

# ANNUAL REPORT

December 31, 2011

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## NICHOLAS HIGH INCOME FUND, INC.

*CONSISTENCY in a WORLD of CHANGE*



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# NICHOLAS HIGH INCOME FUND, INC.

February 2012

Report to Fellow Shareholders:

## Market Overview

The high yield bull market began to falter during the early months of the second half of 2011 with investors building in a greater probability of a recession for the U.S. economy. Optimism of an economic recovery backed by the Federal Reserve's quantitative easing and indications of improvement within corporate America gave way to cynicism and doubt stoked by the Federal government's inability to agree upon a deficit reduction plan and a growing financial crisis in Europe. These more immediate concerns coupled with the anticipated combative Presidential elections scheduled for 2012 encouraged investors toward a "risk off" trade, taking profits following solid returns in the high yield markets during the first half of 2011. Valuations also provided an impetus to take some profits as the Barclays Capital U.S. High-Yield Corporate Bond Index ("Barclays HY") hit an all-time low yield of 6.61% on May 16, 2011.<sup>(1)</sup> Uncertain macro issues combined with rather full valuations supplied the perfect environment for investors to monetize gains leading to fairly large losses for the high yield market during the third quarter of 2011. The Bank of America Merrill Lynch ("BAML") U.S. High Yield Master II Constrained Index ("BAML HY") fell 6.33% during the third quarter. The sell off clearly had the markings of a "risk off" trade as the BAML U.S. High Yield CCC Index declined 13.55%, while the BAML U.S. Treasury and Agency Index rallied 5.89% during the quarter ended September 30, 2011. Equities had a comparably difficult time as the S&P 500 fell 13.87% and the Russell 2000 was down 21.87% during this same period. 10-year Treasury Note prices, which have generally benefitted from uncertainty and risk-aversion, rose as yields fell from a high of 3.18% on July 1, 2011 to a low of 1.72% on September 22, 2011. By the end of the third quarter investor sentiment had clearly shifted from optimism to a more conservative stance.

As what became typical for investors during 2011, the sell off and related cheapened valuation set the stage for another "risk on" market trade. Following the declines during the third quarter of 2011, the Barclays HY Index reached 10.15% on October 4th, its highest since October 2009<sup>(1)</sup>. Historically when the high yield market has offered a 10% or better yield, investors have generally felt the market offered value. More attractive valuations along with material steps toward stabilizing the European financial crisis encouraged investors to move back into the high yield market. Not surprising, the areas of the high yield market which suffered the greatest losses during the third quarter of 2011 experienced the best returns during the fourth quarter. The BAML U.S. High Yield CCC Index rallied 8.07%, while the BAML U.S. Treasury and Agency Index generated a modest 0.88% during the quarter ended December 31, 2011.

Although beset with significant macro headwinds and volatility, the BAML HY managed to produce a 4.37% return for the year despite a -0.53% return for the six months ended December 31, 2011. The sharp recovery during the fourth quarter of 2011 was essential for the high yield market to produce a positive return for the year. Investors preferred higher quality high yield bonds over lower quality during 2011, as the BAML U.S. High Yield BB Index offered a 6.12% return while the BAML U.S. High Yield CCC Index fell 1.40%.

We are optimistic for the high yield market in 2012. We anticipate interest rates to remain range bound near current low levels for the foreseeable future as the U.S. economy continues the arduous task of deleveraging. This process may continue for a number of years, stalling economic growth and keeping the Federal Reserve on hold, vigilant against any potential risk of falling into a deflationary abyss. Modest growth, low inflation and low interest rates should encourage investors to seek higher yielding investment alternatives. The high yield market should be well positioned to attract investment dollars given the current valuation and improving corporate fundamentals. Our analysis suggests the high yield market could generate an attractive total return in 2012 by combining a high level of current income with potential price appreciation driven by compressing yield premiums as corporate default rates move lower and new assets move into the market.

## Performance

Nicholas High Income Fund - Class I ("Fund") produced net returns of 0.78% and 4.93% for the six-month and twelve-month periods ended December 31, 2011, respectively.

Returns for Nicholas High Income Fund, Inc. - Class I and selected indices are provided in the chart below for the periods ended December 31, 2011. The Fund and Morningstar performance data is net of fees, while the BAML Indices are gross of fees.

	Average Annual Total Return				
	6 Month	1 Year	3 Year	5 Year	10 Year
Nicholas High Income Fund, Inc. – Class I	0.78%	4.93%	17.38%	4.86%	5.44%
BAML U.S. High Yield Master II					
Constrained Index	-0.53%	4.37%	23.83%	7.54%	8.73%
BAML U.S. High Yield BB-B Index	0.59%	5.43%	20.83%	6.68%	7.74%
Morningstar High Yield Bond					
Funds Category	-1.43%	2.83%	19.74%	5.08%	6.94%
Ending value of \$10,000 invested in					
Nicholas High Income Fund, Inc. - Class I	\$10,078	\$10,493	\$16,174	\$12,677	\$16,984
Fund's Class I Expense Ratio (from 04/30/11 Prospectus):	0.74%				

*The Fund's expense ratios for the period ended December 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 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. 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.*

*Class N of the Fund commenced operations on February 28, 2005. The annual returns shown for the Class I shares for this Fund would be substantially similar to the Class N because both classes of shares are invested in the same portfolio of securities. Annual returns will differ only to the extent that the classes do not have the same expenses. Please see the respective prospectus for details.*

The returns earned by the Fund are consistent with our investment philosophy and style. The approach has been to identify undervalued securities using rigorous financial analysis to verify that the fundamental outlook is properly aligned with current valuations. An analysis of trends in earnings, EBITDA, leverage and asset coverage are critical for making a sound investment. Security valuation is the primary gatekeeper in deciding whether to add or eliminate a holding from the portfolio. Financially sound companies with fully priced securities do not necessarily represent a good value, while companies that have stumbled financially should not automatically be dismissed as bad investments if we believe the valuations offer a sufficient margin of safety. This process suggests a more conservative approach to investing in high yield bonds, which we believe has the potential to allow for more consistent returns and less downside risk to investors.

