

# ANNUAL REPORT

March 31, 2011

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## NICHOLAS EQUITY INCOME FUND, INC.

*CONSISTENCY in a world of CHANGE*



700 NORTH WATER STREET  
MILWAUKEE, WISCONSIN 53202  
[WWW.NICHOLASFUNDS.COM](http://WWW.NICHOLASFUNDS.COM)



# NICHOLAS EQUITY INCOME FUND, INC.

May 2011

Report to Fellow Shareholders:

For the fiscal year ended March 31, 2011, Nicholas Equity Income Fund was up 19.64% versus 15.65% for the Standard & Poor's 500 Index. Moreover, our relative performance for all time periods listed in the table below is favorable.

At March 31, 2011, the Fund held 54 stocks and 10.80% cash. All the stocks pay dividends. Most of the stocks have raised dividends periodically as their earnings increased. The top ten holdings and sector diversification are included within this report. For the fiscal year ended March 31, 2011, Chevron Corporation, Snap-On, Dorchester Minerals and Microchip Technology were stocks that helped performance while Abbott Laboratories, CSS Industries and Oshkosh Corporation were down during the year and hurt results.

Returns for Nicholas Equity Income Fund, Inc. and selected indices are provided in the chart below for the periods ended March 31, 2011. We are pleased to report that the Fund had a 30-day SEC yield of 3.40% as of March 31, 2011.

|   |               | <u>Average Annual Total Return</u> |               |                |  |
|---|---------------|------------------------------------|---------------|----------------|--|
|   | <u>1 Year</u> | <u>3 Year</u>                      | <u>5 Year</u> | <u>10 Year</u> |  |
| Nicholas Equity Income Fund, Inc. . . . .   | 19.64%        | 11.45%                             | 9.25%         | 7.96%          |  |
| Standard & Poor's 500 Index . . . . .   | 15.65%        | 2.36%                              | 2.62%         | 3.29%          |  |
| Consumer Price Index . . . . .  | 2.70%         | 1.54%                              | 2.28%         | 2.41%          |  |
| Ending value of \$10,000 invested in<br>Nicholas Equity Income Fund, Inc. . . . . | \$11,964      | \$13,843                           | \$15,564      | \$21,507       |  |
| Fund's Gross Expense Ratio (from 07/31/10 Prospectus):                            | 1.03%         |                                    |               |                |  |
| Fund's Net Expense Ratio (from 07/31/10 Prospectus):                              | 0.90%*        |                                    |               |                |  |

\* The Adviser voluntarily absorbed Fund expenses in excess of 0.90% in periods prior to the year ended March 31, 2011. The Fund's expense ratios for the period ended March 31, 2011, can be found in the financial highlights included within this report.

*Performance data quoted represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by visiting [www.nicholasfunds.com/returns.html](http://www.nicholasfunds.com/returns.html).*

*The Fund's returns may be reduced by expenses, while the market indices are not. The ending values above illustrate the performance of a hypothetical \$10,000 investment made in the Fund over the timeframes listed. Assumes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales charge or redemption fees. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. These figures do not imply any future performance.*

The "Great Recession" of 2008-2009 has been followed by a gradual recovery in economic activity. As always, there are many areas of concern, not the least of which is a toxic political atmosphere. Among the problems are \$4.00 per gallon gas prices, Middle East turmoil, high unemployment, declining U.S. house prices, the Japanese disasters and the U.S. Government's unsustainable debt level and excessive spending. The latter has caused Standard & Poor's to put a negative outlook on the U.S. AAA credit rating with a warning of a potential downgrade in 2013. On the other hand, we have solid global growth, strong corporate profits, a technology boom, idle cash and low interest rates. Labor costs are being restrained. Inflation seems to be a neutral consideration at the moment, but there are early signs of trouble ahead.

The stock market, unlike the real estate market, has recovered all that it lost in the 2007-2009 bear market. This dichotomy is worrisome. It is only common sense to conclude that future stock returns will not match the last two years. Adhering to our investment philosophy and concentration on stock picking becomes hugely important. In general, equity valuations are reasonable although small company stocks are relatively expensive versus large company stocks.

Nicholas Equity Income Fund is a conservative portfolio of income-producing common stocks. Every company we own is currently paying a dividend, and we intend not to deviate from that discipline going forward. Because of this strategy, the Adviser believes the Fund has better downside protection. Since stocks, as represented by the S&P 500 Index, on average, yield about 1.83%, we are pleased with the Fund's 2.99% distribution rate as of March 31, 2011. Moreover, the Fund's limited partnership holdings reduce the current yield calculation because parts of their dividends are return of capital.

Finally, it is a pleasure to report that Nicholas Equity Income Fund's performance ranks high in its equity income category. According to Lipper, the Fund's total return as of March 31, 2011 ranked in the upper 19th percentile (out of 272 funds) for the last twelve months, 1st percentile (out of 242 funds) for 3 years, 2nd percentile (out of 193 funds) for 5 years and 2nd percentile (out of 100 funds) for 10 years.

Thank you for investing in the Fund.

Sincerely,



Albert O. Nicholas  
Co-Portfolio Manager



Michael L. Shelton  
Co-Portfolio Manager

**The Fund may invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility. Additionally, the Fund may invest in debt securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for long-term debt securities.**

**Diversification does not assure a profit or protect against a loss in a declining market.**

Please refer to the schedule of investments in the report for complete fund holdings information. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Consumer Price Index represents changes in prices of all goods and services purchased for consumption by urban households. One cannot invest directly in an index.

Lipper Analytical Services, Inc. is an independent mutual fund research and rating service. Each Lipper average represents a universe of funds with similar investment objectives. Rankings for the periods shown are based on fund total returns with dividends and distributions reinvested and do not reflect sales charges. Lipper Rankings Scale: 1% equals highest; 100% equals lowest (based on total returns).

**Distribution Rate:** Net investment distributions paid during the last twelve months divided by the net asset value per share.

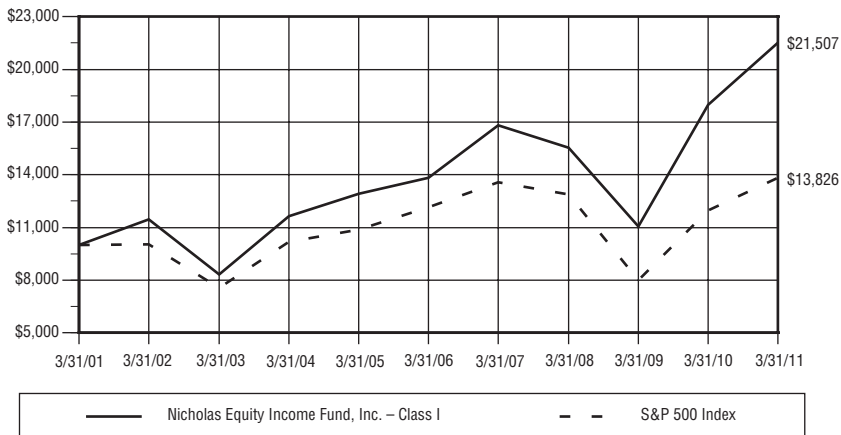
Investment performances for the periods prior to the year ended March 31, 2011 reflect fee waivers in effect. In the absence of such waivers, total return and yield would be reduced.

