

NICHOLAS COMPANY, INC. FORM ADV PART 2A – DISCLOSURE BROCHURE JANUARY 29, 2015



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This brochure provides information about the qualifications and business practices of Nicholas Company, Inc. If you have any questions about the contents of this brochure, please contact us at 414-272-4650. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Nicholas Company, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.



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ITEM 2 MATERIAL CHANGES

There have been no material changes incorporated in the brochure since Nicholas Company, Inc.'s last annual update dated January 29, 2014.



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ITEM 4 ADVISORY BUSINESS

THE COMPANY

Nicholas Company, Inc. (“Nicholas” or “the Company” or “We”) was founded in 1967 and is a privately owned independent investment advisory company based in Milwaukee, Wisconsin. Nicholas is a registered investment adviser with the SEC. Nicholas is a 100% privately owned corporation with four shareholders. Its principal owner is Albert O. Nicholas and its other owners are family members of Mr. Nicholas.

ADVISORY SERVICES

Nicholas’ investing philosophy is that long-term investment returns are best achieved by investing at a reasonable price in the securities of small- and mid-sized companies capable of growing their intrinsic value. Paramount in our philosophy is a belief in acquiring the securities at the appropriate price. We believe it is important to focus on the company fundamentals and long-term stock valuation, resulting in a patient but disciplined approach to investing. Nicholas manages assets for domestic institutions, individual investors, and Registered Investment Advisors through separately managed accounts and the Nicholas Family of Funds.

Nicholas offers the following investment strategies:

Equity Strategies:

- Multi-cap Growth
- Mid-cap Growth
- Small-cap Growth
- Equity Income

Fixed Income Strategies:

- High Yield Bond
- Money Market

Additional information about these investment strategies is disclosed in Item 8. Our investment management services are focused on these strategies and are typically provided on a discretionary basis. We do not offer financial planning services, or advise clients in the selection of other money managers or mutual funds not managed by us. Upon request from a client, Nicholas will accommodate restrictions imposed on certain securities or type of securities. Nicholas generally requires that all clients approve the investment objectives and restrictions applicable to the account by agreeing to the guidelines applicable to a particular strategy or by providing special instructions.

WRAP FEE PROGRAMS

Nicholas may also provide investment management services through programs sponsored by unaffiliated broker/dealers or other financial intermediaries (“Program Sponsors”) that typically offer a combination of brokerage, custody and investment advisory services (“wrap programs”) to various clients. The client may pay one fee to the Program Sponsor for these combined services. Alternately, in a wrap program generally referred to as “dual-contract,” the client may enter into an investment advisory agreement with the Program Sponsor, and concurrently the client may enter into an advisory agreement with Nicholas. In



a dual-contract situation, Nicholas generally is compensated for its investment advisory services directly by the client, and is not paid a portion of the fee paid to the Program Sponsor. The fees paid to Nicholas may vary from the schedule of fees stated in Item 5. In addition, clients participating in a wrap program may not be subject to Nicholas' minimum account size that may otherwise apply to other separately managed accounts. Ordinarily, a wrap program arrangement may be terminated by the Program Sponsor, the client or by Nicholas. Nicholas manages its wrap fee accounts in the same manner as our other accounts. Wrap programs that Nicholas currently participates in are identified in Nicholas' Form ADV Part 1A. Wrap fee accounts are considered directed brokerage accounts.

ASSETS UNDER MANAGEMENT

As of October 31, 2014 Nicholas had \$4.9 billion in assets under management. All of these assets were managed on a discretionary basis.

ITEM 5 FEES AND COMPENSATION

SEPARATELY MANAGED ACCOUNTS

The management fees for our separately managed accounts are payable quarterly in arrears for all clients. The basis for the fee calculation is described in detail in each accounts advisory agreement. New client account fees generally are calculated based on an average of assets at the beginning and ending of the quarter while some legacy client's fees are calculated based on the market value of the assets at the end of each quarter. Nicholas provides clients with a management fee invoice after the end of a quarter showing the market value of the assets on which the fee is based, the calculation of the fee based on the fee schedule specific to that account, and the total amount of the management fee due. Assets of related accounts are combined in determining fees. Clients may choose to have their fees deducted from their accounts. For fees deducted from the account, we will submit the management fee invoice directly to the custodian for payment. Fees for partial periods are prorated.