### **Portfolio Review**

The Fund remains positioned with a shorter relative duration compared to the BAML HY Index. At 3.38 years as of period end, the focus is more on generating performance from credit analysis than on interest rate trends. We continue to position the portfolio with a shorter duration which we believe should provide greater stability during this low interest rate period and over future interest rate cycles. The Fund maintains a significant weighting in BB/B-rated bonds, which is consistent with our longer-term approach of focusing on securities of companies with strong or improving fundamentals, trading at what we believe to be their potential fair value.

We remain committed to the Fund's long-term strategy which is based on a process that seeks to identify value opportunities in out-of-favor or poorly followed securities of financially sound companies. Opportunities tend to arise over time in securities of companies that fall temporarily out-of-favor due to specific company or industry issues that may taint the issuers. Often times these companies are in a period of transition or restructuring where market sentiment is overly harsh or negative resulting in an undervalued situation. We are keenly aware that a cheap price alone does not guarantee a good investment; therefore, we seek to identify a catalyst we believe will allow the company and its securities to regain favor and be rewarded with higher valuations. We believe that investing in securities trading below their fair values due to non-fundamental short-term issues, emotion or misunderstanding offers significant long-term potential returns.

Thank you for your investment in the Nicholas High Income Fund.

Regards,



Lawrence J. Pavelec, CFA.  
Senior Vice President  
Portfolio Manager

The information above represents the opinions of the Fund manager, is subject to change, and any forecasts made cannot be guaranteed.

**Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities.**

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.

*Current and future portfolio holdings are subject to risk.*

Index Definitions - You cannot invest directly in an index.

The Bank of America Merrill Lynch U.S. High Yield Master II Index is a market value-weighted index of all domestic and yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index limits any individual issuer to a maximum of 2% benchmark exposure.

The Bank of America Merrill Lynch U.S. High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$250 million.

The Bank of America Merrill Lynch U.S. High Yield BB-B Index is a subset of the Bank of America Merrill Lynch U.S. High Yield Index including all securities rated BB1 through B3.

The Bank of America Merrill Lynch U.S. High Yield BB Index is a subset of the Bank of America Merrill Lynch U.S. High Yield Index including all securities rated BB1 through BB3.

The Bank of America Merrill Lynch U.S. High Yield BBB Index is a subset of the Bank of America Merrill Lynch U.S. High Yield Index including all securities rated BBB1 through BBB3.

The Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index is a subset of the Merrill Lynch U.S. High Yield Index including all securities rated CCC1 or lower.

The Bank of America Merrill Lynch U.S. Treasury and Agency Index tracks the performance of U.S. dollar denominated U.S. Treasury and non-subordinated U.S. agency debt issued in the U.S. domestic market. Issues included in the index have maturities of one year or more, have an investment grade rating, a fixed coupon schedule and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies.

The Barclays Capital U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

The Russell 2000 Index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

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.

Each Morningstar Category average represents a universe of Funds with similar invest objectives.

**Cash Flow** - measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

**Duration** - a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

**EBITDA** - Earnings Before Interest, Taxes, Depreciation and Amortization.

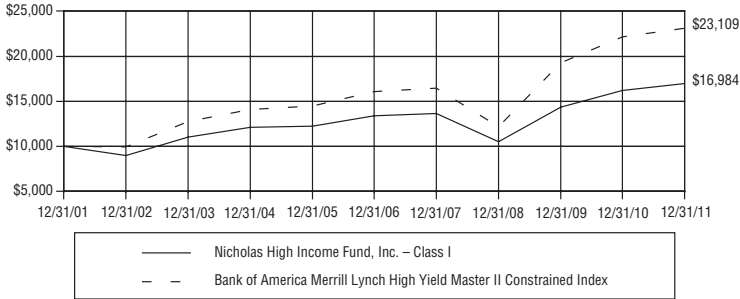
Must be preceded or accompanied by a prospectus.

The Nicholas Funds are distributed by Quasar Distributors, LLC. (02/12)

<sup>(1)</sup> Source: Barclays Capital U.S. Leveraged Finance Syndicate report.

The line graph, which follows, compares the initial account value and subsequent account values at the end of each of the most recently completed ten fiscal years of the Fund's Class I, to the same investment over the same periods in the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The graph assumes a \$10,000 investment in the Fund's Class I and the index at the beginning of the first fiscal year.

**COMPARISON OF CHANGE IN VALUE OF \$10,000 INVESTMENT IN NICHOLAS HIGH INCOME FUND, INC. CLASS I AND BANK OF AMERICA MERRILL LYNCH U.S. HIGH YIELD MASTER II CONSTRAINED INDEX**



The Fund's Class I 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 December 31, 2011	Five Years Ended December 31, 2011	Ten Years Ended December 31, 2011
Average Annual Total Return	4.93%	4.86%	5.44%

*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 Class I (NCINX)

For a share outstanding throughout each period

	Years Ended December 31,				
	2011	2010	2009	2008	2007
NET ASSET VALUE, BEGINNING OF PERIOD . . . . .	\$9.52	\$9.09	\$7.18	\$10.18	\$10.70
INCOME (LOSS) FROM INVESTMENT OPERATIONS					
Net investment income . . . . .	.69	.74	.66	.71	.75
Net gain (loss) on securities (realized and unrealized) . . . . .	(.22)	.41	1.91	(3.00)	(.52)
Total from investment operations . . . . .	.47	1.15	2.57	(2.29)	.23
LESS DISTRIBUTIONS					
From net investment income . . . . .	(.71)	(.72)	(.66)	(.71)	(.75)
NET ASSET VALUE, END OF PERIOD . . . . .	<u>\$9.28</u>	<u>\$9.52</u>	<u>\$9.09</u>	<u>\$ 7.18</u>	<u>\$10.18</u>
TOTAL RETURN . . . . .	4.93%	12.99%	36.42%	(23.26)%	2.13%
SUPPLEMENTAL DATA:					
Net assets, end of period (millions) . . . . .	\$93.8	\$91.6	\$88.6	\$65.2	\$91.9
Ratio of expenses to average net assets . . . . .	.72%	.74%	.73%	.77%	.72%
Ratio of net investment income to average net assets . . . . .	7.44%	7.74%	8.12%	7.70%	6.97%
Portfolio turnover rate . . . . .	61.19%	78.23%	88.33%	61.42%	59.14%