**Must be preceded or accompanied by a prospectus.**

The Nicholas Funds are distributed by Quasar Distributors, LLC. (05/11)

## COMPARISON OF CHANGE IN VALUE OF \$10,000 INVESTMENT IN NICHOLAS EQUITY INCOME FUND, INC. AND S&P 500 INDEX

The line graph which follows compares the initial account value and subsequent account value at the end of each of the most recently completed ten fiscal years of the Fund to the same investment over the same periods in the S&P 500 Index. The graph assumes a \$10,000 investment in the Fund and the index at the beginning of the period.



The Fund's average annual total returns for the one-, five- and ten-year periods ended on the last day of the most recent fiscal year are as follows:

|  | One Year Ended        | Five Years Ended      | Ten Years Ended       |
|--|-----------------------|-----------------------|-----------------------|
|  | <u>March 31, 2011</u> | <u>March 31, 2011</u> | <u>March 31, 2011</u> |

Average Annual

|                        |        |       |       |
|------------------------|--------|-------|-------|
| Total Return . . . . . | 19.64% | 9.25% | 7.96% |
|------------------------|--------|-------|-------|

*Past performance is not predictive of future performance, and the above graph and table do not reflect deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.*

# Financial Highlights (NSEIX)

For a share outstanding throughout each period

|  | Years Ended March 31, |                |                    |                |                |
|--|-----------------------|----------------|--------------------|----------------|----------------|
|  | 2011                  | 2010           | 2009               | 2008           | 2007           |
| NET ASSET VALUE,   |                       |                |                    |                |                |
| BEGINNING OF PERIOD . . . . .  | \$13.64               | \$ 8.64        | \$12.59            | \$15.98        | \$13.66        |
| INCOME (LOSS) FROM<br>INVESTMENT OPERATIONS                          |                       |                |                    |                |                |
| Net investment income . . . . .                                      | .39                   | .35            | .42 <sup>(1)</sup> | .35            | .38            |
| Net gain (loss) on securities<br>(realized and unrealized) . . . . . | 2.26                  | 4.97           | (3.95)             | (1.37)         | 2.51           |
| Total from<br>investment operations . . . . .                        | 2.65                  | 5.32           | (3.53)             | (1.02)         | 2.89           |
| LESS DISTRIBUTIONS   |                       |                |                    |                |                |
| From net investment income . . . . .                                 | (.30)                 | (.32)          | (.42)              | (.34)          | (.36)          |
| From net capital gain . . . . .                                      | (.01)                 | —              | —                  | (2.03)         | (.21)          |
| Total distributions . . . . .  | (.31)                 | (.32)          | (.42)              | (2.37)         | (.57)          |
| NET ASSET VALUE, END OF PERIOD . . . . .                             | <u>\$15.98</u>        | <u>\$13.64</u> | <u>\$ 8.64</u>     | <u>\$12.59</u> | <u>\$15.98</u> |
| TOTAL RETURN . . . . .   | 19.64%                | 62.39%         | (28.75)%           | (7.54)%        | 21.60%         |
| SUPPLEMENTAL DATA:   |                       |                |                    |                |                |
| Net assets, end of period (millions) . . . . .                       | \$157.7               | \$61.7         | \$30.0             | \$36.7         | \$41.0         |
| Ratio of expenses to average net assets . . . . .                    | .85% <sup>(2)</sup>   | .90%           | .90%               | .90%           | .90%           |
| Ratio of net investment income<br>to average net assets . . . . .    | 3.20% <sup>(2)</sup>  | 3.21%          | 3.84%              | 2.81%          | 2.64%          |
| Portfolio turnover rate . . . . .                                    | 26.44%                | 36.43%         | 35.79%             | 51.89%         | 36.32%         |
| ABSENT REIMBURSEMENT<br>OF EXPENSES BY ADVISER –                     |                       |                |                    |                |                |
| Ratio of expenses to average net assets . . . . .                    | (2)                   | 1.03%          | 1.17%              | 1.10%          | 1.22%          |
| Ratio of net investment income<br>to average net assets . . . . .    | (2)                   | 3.07%          | 3.57%              | 2.61%          | 2.32%          |

(1) Computed based on average shares outstanding.

(2) During fiscal year 2011 no reimbursement from the Adviser was necessary due to the expense ratio being less than .90%.

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

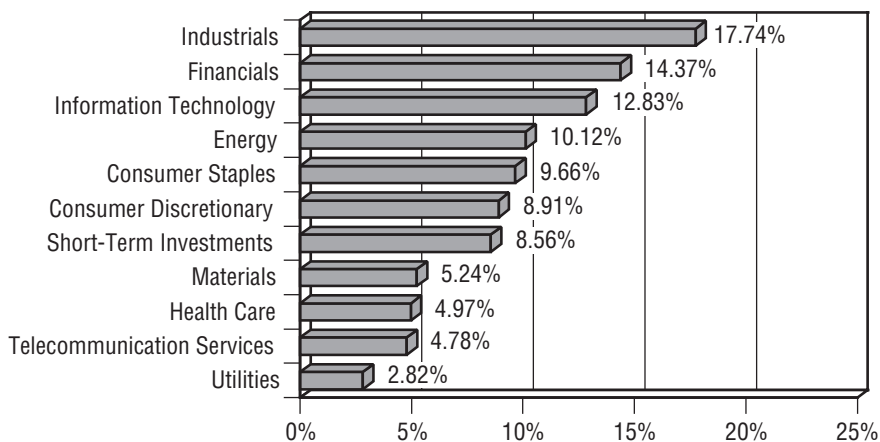
# Top Ten Equity Portfolio Holdings

March 31, 2011 (unaudited)

| <u>Name</u>  | <u>Percentage<br/>of Net Assets</u> |
|--|-------------------------------------|
| Microchip Technology Incorporated .....              | 2.89%                               |
| Dorchester Minerals, L.P. ....                       | 2.87%                               |
| Paychex, Inc. ....                                   | 2.59%                               |
| Ryder System, Inc. ....                              | 2.57%                               |
| Walgreen Co. ....                                    | 2.55%                               |
| Pfizer Inc. ....                                     | 2.51%                               |
| Snap-on Incorporated .....                           | 2.48%                               |
| Cohen & Steers Quality Income Realty Fund, Inc. .... | 2.47%                               |
| Leggett & Platt, Incorporated .....                  | 2.41%                               |
| RPM International, Inc. ....                         | 2.41%                               |
| Total of top ten .....                               | <u>25.75%</u>                       |

## Sector Diversification (as a percentage of portfolio)

March 31, 2011 (unaudited)



# Fund Expenses

For the six month period ended March 31, 2011 (unaudited)

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees and other operating expenses. The following table is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with those of other mutual funds.