Below is our standard fee schedule per year:

1.00% on the first \$2,000,000
0.75% on the next \$8,000,000
0.60% in excess of \$10,000,000

Nicholas reserves the right to negotiate fees based on the size and the nature of the account. Our fee schedules have changed from their original levels and some clients are paying fees under prior agreements. The fees that we charge for investment management services are specified in an agreement between Nicholas and each individual client. Nicholas generally requires a minimum of \$2 million in assets to establish a discretionary account. Nicholas will accept lower initial investments provided that the potential exists for additional investment. The minimum account sizes may not apply to new accounts for which there is a corporate, family, or other substantial relationship to existing accounts. In addition, Nicholas reserves the right to negotiate the minimum account size and minimum annual fee.



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MUTUAL FUNDS

Nicholas receives investment advisory fees as the investment adviser to the following mutual funds: Nicholas Fund, Inc., Nicholas II, Inc., Nicholas Limited Edition, Inc., Nicholas Equity Income Fund, Inc., Nicholas High Income Fund, Inc. and Nicholas Money Market Fund, Inc. (collectively the “Nicholas Family of Funds”). Mutual fund clients are billed monthly based on a percentage of the average daily net assets of each fund as detailed in each fund’s prospectus. More details about the investment advisory services and fees received can be found in the registration statements of those funds.

OTHER FEES AND EXPENSES

Clients may pay other expenses in addition to the fees paid to Nicholas. For instance, clients may pay brokerage commissions, transaction fees, custodial fees, bank fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts, bank accounts, and securities transactions. These fees are unrelated to the fees collected by Nicholas.

ADDITIONAL COMPENSATION

Nicholas and its employees do not accept compensation from any person or entity for the sale of securities or other investment products.

ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Nicholas may accept performance-based fees from “qualified clients” as that term is defined in Rule 205-3(d)(1). Nicholas may offer a performance-based fee to a separately managed account generally with an investment of \$75,000,000 or more. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client’s account. Nicholas may manage accounts that are charged a performance-based fee while at the same time managing accounts that are not charged a performance-based fee, such as an asset-based fee. This practice is known as side-by-side management. Side-by-side management involves some potential conflicts as Nicholas could receive greater fees from an account that has a performance-based fee structure than from those accounts that are not charged a performance-based fee. As a result, Nicholas may have an incentive to direct its best investment ideas to, or allocate or sequence trades in favor of the account that pays a performance-based fee. Nicholas also may have an incentive to recommend investments that may be riskier or more speculative than those that it would recommend under a different fee arrangement.

Nicholas generally seeks to mitigate these conflicts through the use of trade bunching for those accounts that do not direct brokerage, have similar investment strategies and are managed by the same portfolio manager. See Item 12 for a more detailed explanation of Nicholas’ brokerage practices. Nicholas also seeks to mitigate these conflicts through periodic reviews that are conducted at least annually. These reviews may include, but are not limited to, comparison of the performance for those accounts charged a performance-based fee versus those charge an asset-based fee, review of account performance relative to stated investment objectives and targets and trade allocation among accounts.



ITEM 7 TYPES OF CLIENTS

Nicholas generally provides investment advice to clients such as individuals, institutions, trusts, estates and charitable organizations, corporations and other business entities, pensions and profit sharing plans and investment companies.

Nicholas generally requires a minimum of \$2 million in assets to establish a discretionary account. Nicholas will accept lower initial investments provided that the potential exists for additional investment. The minimum account sizes may not apply to new accounts for which there is a corporate, family, or other substantial relationship to existing accounts. In addition, Nicholas reserves the right to negotiate the minimum account size and minimum annual fee. See Item 5 for more details on fees and account sizes for separately managed accounts.

ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

INVESTMENT STRATEGIES

Nicholas offers the following investment strategies:

Equity Strategies:

- Multi-cap Growth
- Mid-cap Growth
- Small-cap Growth
- Equity Income

Fixed Income Strategies:

- High Yield Bond
- Money Market

INVESTMENT PHILOSOPHY

Nicholas' investing philosophy is that long-term investment returns are best achieved by investing at a reasonable price in the securities of small- and mid-sized companies capable of growing their intrinsic value. Paramount in our philosophy is a belief in acquiring the securities at the appropriate price. We believe it is important to focus on the company fundamentals and long-term stock valuation, resulting in a patient but disciplined approach to investing. Our style incorporates an opportunistic, contrarian flare, often buying high quality growth company stocks that have fallen out-of-favor for reasons that we deem to be non-fundamental or transient in nature. We look beyond the day-to-day market volatility and treat short-term swings as investment opportunities. Our security selection process begins as a bottom up operation with idea generation from a portfolio manager or the research analyst who is responsible for a specific industry. Research inputs, such as industry publications, conferences, company management interviews, financial statements and third party research, are used to determine which companies possess the business model matching our Key Security Selection Criteria. The Key Security Selection Criteria that Nicholas researches and weighs with regard to its investments in a particular company are:



- Strategic position within industry
- Sustainable earnings growth
- Consistent or improving earnings
- Attractive operating margins
- Free cash flow generation
- Low debt levels
- Reputable management with meaningful ownership
- Low price to earnings ratio relative to the industry.

Thorough analysis of the financial and business fundamentals is completed. The stock valuation is then monitored for purchase of the security at a reasonable price. We evaluate existing holdings against the same Key Security Selection Criteria used to evaluate purchases. This allows an assessment to be made whether or not a security is still meeting the original investment thesis. Securities that no longer remain attractive are sold from the portfolio.

PRINCIPAL RISKS AND RISK OF LOSS

Investing in securities involves a risk of loss. Nicholas does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products. This risk may increase during times of significant market volatility. Investing in our strategies is a suitable investment for investors who have long-term investment goals.

EQUITY RISKS

The risks associated with investing in equity strategies are:

- **Market Risk** – Market risk involves the possibility that the value of investments will fluctuate as the stock market fluctuates over short- or long-term periods. Common stock prices tend to be more volatile than other investment choices.
- **Portfolio-Specific Risk** - From time to time, the value of an individual company may decline due to a particular set of circumstances affecting that company, its industry or certain companies within the industry, while having little or no impact on other similar companies within the industry. Small- to mid-cap companies often have a limited market for their securities and limited financial resources, and are usually more affected by changes in the economy. Securities of small to medium capitalization companies also often fluctuate in price more than common stocks of larger capitalization companies.
- **Risks Related to Investments in REITs and Other Real Estate-Based Securities** – These securities are subject to risks related to the real estate industry. The performance of these securities is dependent on the types and locations of the properties owned by the entities issuing the securities and how well the properties are managed. In addition, these securities also are subject to market risk (the risk that stock prices overall will decline over short or even extended periods) and interest rate risk (the risk that the prices of these securities will decrease if interest rates rise).

- **Risks Related to Preferred Stock and Convertible Investments** – Preferred stocks may provide a higher dividend rate than the interest yield on debt securities of the same issuer, but are subject to greater risk of fluctuation in market value and greater risk of non-receipt of income. Preferred stocks are in many ways like perpetual debt securities, providing a stream of income but without a stated maturity date. Because they often lack a fixed maturity or redemption date, preferred stocks are likely to fluctuate substantially in price when interest rates change. The value of convertible preferred stock and debt securities convertible into common stock generally will be affected by its stated dividend rate or interest rate, as applicable, and the value of the underlying common stock. As a result of the conversion feature, the dividend rate or interest rate on convertible preferred stock or convertible debt securities generally is less than would be the case if the security were not convertible. Therefore, the value of convertible preferred stock and convertible debt securities will be affected by the factors that affect both equity securities (such as stock market movements) and debt securities (such as interest rates). Some convertible securities might require the sale of the securities back to the issuer or a third party at a time that is disadvantageous.
- **Selection Risk** - Selection risk is the risk that the stocks purchased will underperform markets or other mutual funds with similar investment objectives and strategies.