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

# Financial Highlights Class N (NNHIX)

For a share outstanding throughout each period

	Years Ended December 31,				
	2011	2010	2009	2008	2007
NET ASSET VALUE, BEGINNING OF PERIOD . . . . .	\$9.64	\$9.18	\$7.24	\$10.06	\$10.60
INCOME (LOSS) FROM INVESTMENT OPERATIONS					
Net investment income . . . . .	.66	.69	.63	.52	.71
Net gain (loss) on securities (realized and unrealized) . . . . .	(.23)	.44	1.94	(2.82)	(.54)
Total from investment operations . . . . .	.43	1.13	2.57	(2.30)	.17
LESS DISTRIBUTIONS					
From net investment income . . . . .	(.68)	(.67)	(.63)	(.52)	(.71)
NET ASSET VALUE, END OF PERIOD . . . . .	<u>\$9.39</u>	<u>\$9.64</u>	<u>\$9.18</u>	<u>\$ 7.24</u>	<u>\$10.06</u>
TOTAL RETURN . . . . .	4.45%	12.56%	36.15%	(23.33)%	1.59%
SUPPLEMENTAL DATA:					
Net assets, end of period (millions) . . . . .	\$2.6	\$3.4	\$16.2	\$ .09	\$ .13
Ratio of expenses to average net assets . . . . .	1.06%	1.06%	1.06%	1.06%	1.07%
Ratio of net investment income to average net assets . . . . .	7.07%	7.34%	7.67%	6.72%	6.58%
Portfolio turnover rate . . . . .	61.19%	78.23%	88.33%	61.42%	59.14%

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

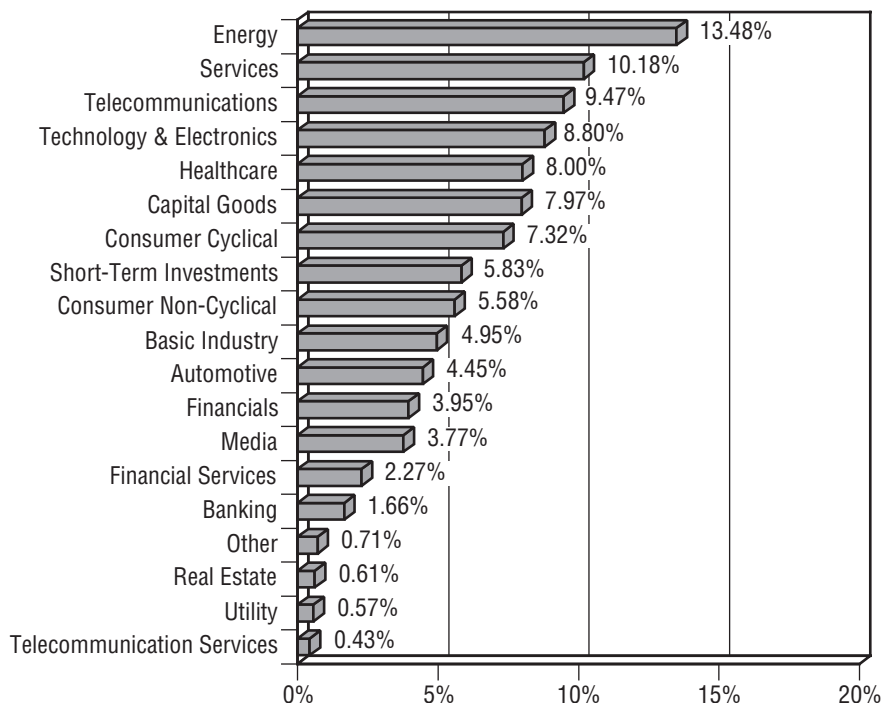
# Top Ten Portfolio Issuers

December 31, 2011 (unaudited)

Name	Percentage of Net Assets
CDW LLC	2.42%
Zayo Group, LLC	2.21%
Pinnacle Foods Finance LLC	2.13%
Tesoro Corporation	1.75%
MGM Resorts International	1.69%
HCA Inc.	1.65%
SandRidge Energy, Inc.	1.63%
Helix Energy Solutions Group, Inc.	1.62%
CKE Restaurants, Inc.	1.58%
FMG Resources Pty Ltd	1.57%
Total of top ten	<u>18.25%</u>

## Sector Diversification (As a Percentage of Portfolio)

December 31, 2011 (unaudited)



# Fund Expenses

For the six month period ended December 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 for each share class of the Fund 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 ratios for each class of the Fund and an assumed rate of return of 5% per year before expenses, which are not the Fund's actual returns. 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.

Class I

	Beginning Account Value <u>06/30/11</u>	Ending Account Value <u>12/31/11</u>	Expenses Paid During Period* <u>07/01/11 - 12/31/11</u>
Actual	\$1,000.00	\$1,007.80	\$3.63
Hypothetical (5% return before expenses)	1,000.00	1,021.38	3.66

\* Expenses are equal to the Class I six-month annualized expense ratio of 0.71%, multiplied by the average account value over the period, multiplied by 186 then divided by 365 to reflect the one-half year period.

# Fund Expenses (continued)

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

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Class N

	Beginning Account Value <u>06/30/11</u>	Ending Account Value <u>12/31/11</u>	Expenses Paid During Period** <u>07/01/11 - 12/31/11</u>
Actual	\$1,000.00	\$1,006.30	\$5.27
Hypothetical (5% return before expenses)	1,000.00	1,019.75	5.30

\*\* Expenses are equal to the Class N six-month annualized expense ratio of 1.03%, multiplied by the average account value over the period, multiplied by 186 then divided by 365 to reflect the one-half year period.