The example is based on an investment of \$1,000 made at the beginning of the period and held for the entire period.

The first line of the table below provides information about the actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund with other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire fees. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

|   | Beginning<br>Account Value<br>09/30/10 | Ending<br>Account Value<br>03/31/11 | Expenses Paid<br>During Period*<br>10/01/10 - 03/31/11 |
|---|--|-------------------------------------|--|
| Actual                                      | \$1,000.00                             | \$1,129.90                          | \$4.41   |
| Hypothetical<br>(5% return before expenses) | 1,000.00                               | 1,020.86                            | 4.18   |

- \* Expenses are equal to the Fund's six-month annualized expense ratio of 0.83%, multiplied by the average account value over the period, multiplied by 182 then divided by 365 to reflect the one-half year period.

# Schedule of Investments

March 31, 2011

| Shares or<br>Principal<br>Amount                               |  | Value             |
|--|--|-------------------|
| <b>COMMON STOCKS — 85.86%</b>                                  |  |                   |
| <b>Consumer Discretionary – Durables &amp; Apparel — 7.06%</b> |  |                   |
| 125,000  | CSS Industries, Inc. ....                            | \$ 2,356,250      |
| 155,000  | Leggett & Platt, Incorporated .....                  | 3,797,500         |
| 80,000   | Mattel, Inc. ....                                    | 1,994,400         |
| 50,000   | Tupperware Brands Corporation .....                  | 2,985,500         |
|  |  | <u>11,133,650</u> |
| <b>Consumer Discretionary – Retailing — 1.19%</b>              |  |                   |
| 35,000   | Genuine Parts Company .....                          | 1,877,400         |
| <b>Consumer Discretionary – Services — 0.47%</b>               |  |                   |
| 75,000   | Summit Hotel Properties, Inc. ....                   | 745,500           |
| <b>Consumer Staples – Food &amp; Staples Retailing — 4.57%</b> |  |                   |
| 300,000  | SUPERVALU INC. ....                                  | 2,679,000         |
| 17,510   | Village Super Market, Inc. ....                      | 509,541           |
| 100,000  | Walgreen Co. ....                                    | 4,014,000         |
|  |  | <u>7,202,541</u>  |
| <b>Consumer Staples – Food, Beverage &amp; Tobacco — 4.89%</b> |  |                   |
| 135,000  | Altria Group, Inc. ....                              | 3,514,050         |
| 47,000   | Philip Morris International Inc. ....                | 3,084,610         |
| 106,715  | Rocky Mountain Chocolate Factory, Inc. ....          | 1,108,769         |
|  |  | <u>7,707,429</u>  |
| <b>Energy — 9.90%</b>  |  |                   |
| 13,000   | Chevron Corporation .....                            | 1,396,590         |
| 155,000  | Dorchester Minerals, L.P. ....                       | 4,532,200         |
| 30,000   | Kayne Anderson Energy Total Return Fund, Inc. ....   | 949,200           |
| 120,000  | Kayne Anderson Midstream/Energy Fund, Inc. ....      | 3,007,200         |
| 40,000   | Kayne Anderson MLP Investment Company .....          | 1,306,800         |
| 120,000  | PAA Natural Gas Storage, L.P. ....                   | 2,824,800         |
| 25,000   | Plains All American Pipeline, L.P. ....              | 1,593,250         |
|  |  | <u>15,610,040</u> |
| <b>Financials – Diversified — 0.76%</b>                        |  |                   |
| 33,800   | W.P. Carey & Co. LLC .....                           | 1,206,660         |
| <b>Financials – Insurance — 5.69%</b>                          |  |                   |
| 96,528   | Mercury General Corporation .....                    | 3,777,141         |
| 250,000  | Old Republic International Corporation .....         | 3,172,500         |
| 50,000   | Willis Group Holdings PLC .....                      | 2,018,000         |
|  |  | <u>8,967,641</u>  |
| <b>Financials – Real Estate — 4.68%</b>                        |  |                   |
| 390,000  | Cohen & Steers Quality Income Realty Fund, Inc. .... | 3,900,000         |

The accompanying notes to financial statements are an integral part of this schedule.

# Schedule of Investments (continued)

March 31, 2011

| Shares or<br>Principal<br>Amount   |   | Value             |
|--|---|-------------------|
| <b>COMMON STOCKS — 85.86% (continued)</b>  |   |                   |
| <b>Financials – Real Estate — 4.68% (continued)</b>                                      |   |                   |
| 60,000   | Digital Realty Trust, Inc. ....           | \$ 3,488,400      |
|  |   | <u>7,388,400</u>  |
| <b>Health Care – Equipment &amp; Services — 0.49%</b>                                    |   |                   |
| 22,620   | National Research Corporation .....       | 767,723           |
| <b>Health Care – Pharmaceuticals,<br/>Biotechnology &amp; Life Sciences — 3.69%</b>      |   |                   |
| 38,000   | Abbott Laboratories .....                 | 1,863,900         |
| 195,000  | Pfizer Inc. ....                          | 3,960,450         |
|  |   | <u>5,824,350</u>  |
| <b>Industrials – Capital Goods — 7.08%</b>   |   |                   |
| 166,100  | Douglas Dynamics, Inc. ....               | 2,368,586         |
| 26,300   | National Presto Industries, Inc. ....     | 2,963,484         |
| 65,000   | Snap-on Incorporated .....                | 3,903,900         |
| 14,000   | W.W. Grainger, Inc. ....                  | 1,927,520         |
|  |   | <u>11,163,490</u> |
| <b>Industrials – Commercial &amp; Professional Services — 7.71%</b>                      |   |                   |
| 70,000   | Avery Dennison Corporation .....          | 2,937,200         |
| 166,770  | Healthcare Services Group, Inc. ....      | 2,931,816         |
| 70,000   | Pitney Bowes Inc. ....                    | 1,798,300         |
| 100,000  | Republic Services, Inc. ....              | 3,004,000         |
| 40,000   | Waste Management, Inc. ....               | 1,493,600         |
|  |   | <u>12,164,916</u> |
| <b>Industrials – Transportation — 2.57%</b>  |   |                   |
| 80,000   | Ryder System, Inc. ....                   | 4,048,000         |
| <b>Information Technology – Hardware &amp; Equipment — 4.09%</b>                         |   |                   |
| 80,000   | Diebold, Incorporated .....               | 2,836,800         |
| 175,000  | Molex Incorporated – Class A .....        | 3,620,750         |
|  |   | <u>6,457,550</u>  |
| <b>Information Technology – Semiconductors<br/>&amp; Semiconductor Equipment — 2.89%</b> |   |                   |
| 120,000  | Microchip Technology Incorporated .....   | 4,561,200         |
| <b>Information Technology – Software &amp; Services — 5.57%</b>                          |   |                   |
| 150,000  | Broadridge Financial Solutions, Inc. .... | 3,403,500         |
| 48,066   | Computer Services, Inc. ....              | 1,297,782         |
| 130,000  | Paychex, Inc. ....                        | 4,076,800         |
|  |   | <u>8,778,082</u>  |
| <b>Materials — 5.13%</b>   |   |                   |
| 35,000   | AptarGroup, Inc. ....                     | 1,754,550         |