FIXED INCOME RISKS

The risks associated with investing in fixed income strategies are:

- **Credit Risk** - Credit risk refers to an issuer's ability to make timely payments of interest or principal. Investments in non-investment grade debt securities (securities with lower credit qualities) are subject to a higher level of credit risk than investments in investment grade securities. Recognized rating agencies consider the credit quality of non-investment grade securities to be speculative with respect to the issuer's continuing ability to pay interest or principal. Lower grade securities may have less liquidity and a higher incidence of default than higher grade securities. Issuers of lower grade securities generally are more sensitive to negative corporate developments, such as a decline in issuer profits, or adverse economic conditions, such as a recession, than issuers of higher grade securities.
- **Interest Rate Risk** - Interest rate risk refers to the risk that the prices of investments, particularly the debt securities, are likely to fall if interest rates rise. This is because the prices of debt securities typically move in the opposite direction of interest rates. Debt securities with longer maturities generally are affected to a greater degree than debt securities with shorter maturities.
- **High Yield Bond Market Risk** - The entire high yield bond market can experience sudden and sharp price swings due to a variety of factors, including changes in economic forecasts, stock market activity, large sustained sales by major investors, a high-profile default or just a change in the market's volatility.
- **Call Risk** - If interest rates fall, it is possible that issuers of bonds with high interest rates will prepay or "call" their bonds before their maturity dates. In such event, the proceeds could be reinvested in bonds with the new, lower interest rates, resulting in a possible decline in income and distributions to shareholders.



- **Selection Risk** - Selection risk is the risk that the investments the adviser selects will underperform markets or other mutual funds with similar investment objectives and strategies.
- **Liquidity Risk** - Investments in restricted or illiquid securities, which may be difficult to sell, may result in a loss or additional costs. In addition, because the market for lower rated debt securities may be thinner and less active than for higher rated securities, there may be market price volatility for lower rated debt securities and limited liquidity in the resale market.
- **Money Markets** - Money market funds are managed to maintain a \$1.00 price per share. Although these funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in money market funds. For example, there are risks that a money market fund's holdings could have their credit ratings downgraded, or an issuer could default, or that interest rates could rise sharply, thereby causing the value of the fund's securities (and its share price) to fall. As a result, there is a risk that the price of a money market fund's shares could fall below \$1.00. In addition, a money market fund's yield will vary; it is not fixed for a specific period like the yield on a bank certificate of deposit. There also is no guarantee that a money market's return will equal or exceed the rate of inflation.

ITEM 9 DISCIPLINARY HISTORY

In Item 9, registered investment advisers must disclose all material facts regarding any legal or disciplinary events material to your evaluation of our advisory business or the integrity of our management. Nicholas Company, Inc. has no legal or disciplinary events of any kind to report.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Without conceding that the registrant is a "related person," Nicholas furnishes investment advice and certain administrative and compliance services to Nicholas Fund, Inc., Nicholas II, Inc., Nicholas Limited Edition, Inc., Nicholas Equity Income Fund, Inc., Nicholas High Income Fund, Inc. and Nicholas Money Market Fund, Inc., each an open-end investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). Certain of Nicholas' executive officers and employees may also serve as officers or directors of certain Nicholas Family of Funds and Nicholas pays the salaries, fees and expenses of all the Nicholas Family of Funds officers and those directors who are affiliated with Nicholas. The officers and employees who serve in multiple capacities for Nicholas and the Nicholas Family of Funds at times may face inherent conflicts of interest in allocating their time and in serving the interest of the Company's clients, Fund shareholders, and the Company's financial and other interests. However, Nicholas monitors these conflicts through its Code of Ethics, and other policies and procedures, including oversight by Nicholas Family of Funds independent directors, to ensure that the interests of its clients are placed first. Nicholas does not believe that our advisory services to the Nicholas Family of Funds create materials conflicts of interest with its other clients. Please see Item 11 for more information.



ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

CODE OF ETHICS AND PERSONAL TRADING

Nicholas has adopted and enforces a Code of Ethics and Insider Trading Policy that establishes standards of conduct expected of Access Persons and reflects our fiduciary duties. Among other things, it requires Access Persons to comply with applicable federal securities laws and report their personal securities holdings annually and transactions quarterly, including transactions in mutual funds advised by Nicholas. Nicholas employees may purchase or sell for their own accounts securities that are recommended to clients or placed in discretionary accounts. However, Nicholas employees may not purchase or sell, directly or indirectly, for his/her own account, or acquire any beneficial ownership in, any security which has been purchased or sold within the preceding fifteen (15) days by any registered investment company or account to which the Company serves as investment adviser or which to his/her knowledge will be purchased or sold within the succeeding fifteen (15) days by any such registered investment company or account to which the Company serves as investment adviser, unless such purchase or sale is approved in writing by the Chief Executive Officer, Chief Investment Officer or Chief Compliance Officer, or a person delegated by any of the foregoing, prior to the effectuation of such purchase or sale. Clients or prospective clients may request a copy of the Company's Code of Ethics by contacting our Chief Compliance Officer, Jeffrey T. May at 414-272-4650.

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

The goal of Nicholas is to treat each client fairly and equitably, consistent with its fiduciary duties and obligations under applicable federal and state securities laws. Nicholas performs investment advisory services for various clients and may give advice, and take action in the performance of its duties, with respect to any one client which may differ from advice given or action taken with respect to any other client, provided that over a period of time, to the extent practical, it allocates investment opportunities to each client in a manner that it reasonably believes is fair and equitable relative to other similarly-situated clients. Nicholas has no obligation to purchase or sell a security for a client that Nicholas employees (to the extent permitted by Nicholas' Code of Ethics) may purchase or sell for their own accounts, or for the account of any other client, if in the sole and absolute discretion of Nicholas, it is deemed not appropriate to purchase or sell such security for that client.



ITEM 12 BROKERAGE PRACTICES

BROKER SELECTION AND BEST EXECUTION

Nicholas selects a broker or dealer for the execution of client portfolio transactions on the basis that such broker or dealer will execute the order as promptly and efficiently as possible subject to the overriding policy of Nicholas, which is to obtain the best market price and reasonable execution for all of its transactions, giving due consideration to such factors as reliability of execution, the value of research, investment ideas, access to the broker's or dealer's traders and analysts, access to conferences and seminars that provide substantive content relating to issuers and industries, access to management teams and companies with which the broker or dealer has a relationship, access to experts in particular industries, and statistical and price quotation services provided by such broker or dealer. When determining the reasonableness of compensation paid to a broker, Nicholas considers competitive rates in the market, complexity of the transaction, promptness and reliability of services and other similar factors. Allocation of portfolio brokerage transactions, including their frequency, to various brokers is determined by Nicholas, in its best judgment, based on the professional capabilities of the brokers, and in a manner deemed fair and reasonable to clients. While commission rates are a factor in Nicholas' consideration, they are not the sole determinative factor in selecting brokers.

RESEARCH AND OTHER SOFT DOLLAR BENEFITS

Purchases and sales of securities are frequently placed with brokers and dealers who provide Nicholas with research and statistical services to include, but not limited to, detailed information on specific companies, analytical research software and databases, third-party research reports and access to third-party analysts. These types of transactions are commonly referred to as "soft dollar transactions." When client brokerage commissions are used to obtain research and statistical services Nicholas receives a benefit because we do not have to produce or pay for them. To the extent that Nicholas uses client brokerage commissions to obtain research services that Nicholas could otherwise purchase directly, Nicholas may have an incentive to place more orders or pay higher commissions than would otherwise be the case. However, Nicholas monitors this potential conflict of interest by monitoring soft dollar commissions paid to each broker as part of its brokerage allocation analysis. Research services furnished by brokers through whom we effect securities transactions may be used in servicing all of our accounts and these services may not be used solely in connection with the accounts which paid commissions to the broker providing such product or services. In recognition of these factors, clients may pay higher commissions to brokers than might be charged if a different broker had been selected, if, in our opinion, this furthers the objective of obtaining best price and execution. Generally, only bank custody clients as opposed to broker custody clients bear the onus of servicing our soft dollar commitments.