# Schedule of Investments

December 31, 2011

Shares or Principal Amount		Value
<b>NON-CONVERTIBLE BONDS — 89.51%</b>		
<b>Automotive – Auto Makers — 1.42%</b>		
\$1,500,000	Chrysler Group LLC 144A restricted, 8.00%, 06/15/19 .....	\$ 1,372,500
<b>Automotive – Loans — 0.64%</b>		
500,000	Ford Motor Credit Company LLC 12.00%, 05/15/15 .....	612,495
<b>Automotive – Parts &amp; Equipment — 2.31%</b>		
450,000	American Axle & Manufacturing Holdings, Inc. 144A restricted, 9.25%, 01/15/17 .....	488,250
1,000,000	American Axle & Manufacturing, Inc. 7.875%, 03/01/17 .....	990,000
750,000	Visteon Corporation 144A restricted, 6.75%, 04/15/19 .....	748,125
		<u>2,226,375</u>
<b>Banking — 1.63%</b>		
1,000,000	Ally Financial Inc. 6.25%, 12/01/17 .....	964,600
1,000,000	BAC Capital Trust XIV Fixed to Floating Rate Securities 5.63%, 12/31/49 <sup>(1)</sup> .....	602,500
		<u>1,567,100</u>
<b>Basic Industry – Building Materials — 0.98%</b>		
500,000	Associated Materials, LLC 9.125%, 11/01/17 .....	436,250
500,000	Vulcan Materials Company 6.40%, 11/30/17 .....	507,500
		<u>943,750</u>
<b>Basic Industry – Forestry &amp; Paper — 1.55%</b>		
1,000,000	Cascades Inc. 7.75%, 12/15/17 .....	990,000
500,000	Potlatch Corporation 144A restricted, 7.50%, 11/01/19 .....	505,000
		<u>1,495,000</u>
<b>Basic Industry – Metal/Mining Excluding Steel — 1.82%</b>		
250,000	American Rock Salt Company LLC 144A restricted, 8.25%, 05/01/18 .....	240,000
1,500,000	FMG Resources Pty Ltd 144A restricted, 7.00%, 11/01/15 .....	1,515,000
		<u>1,755,000</u>
<b>Basic Industry – Steel Producers &amp; Products — 0.51%</b>		
500,000	United States Steel Corporation 7.375%, 04/01/20 .....	487,500
<b>Capital Goods – Aerospace &amp; Defense — 1.88%</b>		
500,000	Bombardier Inc. 144A restricted, 7.50%, 03/15/18 .....	535,000
1,250,000	ManTech International Corporation 7.25%, 04/15/18 .....	1,273,437
		<u>1,808,437</u>
<b>Capital Goods – Diversified — 2.43%</b>		
500,000	Coleman Cable, Inc. 9.00%, 02/15/18 .....	495,625
350,000	Mueller Water Products, Inc. 7.375%, 06/01/17 .....	318,500
500,000	Mueller Water Products, Inc. 8.75%, 09/01/20 .....	543,125

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

# Schedule of Investments (continued)

December 31, 2011

Shares or Principal Amount		Value
<b>NON-CONVERTIBLE BONDS — 89.51% (continued)</b>		
<b>Capital Goods – Diversified — 2.43% (continued)</b>		
\$1,000,000	Park-Ohio Industries, Inc. 8.125%, 04/01/21 .....	\$ 985,000
		<u>2,342,250</u>
<b>Capital Goods – Packaging — 3.51%</b>		
1,000,000	Berry Plastics Corporation 9.50%, 05/15/18 .....	1,005,000
1,250,000	Sealed Air Corporation 144A restricted, 8.125%, 09/15/19 .....	1,368,750
1,000,000	Solo Cup Company 10.50%, 11/01/13 .....	1,015,000
		<u>3,388,750</u>
<b>Consumer Cyclical – Apparel and Textiles — 1.64%</b>		
500,000	Levi Strauss & Co. 7.625%, 05/15/20 .....	510,625
1,000,000	Liz Claiborne, Inc. 144A restricted, 10.50%, 04/15/19 .....	1,070,000
		<u>1,580,625</u>
<b>Consumer Cyclical – Department Stores — 0.39%</b>		
500,000	Sears Holdings Corporation 6.625%, 10/15/18 .....	380,000
<b>Consumer Cyclical – Household &amp; Leisure Products — 0.24%</b>		
211,000	Sealy Mattress Company 144A restricted, 10.875%, 04/15/16 .....	230,518
<b>Consumer Cyclical – Restaurants — 4.37%</b>		
1,000,000	Burger King Corporation 9.875%, 10/15/18 .....	1,088,750
1,400,000	CKE Restaurants, Inc. 11.375%, 07/15/18 .....	1,526,000
500,000	NPC International, Inc. 144A restricted, 10.50%, 01/15/20 .....	502,500
1,000,000	Wendy's/Arby's Restaurants, LLC 144A restricted, 10.00%, 07/15/16 .....	1,100,000
		<u>4,217,250</u>
<b>Consumer Cyclical – Specialty Retail — 0.54%</b>		
500,000	Toys "R" Us Property Company II, LLC 8.50%, 12/01/17 .....	517,500
<b>Consumer Non-Cyclical – Food-Wholesale — 3.64%</b>		
500,000	Dean Foods Company 7.00%, 06/01/16 .....	493,750
1,000,000	Del Monte Foods Company 7.625%, 02/15/19 .....	960,000
2,000,000	Pinnacle Foods Finance LLC 9.25%, 04/01/15 .....	2,052,500
		<u>3,506,250</u>
<b>Consumer Non-Cyclical – Products — 1.84%</b>		
314,000	FGI Operating Company, Inc. 10.25%, 08/01/15 .....	332,840
1,350,000	Libbey Glass Inc. 10.00%, 02/15/15 .....	1,444,500
		<u>1,777,340</u>
<b>Energy – Exploration &amp; Production — 3.84%</b>		
1,000,000	Encore Acquisition Company 9.50%, 05/01/16 .....	1,102,500
1,000,000	SandRidge Energy, Inc. 144A restricted, 9.875%, 05/15/16 .....	1,070,000
500,000	SandRidge Energy, Inc. 144A restricted, 8.00%, 06/01/18 .....	505,000