The accompanying notes to financial statements are an integral part of this schedule.

# Schedule of Investments (continued)

March 31, 2011

| Shares or<br>Principal<br>Amount                      |  | Value              |
|---|--|--------------------|
| <b>COMMON STOCKS — 85.86% (continued)</b>             |  |                    |
| <b>Materials — 5.13% (continued)</b>                  |  |                    |
| 41,100  | Greif, Inc. — Class B .....  | \$ 2,531,760       |
| 160,000   | RPM International, Inc. ....   | 3,796,800          |
|   |  | <u>8,083,110</u>   |
| <b>Telecommunication Services — 4.67%</b>             |  |                    |
| 120,000   | AT&T Inc. ....   | 3,672,000          |
| 450,000   | Frontier Communications Corporation .....  | 3,699,000          |
|   |  | <u>7,371,000</u>   |
| <b>Utilities — 2.76%</b>                              |  |                    |
| 60,000  | FirstEnergy Corporation .....  | 2,225,400          |
| 42,000  | Integrys Energy Group, Inc. ....   | 2,121,420          |
|   |  | <u>4,346,820</u>   |
|   | TOTAL COMMON STOCKS  |                    |
|   | (cost \$112,054,492) .....   | <u>135,405,502</u> |
| <b>PREFERRED STOCK — 0.88%</b>                        |  |                    |
| <b>Financials – Real Estate — 0.88%</b>               |  |                    |
| 54,300  | BioMed Realty Trust, Inc. 7.375% Series A<br>Cumulative Redeemable<br>(cost \$1,330,130) ..... | <u>1,386,822</u>   |
| <b>CONVERTIBLE PREFERRED STOCKS — 2.73%</b>           |  |                    |
| <b>Financials – Diversified — 2.05%</b>               |  |                    |
| 3,194   | Bank of America Corporation 7.25% Non-Cumulative<br>Convertible Preferred Stock Series L ..... | 3,229,932          |
| <b>Health Care – Equipment &amp; Services — 0.68%</b> |  |                    |
| 74,720  | National HealthCare Corporation Series A .....   | 1,076,715          |
|   | TOTAL CONVERTIBLE PREFERRED STOCKS   |                    |
|   | (cost \$4,059,380) .....   | <u>4,306,647</u>   |
| <b>SHORT-TERM INVESTMENTS — 8.38%</b>                 |  |                    |
| <b>Commercial Paper — 7.75%</b>                       |  |                    |
| \$1,000,000   | Sara Lee Corporation 04/01/11, 0.30% .....   | 1,000,000          |
| 1,500,000   | UnitedHealth Group Incorporated 04/01/11, 0.31% .....  | 1,500,000          |
| 1,075,000   | Integrys Energy Group, Inc. 04/04/11, 0.28% .....  | 1,074,975          |
| 1,000,000   | UnitedHealth Group Incorporated 04/05/11, 0.35% .....  | 999,961            |
| 1,000,000   | Clorox Company (The) 04/06/11, 0.30% .....   | 999,958            |
| 875,000   | Sherwin-Williams Company (The) 04/06/11, 0.23% .....   | 874,972            |
| 800,000   | BMW US Capital, LLC 04/07/11, 0.30% .....  | 799,960            |
| 1,500,000   | Stanley Black & Decker Inc. 04/07/11, 0.27% .....  | 1,499,933          |
| 1,000,000   | Sara Lee Corporation 04/12/11, 0.29% .....   | 999,911            |
| 1,225,000   | Kellogg Company 04/13/11, 0.27% .....  | 1,224,890          |

The accompanying notes to financial statements are an integral part of this schedule.

# Schedule of Investments (continued)

March 31, 2011

| <u>Shares or<br/>Principal<br/>Amount</u>         |  | <u>Value</u>         |
|---|--|----------------------|
| <b>SHORT-TERM INVESTMENTS — 8.38% (continued)</b> |  |                      |
| <b>Commercial Paper — 7.75% (continued)</b>       |  |                      |
| \$ 550,000  | Bemis Company, Inc. 04/21/11, 0.31% .....  | \$ 549,905           |
| 700,000   | H.J. Heinz Finance Company 04/26/11, 0.28% .....                                 | 699,864              |
|   |  | <u>12,224,329</u>    |
| <b>Variable Rate Security – 0.63%</b>             |  |                      |
| 990,324   | American Family Financial Services, Inc.<br>04/01/11, 0.10% <sup>(1)</sup> ..... | 990,324              |
|   | <b>TOTAL SHORT-TERM INVESTMENTS</b><br>(cost \$13,214,653) .....                 | <u>13,214,653</u>    |
|   | <b>TOTAL INVESTMENTS</b><br>(cost \$130,658,655) — 97.85% .....                  | <u>154,313,624</u>   |
|   | <b>OTHER ASSETS, NET OF LIABILITIES — 2.15%</b> .....                            | <u>3,385,150</u>     |
|   | <b>TOTAL NET ASSETS</b><br>(basis of percentages disclosed above) — 100% .....   | <u>\$157,698,774</u> |

(1) Subject to a demand feature as defined by the Securities and Exchange Commission.

The accompanying notes to financial statements are an integral part of this schedule.

