales) for its own account and writes options. The establishment of short positions and option contracts exposes the Company to off-balance sheet market risks in the event prices change, as the Company may be obligated to cover such positions at a loss. At December 31, 2003, the Company had no short security positions, had not written any option contracts and did not own any options. The Company did not experience any credit losses due to the failure of any counterparties to perform during the year December 31, 2003. Senior management of the Company is responsible for reviewing trading positions, exposures, profits and losses, trading strategies and hedging strategies on a daily basis.

### Note 14 SEGMENT INFORMATION

Types of services from which each reportable segment derives its revenues  
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The Company has three reportable segments: Investment Advisory Services, Broker-Dealer Services and Corporate Portfolio. The Investment Advisory Services segment provides investment advisory services to the Diamond Hill Focus Fund, Diamond Hill Small Cap Fund, Diamond Hill Large Cap Fund, Diamond Hill Bank & Financial Fund, Diamond Hill Short Term Fixed Income Fund and Diamond Hill Strategic Income Fund, open-end mutual funds, Diamond Hill Investment Partners, L.P., an investment limited partnership, and offers investment advisory services and accounts to institutional and individual investors, specializing in diversified, domestic securities. The Broker-Dealer Services segment offers brokerage services to institutional and individual investors and underwriting services to the Company's mutual funds. The Corporate Portfolio segment is represented by revenue generating investments unrelated to the other operating segments.

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Measurement of segment profit or loss and segment assets  
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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes. The Company focuses its attention on providing services to external customers.

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

Note 14      SEGMENT INFORMATION (Continued)

Factors management used to identify the enterprises' reportable segments

The Company's reportable segments are primarily defined by legal entities that specialize in different financial products and services. Investment Advisory Services are provided by DHCM. Brokerage Services are provided primarily by DHS. The Company manages the Corporate Portfolio segment. These segments are managed separately because each entity operates in a different regulatory environment.

Financial information for each reportable segment is shown below. The Company does not operate, or hold assets, in any foreign country. The Company does not have any single customer generating 10% or more of revenue.

Financial information for the year ended December 31, 2003

	Investment Advisory Services	Broker- Dealer Services	Corporate Portfolio	Combi
-----				
Investment Management Fees:				
Mutual funds	\$ 465,549	\$ --	\$ --	\$ 465,549
Managed accounts	606,169	--	--	606,169
Private partnership	88,866	--	--	88,866
-----				
Total investment management fees	1,160,584	--	--	1,160,584
-----				
Operating Expenses:				
Salaries, benefits & payroll taxes	1,303,892	73,227	143,031	1,520,150
Legal and audit	2,300	1,664	66,517	70,481
General and administrative	300,773	38,794	104,235	443,802
Sales and marketing	123,746	819	25,803	150,368
-----				
Total operating expenses	1,730,711	114,504	339,586	2,184,801
-----				
Mutual fund administration	(258,226)	--	--	(258,226)
-----				
Mutual fund distribution	--	(93,689)	--	(93,689)
-----				
Broker-dealer activity	--	(18,062)	--	(18,062)
-----				
Net Operating Loss	(828,353)	(226,255)	(339,586)	(1,394,194)

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Investment return, net of interest expense	--	--	400,660	400
Loss Before Taxes	(828,353)	(226,255)	61,074	(993)
Income Tax Provision (Credit)	--	--	--	--
Net Loss	\$ (828,353)	\$ (226,255)	\$ 61,074	\$ (993)
Total Assets	\$ 198,734	\$ 264,497	\$ 2,850,417	\$ 3,313

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2003 and 2002

Note 14 SEGMENT INFORMATION (Continued)

Financial information for the year ended December 31, 2002

	Investment Advisory Services	Broker- Dealer Services	Corporate Portfolio	Co
Investment Management Fees:				
Mutual funds	\$ 370,163	\$ --	\$ --	\$
Managed accounts	276,390	--	--	
Private partnership	22,505	--	--	
Total investment management fees	669,058	--	--	
Operating Expenses:				
Salaries, benefits & payroll taxes	1,107,001	374,842	120,400	1,
Legal and audit	4,307	47,969	133,106	
General and administrative	353,672	96,110	61,907	
Sales and marketing	149,462	50,618	22,027	
Total operating expenses	1,614,442	569,539	337,440	2,
Mutual fund administration	(331,425)	--	--	(
Mutual fund distribution	--	(69,716)	--	
Broker-dealer activity	--	(143,924)	--	(
Net Operating Loss	(1,276,809)	(783,179)	(337,440)	(2,
Investment return, net of interest expense	--	--	(66,195)	
Loss Before Taxes	(1,276,809)	(783,179)	(403,635)	(2,
Income Tax Provision (Credit)	--	--	--	
Net Loss	\$ (1,276,809)	\$ (783,179)	\$ (403,635)	\$ (2,

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Total Assets	\$ 133,915	\$ 140,801	\$ 3,618,756	\$ 3,
	=====	=====	=====	=====

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DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003 and 2002

ITEM 8: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS OR ACCOUNTING AND FINANCIAL DISCLOSURES - None

ITEM 8A: CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that material information relating to the Company would be made hereon to them by others within the Company and would be disclosed on a timely basis.