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

# Schedule of Investments (continued)

December 31, 2011

Shares or Principal Amount		Value
<b>NON-CONVERTIBLE BONDS — 89.51% (continued)</b>		
<b>Energy – Exploration &amp; Production — 3.84% (continued)</b>		
\$1,000,000	Stone Energy Corporation 8.625%, 02/01/17 .....	\$ 1,020,000
		<u>3,697,500</u>
<b>Energy – Oil Field Equipment &amp; Services — 7.06%</b>		
1,000,000	CHC Helicopter S.A. 144A restricted, 9.25%, 10/15/20 .....	900,000
1,000,000	Chesapeake Oilfield Operating, L.L.C. 144A restricted, 6.625%, 11/15/19 .....	1,040,000
500,000	Geokinetics Holdings USA, Inc. 9.75%, 12/15/14 .....	315,000
1,500,000	Helix Energy Solutions Group, Inc. 144A restricted, 9.50%, 01/15/16 .....	1,560,000
500,000	Hercules Offshore, Inc. 144A restricted, 10.50%, 10/15/17 .....	486,250
500,000	Hornbeck Offshore Services, Inc. 6.125%, 12/01/14 .....	503,125
925,000	Parker Drilling Company 9.125%, 04/01/18 .....	973,562
500,000	Petroleum Geo-Services ASA 144A restricted, 7.375%, 12/15/18 .....	510,000
500,000	Pioneer Drilling Company 9.875%, 03/15/18 .....	522,500
		<u>6,810,437</u>
<b>Energy – Oil Refining &amp; Marketing — 2.34%</b>		
1,500,000	Tesoro Corporation 9.75%, 06/01/19 .....	1,683,750
500,000	Western Refining, Inc. 144A restricted, 11.25%, 06/15/17 .....	568,750
		<u>2,252,500</u>
<b>Financial Services – Brokerage — 1.20%</b>		
1,250,000	Oppenheimer Holdings Inc. 8.75%, 04/15/18 .....	1,159,375
<b>Financial Services – Investments &amp; Miscellaneous Financial Services — 1.03%</b>		
1,000,000	Nuveen Investments, Inc. 10.50%, 11/15/15 .....	992,500
<b>Financials – Consumer, Commercial &amp; Lease Financing — 2.06%</b>		
500,000	CIT Group Inc. 7.00%, 05/01/17 .....	500,000
500,000	International Lease Finance Corporation 6.25%, 05/15/19 .....	461,895
1,000,000	International Lease Finance Corporation 8.625%, 09/15/15 .....	1,025,000
		<u>1,986,895</u>
<b>Healthcare – Facilities — 4.64%</b>		
750,000	American Renal Holdings Inc. 8.375%, 05/15/18 .....	787,500
500,000	Apria Healthcare Group Inc. 12.375%, 11/01/14 .....	458,750
1,000,000	Apria Healthcare Group Inc. 11.25%, 11/01/14 .....	1,032,500
1,500,000	HCA Inc. 8.00%, 10/01/18 .....	1,586,250
600,000	Sabra Health Care Limited Partnership 8.125%, 11/01/18 .....	606,000
		<u>4,471,000</u>
<b>Healthcare – Medical Products — 0.54%</b>		
500,000	Teleflex Incorporated 6.875%, 06/01/19 .....	521,250

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

# Schedule of Investments (continued)

December 31, 2011

Shares or Principal Amount		Value
<b>NON-CONVERTIBLE BONDS — 89.51% (continued)</b>		
<b>Healthcare – Pharmaceuticals — 2.67%</b>		
\$ 500,000	Endo Pharmaceuticals Holdings Inc. 7.00%, 07/15/19 .....	\$ 532,500
500,000	Mylan Inc. 144A restricted, 7.625%, 07/15/17 .....	545,625
1,500,000	Valeant Pharmaceuticals International 144A restricted, 6.50%, 07/15/16 .....	<u>1,498,125</u>
		<u>2,576,250</u>
<b>Media – Broadcast — 0.66%</b>		
599,000	Salem Communications Corporation 9.625%, 12/15/16 .....	<u>631,945</u>
<b>Media – Cable — 0.51%</b>		
500,000	UPCB Finance III Limited 144A restricted, 6.625%, 07/01/20 .....	<u>492,500</u>
<b>Media – Diversified — 1.49%</b>		
1,500,000	Media General, Inc. 11.75%, 02/15/17 .....	<u>1,432,500</u>
<b>Media – Printing &amp; Publishing — 1.05%</b>		
500,000	Deluxe Corporation 7.375%, 06/01/15 .....	506,250
500,000	Scholastic Corporation 5.00%, 04/15/13 .....	501,250
		<u>1,007,500</u>
<b>Real Estate – Development &amp; Management — 0.60%</b>		
500,000	CB Richard Ellis Services, Inc. 11.625%, 06/15/17 .....	<u>576,250</u>
<b>Services – Gaming — 1.69%</b>		
500,000	MGM MIRAGE 5.875%, 02/27/14 .....	485,000
1,000,000	MGM Resorts International 10.375%, 05/15/14 .....	1,142,500
		<u>1,627,500</u>
<b>Services – Hotels — 0.50%</b>		
500,000	FelCor Escrow Holdings, L.L.C. 6.75%, 06/01/19 .....	<u>480,000</u>
<b>Services – Railroads — 1.02%</b>		
1,000,000	Florida East Coast Railway Corp. 144A restricted, 8.125%, 02/01/17 .....	<u>987,500</u>
<b>Services – Support &amp; Services — 4.06%</b>		
1,000,000	Avis Budget Car Rental, LLC 9.625%, 03/15/18 .....	1,035,000
500,000	Hertz Corporation (The) 6.75%, 04/15/19 .....	501,250
1,000,000	Interactive Data Corporation 10.25%, 08/01/18 .....	1,095,000
1,000,000	Mobile Mini, Inc. 6.875%, 05/01/15 .....	1,006,250
500,000	Travelport LLC 9.00%, 03/01/16 .....	276,250
		<u>3,913,750</u>
<b>Services – Theaters &amp; Entertainment — 1.63%</b>		
500,000	AMC Entertainment Inc. 8.75%, 06/01/19 .....	517,500
1,000,000	NAI Entertainment Holdings LLC 144A restricted, 8.25%, 12/15/17 .....	<u>1,057,500</u>
		<u>1,575,000</u>