# Statement of Assets and Liabilities

March 31, 2011

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## ASSETS

|   |                    |
|---|--------------------|
| Investments in securities at value (cost \$130,658,655) ..... | \$154,313,624      |
| Receivables —   |                    |
| Investment securities sold .....                              | 3,924,516          |
| Dividend and interest .....                                   | 368,710            |
| Capital stock subscription .....                              | <u>1,084,076</u>   |
| Total receivables .....                                       | <u>5,377,302</u>   |
| Other .....   | 20,515             |
| Total assets .....  | <u>159,711,441</u> |

## LIABILITIES

|  |                      |
|--|----------------------|
| Payables —                               |                      |
| Investment securities purchased .....    | 1,531,719            |
| Due to adviser —                         |                      |
| Management fee .....                     | 437,905              |
| Accounting and administrative fee .....  | <u>4,247</u>         |
|  | <u>442,152</u>       |
| Other payables and accrued expense ..... | <u>38,796</u>        |
| Total liabilities .....                  | <u>2,012,667</u>     |
| Total net assets .....                   | <u>\$157,698,774</u> |

## NET ASSETS CONSIST OF

|  |                      |
|--|----------------------|
| Paid in capital .....  | \$130,367,922        |
| Net unrealized appreciation on investments .....                 | 23,654,969           |
| Accumulated undistributed net realized gain on investments ..... | 2,337,961            |
| Accumulated undistributed net investment income .....            | <u>1,337,922</u>     |
| Total net assets .....   | <u>\$157,698,774</u> |

|  |                |
|--|----------------|
| NET ASSET VALUE PER SHARE (\$.0001 par value,<br>250,000,000 shares authorized), offering price<br>and redemption price (9,866,042 shares outstanding) ..... | <u>\$15.98</u> |
|--|----------------|

The accompanying notes to financial statements are an integral part of this statement.

# Statement of Operations

For the year ended March 31, 2011

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## INCOME

|  |                  |
|--|------------------|
| Dividend (net of foreign taxes of \$1,792) ..... | \$ 4,037,878     |
| Interest .....                                   | 23,744           |
| Other .....                                      | <u>138,863</u>   |
| Total income .....                               | <u>4,200,485</u> |

## EXPENSES

|  |                  |
|--|------------------|
| Management fee .....                             | 670,413          |
| Accounting and administrative fees .....         | 50,000           |
| Registration fees .....                          | 43,859           |
| Transfer agent fees .....                        | 40,796           |
| Audit and tax fees .....                         | 26,850           |
| Legal fees .....                                 | 10,786           |
| Accounting system and pricing service fees ..... | 10,383           |
| Printing .....                                   | 7,155            |
| Postage and mailing .....                        | 5,647            |
| Custodian fees .....                             | 5,364            |
| Directors' fees .....                            | 4,925            |
| Insurance .....                                  | 3,052            |
| Other operating expenses .....                   | <u>3,872</u>     |
| Total expenses .....                             | <u>883,102</u>   |
| Net investment income .....                      | <u>3,317,383</u> |

|  |                  |
|--|------------------|
| NET REALIZED GAIN ON INVESTMENTS ..... | <u>2,940,778</u> |
|--|------------------|

## CHANGE IN NET UNREALIZED

|  |                     |
|--|---------------------|
| APPRECIATION/DEPRECIATION ON INVESTMENTS .....             | 14,447,070          |
| Net realized and unrealized gain on investments .....      | <u>17,387,848</u>   |
| Net increase in net assets resulting from operations ..... | <u>\$20,705,231</u> |

The accompanying notes to financial statements are an integral part of this statement.

# Statements of Changes in Net Assets

For the years ended March 31, 2011 and 2010

|  | <u>2011</u>          | <u>2010</u>         |
|--|----------------------|---------------------|
| INCREASE (DECREASE) IN NET ASSETS  |                      |                     |
| FROM OPERATIONS  |                      |                     |
| Net investment income . . . . .  | \$ 3,317,383         | \$ 1,532,503        |
| Net realized gain on investments . . . . .   | 2,940,778            | 3,156,686           |
| Change in net unrealized appreciation/depreciation<br>on investments . . . . .   | <u>14,447,070</u>    | <u>16,448,265</u>   |
| Net increase in net assets<br>resulting from operations . . . . .  | <u>20,705,231</u>    | <u>21,137,454</u>   |
| DISTRIBUTIONS TO SHAREHOLDERS  |                      |                     |
| From net investment income . . . . .   | (2,186,386)          | (1,265,652)         |
| From net realized gain on investments . . . . .  | <u>(34,905)</u>      | <u>—</u>            |
| Total distributions . . . . .  | <u>(2,221,291)</u>   | <u>(1,265,652)</u>  |
| CAPITAL SHARE TRANSACTIONS   |                      |                     |
| Proceeds from shares issued<br>(7,406,523 and 1,426,915 shares, respectively) . . . . .  | 107,725,665          | 16,251,333          |
| Reinvestment of distributions<br>(137,586 and 98,647 shares, respectively) . . . . .   | 2,017,142            | 1,107,153           |
| Cost of shares redeemed<br>(2,204,215 and 470,689 shares, respectively) . . . . .  | <u>(32,269,769)</u>  | <u>(5,489,189)</u>  |
| Change in net assets derived<br>from capital share transactions . . . . .  | <u>77,473,038</u>    | <u>11,869,297</u>   |
| Total increase in net assets . . . . .   | <u>95,956,978</u>    | <u>31,741,099</u>   |
| NET ASSETS   |                      |                     |
| Beginning of period . . . . .  | <u>61,741,796</u>    | <u>30,000,697</u>   |
| End of period (including accumulated<br>undistributed net investment income<br>of \$1,337,922 and \$207,283, respectively) . . . . . | <u>\$157,698,774</u> | <u>\$61,741,796</u> |

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

# Notes to Financial Statements

March 31, 2011

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## (1) Summary of Significant Accounting Policies —

Nicholas Equity Income Fund, Inc. (the “Fund”) is organized as a Maryland corporation and is registered as an open-end, diversified management investment company under the Investment Company Act of 1940, as amended. The primary objective of the Fund is to produce reasonable income with moderate long-term growth as a secondary consideration. The following is a summary of the significant accounting policies of the Fund:

- (a) Equity securities traded on a stock exchange will ordinarily be valued on the basis of the last sale price on the date of valuation on the securities principal exchange, or if in the absence of any sale on that day, the closing bid price. For securities principally traded on the NASDAQ market, the Fund uses the NASDAQ Official Closing Price. Debt securities, excluding short-term investments, are valued at their current evaluated bid price as determined by an independent pricing service, which generates evaluations on the basis of dealer quotes for normal institutional-sized trading units, issuer analysis, bond market activity and various other factors. Securities for which market quotations may not be readily available are valued at their fair value as determined in good faith by procedures adopted by the Board of Directors. Variable rate demand notes are valued at cost, which approximates market value. U.S. Treasury Bills and commercial paper are stated at amortized cost, which approximates market value. The Fund did not maintain any positions in derivative instruments or engage in hedging activities during the year. Investment transactions for financial statement purposes are recorded on trade date.