The types of research products and services that were obtained by Nicholas through soft dollar transactions during its last fiscal year include:

- research reports (including reports that are specific to issuers, industries and/or geographic regions);
- subscriptions to financial publications and research compilations that are not targeted to a wide, public audience;
- research-oriented computer software and services;



- compilations of securities prices, earnings, dividends and similar market, financial and other economic data;
- securities quotation services; and
- services related to ratings, economic and other consulting services.

Soft dollar transactions are not effected pursuant to any binding agreement or understanding with any broker regarding a specific dollar amount of commissions to be paid to that broker. However, Nicholas does in some instances request a particular broker to provide a specific research service, which may be proprietary to that firm or produced by a third party and made available by that firm. In such instances, the broker, in agreeing to provide the research service, frequently will indicate to Nicholas a specific or minimum amount of commissions, which it expects to receive by reason of its provision of the particular research service. Although Nicholas does not agree to direct a specific or minimum commission amount to a firm in that circumstance, Nicholas does maintain an internal procedure to identify those brokers who provide it with research services and the value of such research services, and endeavors to direct sufficient commissions to ensure the continued receipt of research services Nicholas feels are useful in managing client accounts.

DIRECTED BROKERAGE

Should a client impose limitations on our discretionary authority over brokerage, such as by directing us to use a specific broker or dealer for transaction execution, the client may forego any benefit from savings on execution costs that Nicholas could obtain for our other non-directing clients (i.e., negotiating volume commission discounts on batched orders). Client directed brokerage and the size of the order involved can create disparity in the commission rates incurred by clients. Client direction in whole, in part, or implied by a stated preference can limit or eliminate our ability to negotiate commissions and otherwise obtain best price and execution.

AGGREGATED TRADES, OPPOSITE-WAY TRANSACTIONS AND CROSS TRADING

Nicholas has adopted procedures that provide generally for the Company to aggregate (or “bunch”) orders for more than one client account. An aggregated order occurs when Nicholas enters a single order for the purchase or sale of a single security on behalf of more than one client account. Nicholas may aggregate orders when it deems it to be appropriate and in the best interest of the client accounts. Pursuant to the Nicholas’ trade allocation procedures, client accounts will participate in any aggregated order for a security at the average price per share on any given date for all the Company’s transactions in that security on behalf of those clients participating in the aggregated order, with transaction costs shared pro rata based on participation. When an aggregated order is only partially filled, the securities purchased generally will be allocated on a pro rata basis to each client account participating in the aggregated order based upon the initial amount requested for the account (subject to certain exceptions) and each participating account will participate at the average share price for the aggregated order on the same business day. Because a pro rata allocation may not always adequately accommodate all facts and circumstances, the trade allocation procedures allow the allocation of securities on a basis other than pro rata. For example, adjustments may be made to eliminate de minimis positions or to consider the unique characteristics of certain accounts (e.g. available cash, industry or issuer concentration, duration or credit exposure).



Nicholas may occasionally make investment decisions which would involve the purchase or sale of securities for the portfolios of more than one client account at the same time. As a result, the demand for securities being purchased or the supply of securities being sold may increase, and this could have an adverse effect on the price of those securities and/or the size of the position obtained or disposed of by the client accounts. It is Nicholas' policy not to favor one client over another in making investment recommendations or placing orders.

Occasionally, Nicholas will cross securities between clients. The transactions are executed at an agreed upon price that reasonably represents current market value. No commissions are charged on these transactions. Occasionally, a commission rate of \$0.01 may be charged if a transaction is executed through a brokerage firm. Reasons for such crossing transactions include, but are not limited to, termination or a cut-back in services to private accounts, and if the security no longer meets the client's portfolio or mutual fund's objectives, but it is appropriate for another client's or fund's portfolio.