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

# Schedule of Investments (continued)

December 31, 2011

Shares or Principal Amount		Value
<b>NON-CONVERTIBLE BONDS — 89.51% (continued)</b>		
<b>Services – Transportation Excluding Air &amp; Rail — 1.09%</b>		
\$1,000,000	Swift Services Holdings, Inc. 10.00%, 11/15/18 .....	\$ 1,052,500
<b>Technology &amp; Electronics – Electronics — 0.75%</b>		
1,000,000	MEMC Electronic Materials, Inc. 7.75%, 04/01/19 .....	722,500
<b>Technology &amp; Electronics – Software &amp; Services — 2.41%</b>		
1,000,000	First Data Corporation 9.875%, 09/24/15 .....	940,000
1,500,000	GXS Worldwide, Inc. 9.75%, 06/15/15 .....	1,387,500
		<u>2,327,500</u>
<b>Technology &amp; Electronics – Telecommunications Equipment — 5.48%</b>		
1,500,000	Avaya Inc. 144A restricted, 7.00%, 04/01/19 .....	1,455,000
2,250,000	CDW LLC 8.50%, 04/01/19 .....	2,266,875
59,000	CDW LLC 11.00%, 10/12/15 .....	61,950
1,500,000	CommScope, Inc. 144A restricted 8.25%, 01/15/19 .....	1,500,000
		<u>5,283,825</u>
<b>Telecommunications – Integrated &amp; Services — 8.13%</b>		
500,000	Cincinnati Bell Inc. 8.375%, 10/15/20 .....	498,750
1,000,000	Equinix, Inc. 8.125%, 03/01/18 .....	1,090,000
500,000	Frontier Communications Corporation 8.50%, 04/15/20 .....	511,875
1,300,000	Integra Telecom Holdings, Inc. 144A restricted, 10.75%, 04/15/16 .....	1,062,750
1,000,000	Intelsat Jackson Holdings S.A. 144A restricted, 7.25%, 04/01/19 .....	1,015,000
500,000	PAETEC Holding Corp. 8.875%, 06/30/17 .....	540,000
1,000,000	Windstream Corporation 7.50%, 04/01/23 .....	987,500
2,000,000	Zayo Group, LLC 10.25%, 03/15/17 .....	2,135,000
		<u>7,840,875</u>
<b>Telecommunications – Wireless — 1.16%</b>		
1,000,000	Digicel Group Limited 144A restricted, 12.00%, 04/01/14 .....	1,120,000
<b>Utility – Electric-Generation — 0.56%</b>		
500,000	Calpine Corporation 144A restricted, 7.875%, 07/31/20 .....	538,750
	TOTAL NON-CONVERTIBLE BONDS	
	(cost \$86,226,992) .....	<u>86,286,742</u>
<b>COMMON STOCKS — 1.79%</b>		
<b>Financials – Real Estate — 0.66%</b>		
40,000	Annaly Capital Management, Inc. ....	638,400
<b>Other — 0.70%</b>		
7,500	iShares iBoxx \$High Yield Corporate Bond Fund <sup>(2)</sup> .....	670,725
<b>Telecommunication Services — 0.43%</b>		
80,000	Frontier Communications Corporation .....	412,000
	TOTAL COMMON STOCKS	
	(cost \$1,970,517) .....	<u>1,721,125</u>

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

# Schedule of Investments (continued)

December 31, 2011

Shares or Principal Amount		Value
<b>CONVERTIBLE PREFERRED STOCK — 1.10%</b>		
<b>Financials – Banks — 1.10%</b>		
\$ 1,000	Wachovia Corporation 7.50% Non-Cumulative Perpetual Convertible Preferred Stock, Series L (cost \$1,007,500) .....	\$ 1,055,000
<b>PREFERRED STOCKS — 0.06%</b>		
<b>Financials – Banks — 0.06%</b>		
35,000	Fannie Mae Fixed-To-Floating Rate Non-Cumulative Preferred Stock, Series S <sup>(3)(4)</sup> .....	48,300
10,000	Freddie Mac Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series Z <sup>(4)(5)</sup> .....	13,300
	<b>TOTAL PREFERRED STOCKS</b> (cost \$986,350) .....	<b>61,600</b>
<b>SHORT-TERM INVESTMENTS — 5.72%</b>		
<b>Commercial Paper — 4.46%</b>		
825,000	Bemis Company, Inc. 0.45%, 01/03/12 .....	825,000
1,525,000	NorthWestern Corporation 0.30%, 01/03/12 .....	1,525,000
1,000,000	Citigroup Funding Inc. 0.27%, 01/04/12 .....	999,993
500,000	Marriott International, Inc. 0.50%, 01/04/12 .....	499,993
450,000	Hitachi America Capital, Ltd. 0.45%, 01/09/12 .....	449,966
		<u>4,299,952</u>
<b>Variable Rate Security — 1.26%</b>		
1,218,102	American Family Financial Services, Inc. 0.10%, 01/03/12 <sup>(6)</sup> .....	1,218,102
	<b>TOTAL SHORT-TERM INVESTMENTS</b> (cost \$5,518,054) .....	<b>5,518,054</b>
	<b>TOTAL INVESTMENTS</b> (cost \$95,709,413) – 98.18% .....	<b>94,642,521</b>
	<b>OTHER ASSETS, NET OF LIABILITIES – 1.82%</b> .....	<b>1,756,770</b>
	<b>TOTAL NET ASSETS</b> (basis of percentages disclosed above) – 100% .....	<b>\$96,399,291</b>