In accordance with Accounting Standards Codification (“ASC”) 820-10, “Fair Value Measurements and Disclosures” (“ASC 820-10”), fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820-10 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value such as a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, benchmark yields, bids, offers,

# Notes to Financial Statements (continued)

March 31, 2011

transactions, spreads and other relationships observed in the markets among market securities, underlying equity of the issuer, proprietary pricing models, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of March 31, 2011 in valuing the Fund’s investments carried at value:

| <u>Valuation Inputs</u>                           | <u>Investments<br/>in Securities</u> |
|---|--------------------------------------|
| Level 1 –   |                                      |
| Common Stocks <sup>(1)</sup> .....                | \$135,405,502                        |
| Convertible Preferred Stocks <sup>(1)</sup> ..... | 1,076,715                            |
| Preferred Stocks <sup>(1)</sup> .....             | 1,386,822                            |
| Level 2 –   |                                      |
| Convertible Preferred Stocks <sup>(1)</sup> ..... | 3,229,932                            |
| Commercial Paper .....                            | 12,224,329                           |
| Variable Rate Security .....                      | 990,324                              |
| Level 3 –   |                                      |
| None .....  | —                                    |
| Total .....                                       | <u>\$154,313,624</u>                 |

(1) See Schedule of Investments for further detail by industry.

There were no significant transfers between levels during the year ended March 31, 2011 and the Fund did not hold any Level 3 investments during the year.

- (b) Net realized gain (loss) on portfolio securities was computed on the basis of specific identification.
- (c) Dividend income is recorded on the ex-dividend date, and interest income is recognized on an accrual basis. Non-cash dividends, if any, are recorded at value on date of distribution. Generally, discounts and premiums on long-term debt security purchases, if any, are amortized over the expected lives of the respective securities using the effective yield method.
- (d) Provision has not been made for federal income taxes or excise taxes since the Fund has elected to be taxed as a “regulated investment company” and intends to distribute substantially all net investment income and net realized capital gains on sales of investments to its shareholders and otherwise comply with the provisions of Subchapter M of the Internal Revenue Code applicable to regulated investment companies.
- (e) Dividends and distributions paid to shareholders are recorded on the ex-dividend date. Distributions from net investment income are generally declared and paid quarterly. Distributions of net realized capital gain, if any, are declared and paid at least annually.

# Notes to Financial Statements (continued)

March 31, 2011

The amount of distributions from net investment income and net realized capital gain are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. Distributions are determined in accordance with income tax regulations, which may differ from net investment income and realized gains for financial reporting purposes. Financial reporting records are adjusted for permanent book to tax differences to reflect tax character. At March 31, 2011, reclassifications were recorded to decrease accumulated undistributed net investment income and increase accumulated net realized gain on investment by \$358.

The tax character of distributions paid during the years ended March 31 was as follows:

|                          | <u>03/31/2011</u>  | <u>03/31/2010</u>  |
|--------------------------|--------------------|--------------------|
| Distributions paid from: |                    |                    |
| Ordinary income          | \$2,186,386        | \$1,265,652        |
| Long-term capital gain   | 34,905             | —                  |
| Total distributions paid | <u>\$2,221,291</u> | <u>\$1,265,652</u> |

As of March 31, 2011, investment cost for federal tax purposes was \$130,582,422 and the tax basis components of net assets were as follows:

|   |                      |
|---|----------------------|
| Unrealized appreciation                             | \$ 25,103,615        |
| Unrealized depreciation                             | <u>(1,372,413)</u>   |
| Net unrealized appreciation                         | <u>23,731,202</u>    |
| Undistributed ordinary income                       | 1,372,435            |
| Accumulated undistributed net realized capital gain | 2,303,448            |
| Paid in capital                                     | 130,367,922          |
| Other temporary differences                         | <u>(76,233)</u>      |
| Net assets  | <u>\$157,698,774</u> |

The differences between book-basis and tax-basis unrealized appreciation is attributable primarily to holdings in partnership interests.

As of the year ended March 31, 2011, the Fund realized no post-October losses for tax purposes.

As of March 31, 2011, the Fund had no tax deferral of wash loss sales.

The Fund utilized approximately \$568,000 of capital loss carryforwards during fiscal 2011. As of March 31, 2011, the Fund has no capital loss carryforward.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "RIC Act") was enacted. The RIC Act modernizes several of the federal income and excise tax provisions related to regulated investment companies ("RICs"). Under the RIC Act, new capital losses may be carried forward indefinitely, with the character of the original loss retained. The RIC Act also contains

# Notes to Financial Statements (continued)

March 31, 2011

simplification provisions, which are aimed at preventing disqualification of a RIC for inadvertent failures to comply with asset diversification and/or qualifying income tests. The RIC Act exempts RICs from the preferential dividend rule and repealed the 60-day designation requirement for certain types of pay-through income and gains. In addition, the RIC Act contains provisions aimed at preserving the character of distributions made by a fiscal year RIC during the portion of its taxable year ending after October 31 or December 31. Except for the simplification provisions related to RIC qualification, the RIC Act is effective for taxable years beginning after December 22, 2010. Management is currently evaluating the implications of the RIC Act and the impact of the Funds' financial statements, if any, is currently being assessed.

The Fund had no material uncertain tax positions and has not recorded a liability for unrecognized tax benefits as of March 31, 2011. Also, the Fund recognized no interest and penalties related to uncertain tax benefits in fiscal 2011. At March 31, 2011, the fiscal years 2008 through 2011 remain open to examination in the Fund's major tax jurisdictions.

- (f) The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates.
- (g) In connection with the preparation of the Fund's financial statements, management evaluated subsequent events after the date of the Statement of Assets and Liabilities of March 31, 2011. There have been no significant subsequent events since March 31, 2011 that would require adjustment to or additional disclosure in these financial statements.

## (2) Related Parties —

### (a) Investment Adviser and Management Agreement —

The Fund has an agreement with Nicholas Company, Inc. (with whom certain officers and directors of the Fund are affiliated) (the "Adviser") to serve as investment adviser and manager. Under the terms of the agreement, a monthly fee is paid to the Adviser based on an annualized fee of .70% of the average net asset value up to and including \$50 million and .60% of the average net asset value in excess of \$50 million. The Adviser has voluntarily agreed to reimburse the Fund for all expenses in excess of .90% of annual average net assets. There was no reimbursement in fiscal 2011 due to the expense ratio not exceeding .90%. Also, the Adviser may be paid for accounting and administrative services rendered by its personnel, subject to the following guidelines: (i) up to five basis points, on an annual basis, of the average net asset value of the Fund up to and including \$2 billion and up to three basis points, on an annual basis, of the average net asset value of the Fund greater than \$2 billion, based on the average net asset value of the Fund as determined by valuations made at the close of each business day of each month, and (ii) where the preceding calculation results in an annual payment

# Notes to Financial Statements (continued)

March 31, 2011

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of less than \$50,000, the Adviser, in its discretion, may charge the Fund up to \$50,000 for such services.