Nicholas has in the past and may direct certain transactions to brokerage firms that employ Daniel Nicholas or David Nicholas, grand nephews of Albert O. Nicholas, Chief Executive Officer of the Company. These trades, however, are executed in the normal course of business and at normal market commission rates subject to our overriding brokerage practices.

ITEM 13 REVIEW OF ACCOUNTS

Accounts are reviewed on a continuous basis by Portfolio Managers. The accounts are reviewed in concert with client instructions regarding portfolio diversification, asset structure and individual holdings. Albert O. Nicholas, Chief Executive Officer, and David O. Nicholas, Chief Investment Officer, oversee the management of all assets under management in six mutual funds and the separately managed accounts. Albert O. Nicholas manages the portfolio of Nicholas Fund, Inc. and co-manages the portfolio of Nicholas Equity Income Fund, Inc. David O. Nicholas manages the portfolios of Nicholas II, Inc. and Nicholas Limited Edition, Inc. and is an associate manager of the portfolio of Nicholas Fund, Inc. Lawrence J. Pavelec, Senior Vice President, manages the portfolio of Nicholas High Income Fund, Inc. and in consultation with Albert O. Nicholas and David O. Nicholas, is responsible for managing approximately ten separately managed accounts. Jeffrey T. May, Executive Vice President, manages the portfolio of Nicholas Money Market Fund, Inc. Michael L. Shelton co-manages the portfolio of Nicholas Equity Income Fund, Inc. David L. Johnson, Executive Vice President, in consultation with Albert O. Nicholas and David O. Nicholas, is responsible for managing approximately 15 separately managed accounts.

On a periodic basis, Nicholas' operations and compliance personnel review accounts and performance calculations, and perform tests on process controls, as necessary.



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Reports are furnished to clients at their requested frequency, generally on a quarterly basis to all separately managed accounts detailing the current market value and gains and losses on the holdings in their portfolios. Some additional reports are made available at the request of the client on specific valuation dates with additional statistical analysis. Annual and Semiannual Reports to Shareholders are furnished to each mutual fund account holder along with a current Prospectus. Each shareholder receives a statement for each of their individual account transactions as well as an annual statement provided after the completion of the calendar year. With respect to wrap program arrangements, reporting may be carried out by the program sponsor.

We urge clients to carefully review the reports we send, and compare them to the statements received from their custodians. The information in our reports may be different from the custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

Other than the compensation described in Item 5, Nicholas does not receive an economic benefit from anyone other than its clients.

ITEM 15 CUSTODY

Nicholas does not act as a custodian to clients, nor do we offer custodial services to clients; however Nicholas may be deemed to have custody under Rule 206(4)-2 solely to the extent it may deduct advisory fees directly from a client's account. Client assets are held with banks, registered broker-dealers, or other "qualified custodians." Clients will receive statements directly from their custodians at least quarterly. We send all clients quarterly reports detailing the current market value and gains and losses on the holdings in their portfolios. We urge clients to carefully review the reports we send, and compare them to the statements received from their custodians. The information in our reports may be different from the custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

ITEM 16 INVESTMENT DISCRETION

Nicholas accepts discretionary authority to manage assets on behalf of clients through acceptance of Nicholas' (or client's) investment advisory agreement. We will follow limitations and restrictions outlined in each account's investment guidelines.



ITEM 17 VOTING CLIENT SECURITIES

Nicholas has the responsibility and authority to vote proxies with respect to the securities under its management unless the right to vote proxies is expressly reserved for the client, plan trustees or other plan fiduciary. Nicholas will advise the client to forward all proxy materials to its proxy voting administrator, currently Institutional Shareholder Services Inc. (“ISS”), and will take reasonable steps to ensure they are received.