As of the Evaluation Date, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9: DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Information regarding this Item 9 is incorporated by reference to our proxy statement for our year 2004 annual meeting of shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, under the Captions: "Directors and Executive Officers", "Compliance with Section 16(a) of the Exchange Act", "Audit Committee" and "Code of Business Conduct and Ethics".

ITEM 10: EXECUTIVE COMPENSATION

Information regarding this Item 10 is incorporated by reference to our proxy statement for our year 2004 annual meeting of shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, under the Caption: "Executive Compensation".

ITEM 11: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding this Item 11 is incorporated by reference to our proxy statement for our year 2004 annual meeting of shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, under the Captions: "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation".

ITEM 12: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding this Item 12 is incorporated by reference to our proxy statement for our year 2004 annual meeting of shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, under the Caption: " Certain Relationships and Related Transactions".

DIAMOND HILL INVESTMENT GROUP, INC. AND SUBSIDIARIES

ITEM 13: EXHIBITS AND REPORTS ON FORM 8-K

(a) Index of Exhibits

- \*3.1 Amended and Restated Articles of Incorporation of the Company.
- \*3.2 Code of Regulations of the Company.
- \*\*10.1 Diamond Hill Investment Group (fka Heartland) Incentive Compensation Plan.
- \*\*\*10.2 1993 Non-Qualified and Incentive Stock Option Plan.
- \*\*\*\*10.3 Synovus Securities, Inc., Sub-Advisory Agreement with the Diamond Hill Capital Management, Inc. dated January 30, 2001.
- \*\*10.4 Employment Agreement between the Company and Roderick H. Dillon, Jr. dated May 11, 2000.
- \*\*10.5 Employment Agreement between the Company and James F. Laird dated October 24, 2001.
- \*\*\*\*\*10.6 Form of Subscription Agreement for Common Shares of Diamond Hill Investment Group, Inc. executed by subscribers as part of the private placement on July 22, 2003.
- 21.1 Subsidiaries of the Company.
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15(d)-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
- \* Filed with the Securities and Exchange Commission as an exhibit to the Company's Form 8-K filed on May 8, 2002 and incorporated herein by reference.
- \*\* Filed with the Securities and Exchange Commission as an exhibit to the Company's Form 10-KSB filed on March 28, 2003 and incorporated herein by reference.
- \*\*\* Filed with the Securities and Exchange Commission as an exhibit to the Company's Proxy Statement filed on July 21, 1998 and incorporated herein by reference.
- \*\*\*\* Filed with the Securities and Exchange Commission as an exhibit to the Company's Form 10-KSB filed on March 1, 2001 and incorporated herein by reference.
- \*\*\*\*\* Filed with the Securities and Exchange Commission as an exhibit to the



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Company's Form 10-QSB filed on November 14, 2003 and incorporated herein by reference.

(b) Reports on Form 8-K

A Form 8-K was filed on November 18, 2003 to report the Company's earnings for the nine months and three months ended September 30, 2003.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the years ended December 31, 2003 and 2002, the following fees apply:

	Year Ended 12/31/2003 -----	Year Ended 12/31/2002 -----
Audit	\$ 30,200	\$ 24,993
Audit related	-	-
Tax	5,500	5,000
Other	-	-
	-----	-----
Total	\$ 35,700 =====	\$ 29,993 =====

It is the policy of the Audit Committee to pre-approve the services of the independent accountants and present that approval to the Board of Directors. For the years ended December 31, 2003 and 2002, 100% of the independent accountants' fees were pre-approved by the Audit Committee.

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### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

DIAMOND HILL INVESTMENT GROUP, INC.

/S/ R. H. Dillon  
-----

By R. H. Dillon, President and Director

March 29, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
----- /S/ R. H. Dillon ----- R. H. Dillon	President and Director	March 29, 2004
----- /S/ James F. Laird ----- James F. Laird	Chief Financial Officer	March 29, 2004
----- /S/ Dr. Roger D. Blackwell ----- Dr. Roger D. Blackwell	Director	March 29, 2004
----- /S/ David P. Lauer -----	Director	March 29, 2004