(b) Legal Counsel —

A director of the Adviser is affiliated with a law firm that provides services to the Fund. The Fund incurred expenses of \$6,286 for the year ended March 31, 2011 for legal services rendered by this law firm.

**(3) Investment Transactions —**

For the year ended March 31, 2011, the cost of purchases and the proceeds from sales of investment securities, other than short-term obligations, aggregated \$92,240,312 and \$25,212,612, respectively.

# Report of Independent Registered Public Accounting Firm

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To the Shareholders and Board of Directors of Nicholas Equity Income Fund, Inc.:

We have audited the accompanying statement of assets and liabilities of Nicholas Equity Income Fund, Inc. (the "Fund"), including the schedule of investments, as of March 31, 2011, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for the periods ended prior to March 31, 2009 were audited by other auditors, whose report, dated May 28, 2008, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of March 31, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Nicholas Equity Income Fund, Inc. as of March 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Milwaukee, Wisconsin  
May 25, 2011

# Historical Record

(unaudited)

|  | Net<br>Asset Value<br>Per Share | Net<br>Investment<br>Income<br>Distributions<br>Per Share | Capital Gain<br>Distributions<br>Per Share | Dollar<br>Weighted<br>Price/Earnings<br>Ratio <sup>(2)</sup> | Growth of<br>an Initial<br>\$10,000<br>Investment <sup>(3)</sup> |
|--|---------------------------------|---|--|--|--|
| November 23, 1993 <sup>(1)</sup> . . . | \$10.00                         | \$ —  | \$ —                                       | —  | \$10,000   |
| March 31, 1994 . . . . .               | 10.04                           | 0.0133  | —  | 14.4 times   | 10,053   |
| March 31, 1995 . . . . .               | 10.56                           | 0.2810  | —  | 14.6   | 10,871   |
| March 31, 1996 . . . . .               | 12.35                           | 0.3370  | —  | 16.8   | 13,111   |
| March 31, 1997 . . . . .               | 12.27                           | 0.4527  | 0.5483                                     | 15.9   | 14,138   |
| March 31, 1998 . . . . .               | 14.35                           | 0.5014  | 0.6586                                     | 23.0   | 18,072   |
| March 31, 1999 . . . . .               | 12.32                           | 0.4843  | 0.3278                                     | 22.0   | 16,509   |
| March 31, 2000 . . . . .               | 11.10                           | 0.4447  | 0.2392                                     | 20.6   | 15,816   |
| March 31, 2001 . . . . .               | 11.20                           | 0.1980  | —  | 21.0   | 16,250   |
| March 31, 2002 . . . . .               | 12.66                           | 0.1697  | —  | 22.4   | 18,642   |
| March 31, 2003 . . . . .               | 9.02                            | 0.1920  | —  | 15.6   | 13,531   |
| March 31, 2004 . . . . .               | 12.45                           | 0.1486  | —  | 16.1   | 18,933   |
| March 31, 2005 . . . . .               | 13.58                           | 0.2120  | —  | 21.0   | 20,995   |
| March 31, 2006 . . . . .               | 13.66                           | 0.3843  | 0.4259                                     | 16.8   | 22,456   |
| March 31, 2007 . . . . .               | 15.98                           | 0.3663  | 0.2138                                     | 17.0   | 27,307   |
| March 31, 2008 . . . . .               | 12.59                           | 0.3377  | 2.0340                                     | 18.2   | 25,247   |
| March 31, 2009 . . . . .               | 8.64                            | 0.4188  | —  | 11.6   | 17,989   |
| March 31, 2010 . . . . .               | 13.64                           | 0.3167  | —  | 17.7   | 29,211   |
| March 31, 2011 . . . . .               | 15.98                           | 0.3017(a)   | 0.0041(b)                                  | 19.4   | 34,949   |

(1) Date of Initial Public Offering.

(2) Based on latest 12 months accomplished earnings.

(3) Assuming reinvestment of all distributions.

(a) Paid \$0.0415 on May 5, 2010 to shareholders of record on May 4, 2010.

Paid \$0.0759 on July 29, 2010 to shareholders of record on July 28, 2010.

Paid \$0.0647 on October 28, 2010 to shareholders of record on October 27, 2010.

Paid \$0.1196 on December 30, 2010 to shareholders of record on December 29, 2010.

(b) Paid December 30, 2010 to shareholders of record on December 29, 2010.

# Approval of Investment Advisory Contract

(unaudited)

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A discussion of the Approval by the Board of Directors of the Fund's Investment Advisory Contract can be found in the Fund's Semiannual Report dated September 30, 2010.

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## Tax Information

(unaudited)

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The Fund designates 100% of its ordinary income distribution for the year ended March 31, 2011 as qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

For the year ended March 31, 2011, 100% of the dividends paid from net ordinary income qualify for the dividends received deduction available to corporate shareholders.

The Fund hereby designates approximately \$34,905 as a capital gain dividend for the year ended March 31, 2011.

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## Information on Proxy Voting

(unaudited)

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A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available, without charge, upon request by calling 800-544-6547 (toll-free) or 414-276-0535. It also appears in the Fund's Statement of Additional Information, which can be found on the SEC's website, [www.sec.gov](http://www.sec.gov). A record of how the Fund voted its proxies for the most recent twelve-month period ended June 30, also is available on the Fund's website, [www.nicholasfunds.com](http://www.nicholasfunds.com), and the SEC's website, [www.sec.gov](http://www.sec.gov).

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## Quarterly Portfolio Schedule

(unaudited)

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The Fund files its complete schedule of investments with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q's are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330.