In general, Nicholas will vote in accordance with the proxy voting recommendations of ISS. ISS is an independent firm that specializes in providing a variety of fiduciary-level proxy-related services to institutional investment managers, plan sponsors, custodians, consultants and other institutional investors. ISS services provided include in-depth research, global issuer analysis and voting recommendations. While Nicholas generally will review and utilize the recommendations of ISS in making voting decisions, Nicholas is in no way obligated to follow such recommendations. In addition to research and recommendations, ISS provides vote execution, reporting and recordkeeping.

If Nicholas believes that a material conflict of interest exists with respect to its exercise of any proxy received, Nicholas will generally rely on the recommendations of the independent proxy voting service. The Company’s compliance staff will review any votes where a potential conflict exists and Nicholas does not rely on the proxy voting services recommendations. A material conflict of interest may arise, for example, if the company to which the proxy relates is a client of Nicholas or one of its affiliates or if the Company or one of its affiliates has a material business relationship with that company.

A copy of our proxy voting policies and procedures and/or information regarding the votes cast by Nicholas with regard to a client’s securities is available upon request mailed to:

Nicholas Company, Inc.
Attn: Chief Compliance Officer
700 North Water Street
Suite 1010
Milwaukee, WI 53202

ITEM 18 FINANCIAL INFORMATION

In certain circumstances, registered investment advisers must provide you with financial information or disclosures about their financial condition in this item. Nicholas is an independent private corporation with no financial commitment that would impair our ability to meet contractual and fiduciary obligations to our clients. Nicholas has never been the subject of a bankruptcy proceeding.



ITEM 19 OTHER INFORMATION

PRIVACY POLICY

Nicholas Company, Inc. and its affiliates, namely Nicholas Fund, Inc., Nicholas II, Inc., Nicholas Limited Edition, Inc., Nicholas Equity Income Fund, Inc., Nicholas High Income Fund, Inc. and Nicholas Money Market Fund, Inc., respect each shareholders right to privacy. We are committed to safeguarding the information that you provide us to maintain and execute transactions on your behalf.

We collect the following non-public personal information about you:

- Information we receive from you on applications, contracts or other forms, whether we receive the form in writing or electronically. This may include, but is not limited to, your name, address, phone number, tax identification number, date of birth, beneficiary information and investment selection.
- Information about your transactions with us and account history with us. This includes, but is not limited to, your account number, balances and cost basis information. This also includes transaction requests made through our transfer agent.
- Other general information that we may obtain about you such as demographic information.

WE DO NOT SELL ANY NON-PUBLIC PERSONAL INFORMATION
ABOUT CURRENT OR FORMER SHAREHOLDERS.

In order to better service your accounts, we may share your non-public personal information between the Nicholas Company, Inc. and its affiliates (as defined above). An example of when this information may be shared between the Nicholas Company, Inc. and its affiliates would be to combine mailings to one shareholder with accounts in more than one fund.

We may share, only as permitted by law, non-public personal information about you with third party companies. Listed below are some examples of third parties to whom we may disclose non-public personal information. While these examples do not cover every circumstance permitted by law, we hope they help you understand how your information may be shared.

We may share non-public personal information about you:

- With companies who work for us to service your accounts or to process transactions that you may request. This would include, but is not limited to, our transfer agent and/or your custodian and/or broker-dealer to process your transactions, mailing houses to send you required reports and correspondence regarding your account and our dividend disbursing agent to process dividend checks.
- With a party representing you, with your consent, such as your broker or lawyer.
- When required by law, such as in response to a subpoena or other legal process.



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Nicholas Company, Inc. maintains policies and procedures to safeguard your non-public personal information. Access is restricted to employees who we determine need the information in order to perform their job duties. To guard your non-public personal information we maintain physical, electronic and procedural safeguards that comply with federal standards.

We collect personal information on our website only when you voluntarily provide it to us.

If you own shares of our affiliated companies through a financial intermediary, including, but not limited to, your broker-dealer, bank or trust company, you should consult the financial intermediary's privacy policy to learn about their policies on selling and sharing your non-public personal information with non-affiliated third parties.