- (1) 5.63% per annum until March 15, 2012, thereafter the greater of (i) 3-month LIBOR plus 0.40% and (ii) 4.00%; such rate being reset quarterly.
- (2) Closed end mutual fund.
- (3) The greater of (i) 7.75% per annum and (ii) 3-month LIBOR plus 4.23% per annum; such rate being reset quarterly.
- (4) Non-income producing security.
- (5) 8.375% per annum until December 31, 2012, thereafter the greater of (i) 7.875% per annum and (ii) 3-month LIBOR plus 4.16% per annum; such rate being reset quarterly.
- (6) 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

December 31, 2011

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## ASSETS

Investments in securities at value (cost \$95,709,413) .....	\$ 94,642,521
Dividend and interest receivable .....	1,840,974
Other .....	7,367
Total assets .....	<u>96,490,862</u>

## LIABILITIES

Payables —	
Due to adviser —	
Management fee .....	38,460
Accounting and administrative fee .....	4,521
Total due to adviser .....	<u>42,981</u>
12b-1 and servicing fee .....	5,984
Other payables and accrued expense .....	42,606
Total liabilities .....	<u>91,571</u>
Total net assets .....	<u>\$ 96,399,291</u>

## NET ASSETS CONSIST OF

Paid in capital .....	\$109,005,274
Net unrealized depreciation on investments .....	(1,066,892)
Accumulated net realized loss on investments .....	(11,600,183)
Accumulated undistributed net investment income .....	61,092
Total net assets .....	<u>\$ 96,399,291</u>

## Class I:

Net assets .....	\$93,798,056
Shares outstanding .....	10,103,709
NET ASSET VALUE PER SHARE (\$.05 par value, 75,000,000 shares authorized), offering price and redemption price .....	<u>\$9.28</u>

## Class N:

Net assets .....	\$2,601,235
Shares outstanding .....	276,907
NET ASSET VALUE PER SHARE (\$.05 par value, 25,000,000 shares authorized), offering price and redemption price .....	<u>\$9.39</u>

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

# Statement of Operations

For the year ended December 31, 2011

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## INCOME

Interest .....	\$ 7,448,294
Dividend .....	284,346
Other .....	<u>149,030</u>
Total income .....	<u>7,881,670</u>

## EXPENSES

Management fee .....	435,453
Transfer agent fees .....	55,414
Accounting and administrative fees .....	50,000
Registration fees .....	36,711
Audit and tax fees .....	28,950
Accounting system and pricing service fees .....	28,015
Directors' fees .....	15,455
Printing .....	10,589
Legal fees .....	8,527
Postage and mailing .....	7,792
12b-1 fees – Class N .....	7,079
Insurance .....	5,873
Custodian fees .....	4,921
Servicing fees – Class N .....	2,832
Other operating expenses .....	<u>5,278</u>
Total expenses .....	<u>702,889</u>
Net investment income .....	<u>7,178,781</u>

NET REALIZED GAIN ON INVESTMENTS ..... 1,770,664

## CHANGE IN NET UNREALIZED APPRECIATION/DEPRECIATION

ON INVESTMENTS .....	<u>(4,190,756)</u>
Net realized and unrealized loss on investments .....	<u>(2,420,092)</u>
Net increase in net assets resulting from operations .....	<u>\$ 4,758,689</u>

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

# Statements of Changes in Net Assets

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
INCREASE (DECREASE) IN		
NET ASSETS FROM OPERATIONS		
Net investment income .....	\$ 7,178,781	\$ 7,148,535
Net realized gain on investments .....	1,770,664	3,979,950
Change in net unrealized appreciation/depreciation on investments .....	(4,190,756)	(112,458)
Net increase in net assets resulting from operations .....	<u>4,758,689</u>	<u>11,016,027</u>
DISTRIBUTIONS TO SHAREHOLDERS		
From net investment income – Class I .....	(6,944,280)	(6,760,195)
From net investment income – Class N .....	(235,707)	(219,218)
Total distributions .....	<u>(7,179,987)</u>	<u>(6,979,413)</u>
CAPITAL SHARE TRANSACTIONS		
Proceeds from shares issued – Class I (1,574,038 and 989,704 shares, respectively) .....	15,100,736	9,434,030
Reinvestment of distributions – Class I (632,406 and 610,163 shares, respectively) .....	6,016,331	5,754,941
Cost of shares redeemed – Class I (1,723,488 and 1,721,346 shares, respectively) .....	(16,612,574)	(16,124,679)
Proceeds from shares issued – Class N (1,256,593 and 1,244,543 shares, respectively) .....	12,289,451	11,769,201
Reinvestment of distributions – Class N (24,268, and 22,835 shares, respectively) .....	235,179	218,709
Cost of shares redeemed – Class N (1,354,193 and 2,684,424 shares, respectively) .....	(13,213,172)	(24,888,251)
Change in net assets derived from capital share transactions .....	<u>3,815,951</u>	<u>(13,836,049)</u>
Total increase (decrease) in net assets .....	<u>1,394,653</u>	<u>(9,799,435)</u>
NET ASSETS		
Beginning of period .....	<u>95,004,638</u>	<u>104,804,073</u>
End of period (including accumulated undistributed net investment income of \$61,092 and \$62,298, respectively) .....	<u>\$96,399,291</u>	<u>\$ 95,004,638</u>

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

# Notes to Financial Statements

December 31, 2011

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## (1) Summary of Significant Accounting Policies —

Nicholas High 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 high current income consistent with the preservation and conservation of capital values. 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, transactions, spreads and other relationships observed in the

# Notes to Financial Statements (continued)

December 31, 2011

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 December 31, 2011 in valuing the Fund’s investments carried at value:

<u>Valuation Inputs</u>	<u>Investments in Securities</u>
Level 1 –	
Common Stocks <sup>(1)</sup> .....	\$ 1,721,125
Convertible Preferred Stock <sup>(1)</sup> .....	1,055,000
Preferred Stocks <sup>(1)</sup> .....	61,600
Level 2 –	
Non-Convertible Bonds <sup>(1)</sup> .....	86,286,742
Commercial Paper .....	4,299,952
Variable Rate Security .....	1,218,102
Level 3 –	
None .....	—
Total .....	<u>\$94,642,521</u>

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

There were no significant transfers between levels during the year ended December 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.