# Directors and Officers of the Fund

(unaudited)

The following table sets forth the pertinent information about the Fund's directors and officers as of March 31, 2011. Unless otherwise listed, the business address of each director and officer is 700 North Water Street, Milwaukee, WI 53202.

| <u>Name and Age</u>                       | <u>Positions Held With Fund</u>              | <u>Term of Office and Length of Time Served</u> | <u>Principal Occupations During Past 5 Years</u>   | <u>Number of Portfolios in Fund Complex Overseen by Director</u> | <u>Other Directorships Held by Director</u> |
|---|--|---|--|--|---|
| <b>INTERESTED DIRECTOR</b>                |  |   |  |  |   |
| Albert O. Nicholas, 80 <sup>(1),(3)</sup> | President, Co-Portfolio Manager and Director | (2), 18 years                                   | Chief Executive Officer and Chairman of the Board, Nicholas Company, Inc., the Adviser to the Fund. He is Portfolio Manager of Nicholas Fund, Inc. and the Fund.   | 3  | None  |
| <b>DISINTERESTED DIRECTORS</b>            |  |   |  |  |   |
| Robert H. Bock, 79                        | Director                                     | (2), 18 years                                   | Private Investor, Consultant, Dean Emeritus of Business Strategy and Ethics, University of Wisconsin School of Business, 1997 to present.  | 5  | None  |
| Timothy P. Reiland, 54                    | Director                                     | (2), 8 years                                    | Private Investor, Consultant, Chairman and Chief Financial Officer, Musicnotes, Inc., October 2001 to present. Investment Analyst from 1987 to October 2001, Tucker Anthony Incorporated, a brokerage firm. He is a Chartered Financial Analyst. | 5  | None  |

# Directors and Officers of the Fund (continued)

(unaudited)

| <u>Name and Age</u>                  | <u>Positions Held With Fund</u>  | <u>Term of Office and Length of Time Served</u> | <u>Principal Occupations During Past 5 Years</u>   | <u>Number of Portfolios in Fund Complex Overseen by Director</u> | <u>Other Directorships Held by Director</u> |
|--------------------------------------|--|---|--|--|---|
| Jay H. Robertson, 59                 | Director   | (2), 6 years                                    | Private Investor, April 2000 to present. Chairman of the Board of Robertson-Ryan and Associates, Inc., an insurance brokerage firm from 1993 to March 2000.  | 6  | None  |
| <b>OFFICERS</b>                      |  |   |  |  |   |
| David L. Johnson, 69 <sup>(3)</sup>  | Executive Vice President   | Annual, 18 years                                | Executive Vice President, Nicholas Company, Inc., the Adviser to the Fund.   |  |   |
| Jeffrey T. May, 54                   | Senior Vice President, Secretary, Treasurer and Chief Compliance Officer | Annual, 18 years                                | Executive Vice President, Chief Financial Officer and Chief Compliance Officer, Nicholas Company, Inc., the Adviser to the Fund. He is Portfolio Manager of Nicholas Money Market Fund, Inc.   |  |   |
| David O. Nicholas, 49 <sup>(3)</sup> | Senior Vice President  | Annual, 18 years                                | Chief Investment Officer and Director, Nicholas Company, Inc., the Adviser to the Fund. He is Portfolio Manager of Nicholas II, Inc. and Nicholas Limited Edition, Inc. He is Associate Portfolio Manager of Nicholas Fund, Inc. He formerly was Co-Portfolio Manager of Nicholas High Income Fund, Inc. and the Fund. |  |   |
| Lynn S. Nicholas, 54 <sup>(3)</sup>  | Senior Vice President  | Annual, 18 years                                | Senior Vice President, Nicholas Company, Inc., the Adviser to the Fund.  |  |   |

# Directors and Officers of the Fund (continued)

(unaudited)

| <u>Name and Age</u>     | <u>Positions Held With Fund</u> | <u>Term of Office and Length of Time Served</u> | <u>Principal Occupations During Past 5 Years</u>  | <u>Number of Portfolios in Fund Complex Overseen by Director</u> | <u>Other Directorships Held by Director</u> |
|-------------------------|---------------------------------|---|---|--|---|
| Lawrence J. Pavelec, 52 | Senior Vice President           | Annual, 7 years                                 | Senior Vice President, Nicholas Company, Inc., the Adviser to the Fund. He has been Co-Portfolio Manager of Nicholas High Income Fund, Inc. since April 2008. He served as Co-Portfolio Manager from April 2003 until April 2008. |  |   |
| Candace L. Lesak, 53    | Vice President                  | Annual, 18 years                                | Employee, Nicholas Company, Inc., the Adviser to the Fund.  |  |   |

- (1) Albert O. Nicholas is the only director who is an “interested person” of the Fund, as that term is defined in the 1940 Act. Mr. Nicholas is Chief Executive Officer and a Director of the Adviser and owns 97% of the outstanding voting securities of the Adviser.
- (2) Until duly elected or re-elected at a subsequent annual meeting of the Fund.
- (3) David O. Nicholas and Lynn S. Nicholas are the son and daughter, respectively, of Albert O. Nicholas. David L. Johnson is a brother-in-law of Albert O. Nicholas.

The Fund’s Statement of Additional Information includes additional information about Fund directors and is available, without charge, upon request, by calling 800-544-6547 (toll-free) or 414-276-0535.

# Privacy Policy

(unaudited)

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Nicholas Equity Income Fund, Inc. respects each shareholder's 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 or other forms, whether we receive the form in writing or electronically. This includes, 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.**

**INFORMATION SHARED WITH OUR TRANSFER AGENT,  
A THIRD PARTY COMPANY, ALSO IS NOT SOLD.**

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 to process your transactions, mailing houses to send you required reports and correspondence regarding the Fund and its Adviser, the Nicholas Company, Inc., and our dividend disbursing agent to process fund 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.

The Fund and its Adviser maintain policies and procedures to safeguard your non-public personal information. Access is restricted to employees who the Adviser determines 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.

In the event that you hold shares of the Fund with a financial intermediary, including, but not limited to, a broker-dealer, bank, or trust company, the privacy policy of your financial intermediary would govern how your non-public personal information would be shared with non-affiliated third parties.

***Directors and Officers***

ALBERT O. NICHOLAS, President and Director  
ROBERT H. BOCK, Director  
TIMOTHY P. REILAND, Director  
JAY H. ROBERTSON, Director  
DAVID L. JOHNSON, Executive Vice President  
JEFFREY T. MAY, Senior Vice President, Secretary,  
Treasurer and Chief Compliance Officer  
DAVID O. NICHOLAS, Senior Vice President  
LYNN S. NICHOLAS, Senior Vice President  
LAWRENCE J. PAVELEC, Senior Vice President  
CANDACE L. LESAK, Vice President

***Investment Adviser***

NICHOLAS COMPANY, INC.  
Milwaukee, Wisconsin  
www.nicholasfunds.com  
414-276-0535 or 800-544-6547

***Transfer Agent***

U.S. BANCORP FUND SERVICES, LLC  
Milwaukee, Wisconsin  
414-276-0535 or 800-544-6547

***Distributor***

QUASAR DISTRIBUTORS, LLC  
Milwaukee, Wisconsin

***Custodian***

U.S. BANK N.A.  
Milwaukee, Wisconsin

***Independent Registered Public Accounting Firm***

DELOITTE & TOUCHE LLP  
Milwaukee, Wisconsin

***Counsel***

MICHAEL BEST & FRIEDRICH LLP  
Milwaukee, Wisconsin

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This report is submitted for the information of shareholders of the Fund. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.