Investment income, net capital gains (losses) and all expenses incurred by the Fund are allocated based on the relative net assets of each class, except for service fees and certain other fees and expenses related to one class of shares.

Class N shares are subject to a 0.25% 12b-1 fee and a 0.10% servicing fee, as described in its prospectus. Income, expenses (other than expenses attributable to

# Notes to Financial Statements (continued)

December 31, 2011

a specific class), and realized and unrealized gains and losses are allocated daily to each class of shares based upon the relative net asset value of outstanding shares.

- (e) Dividends and distributions paid to shareholders are recorded on the ex-dividend date. Distributions from net investment income are generally declared and paid at least quarterly. Distributions of net realized capital gain, if any, are declared and paid at least annually.

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 ("U.S. GAAP") for financial reporting purposes. Financial reporting records are adjusted for permanent book-to-tax differences to reflect tax character. At December 31, 2011, no reclassifications were recorded.

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

	<u>12/31/2011</u>	<u>12/31/2010</u>
Distributions paid from:		
Ordinary income . . . . .	<u>\$7,179,987</u>	<u>\$6,979,413</u>

As of December 31, 2011, investment cost for federal tax purposes was \$95,709,413 and the tax basis components of net assets were as follows:

Unrealized appreciation . . . . .	\$ 2,342,198
Unrealized depreciation . . . . .	<u>(3,409,090)</u>
Net unrealized depreciation . . . . .	<u>(1,066,892)</u>
Undistributed ordinary income . . . . .	61,092
Accumulated net realized capital loss . . . . .	(11,600,183)
Paid in capital . . . . .	<u>109,005,274</u>
Net assets . . . . .	<u>\$ 96,399,291</u>

There were no differences between the book-basis and tax-basis components of net assets.

As of the year ended December 31, 2011, the Fund realized post-October losses of approximately \$142,000, which for tax purposes, will be deferred and recognized in the following year.

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

The Fund utilized approximately \$1,913,000 of capital loss carryforwards during fiscal 2011. As of December 31, 2011, the Fund has capital loss carryforwards of approximately \$11,458,000, which expire as follows: \$4,624,000 in 2016, and \$6,834,000 in 2017. To the extent the Fund has future net realized capital gains, distributions of capital gains to shareholders will be offset by any unused capital loss carryforward.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "RIC Act") was enacted, and the provisions within the RIC Act are

# Notes to Financial Statements (continued)

December 31, 2011

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effective for the Fund for the year ended December 31, 2011. The RIC Act modernized 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. Prior to the RIC Act, capital losses could be carried forward for eight years, and were carried forward as short-term capital losses regardless of the character of the original loss. The RIC Act also contains 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 repeals 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 RIC during the portion of its taxable year ending after October 31 or December 31.

The Fund had no material uncertain tax positions and has not recorded a liability for unrecognized tax benefits as of December 31, 2011. Also, the Fund recognized no interest and penalties related to uncertain tax benefits during the same period. At December 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. GAAP 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 the normal course of business the Fund enters into contracts that contain general indemnification clauses. The Fund’s maximum exposure under these arrangements is unknown, as this would involve future claims against the Fund that have not yet occurred. Based on experience, the Fund expects the risk of loss to be remote.
- (h) 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 December 31, 2011. There have been no significant subsequent events since December 31, 2011 that would require adjustment to or additional disclosure in these financial statements.
- (i) In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements” in U.S. GAAP and International Financial Reporting Standards (“IFRS”). ASU No. 2011-04 amends FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” to establish common requirements for measuring fair value and disclosing additional information about Level 3 fair value measurements in accordance with U.S. GAAP and IFRS. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within these fiscal years. Management is currently evaluating the impact these amendments may have on the Fund’s financial statements.

# Notes to Financial Statements (continued)

December 31, 2011

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## (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 .50% of the average net asset value up to and including \$50 million, .40% of the average net asset value in excess of \$50 million and up to and including \$100 million and .30% of the average net asset value in excess of \$100 million. 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 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 \$4,027 for the year ended December 31, 2011 for legal services rendered by this law firm.

## (3) Investment Transactions —

For the year ended December 31, 2011, the cost of purchases and the proceeds from sales of investment securities, other than short-term obligations, aggregated \$57,844,447 and \$55,580,336, respectively.

## (4) Concentration of Risk —

The Fund invests primarily in high yield debt securities. The market values of these high yield debt securities tend to be more sensitive to economic conditions and individual corporate developments than those of higher rated securities. In addition, the market for these securities is generally less liquid than for higher rated securities.

# Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities of Nicholas High Income Fund, Inc. (the "Fund"), including the schedule of investments, as of December 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 five 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.

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 December 31, 2011, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Nicholas High Income Fund, Inc. as of December 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 its financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Milwaukee, Wisconsin  
February 29, 2012

# Historical Record<sup>(1)</sup>

(unaudited)

	Net Asset Value Per Share	Net Investment Income Distributions Per Share	Growth of an Initial \$10,000 Investment <sup>(3)</sup>
<b>Class I</b>			
November 21, 1977 <sup>(2)</sup> . . . . .	\$25.50	\$ —	\$10,000
December 31, 1987 . . . . .	18.20	2.3300	22,560
December 31, 1988 . . . . .	18.40	1.8550	25,164
December 31, 1989 . . . . .	17.20	1.9150	26,155
December 31, 1990 . . . . .	15.05	1.9850	25,886
December 31, 1991 . . . . .	16.70	1.7300	31,853
December 31, 1992 . . . . .	16.90	1.4775	35,143
December 31, 1993 . . . . .	17.60	1.4450	39,695
December 31, 1994 . . . . .	16.05	1.5050	39,626
December 31, 1995 . . . . .	17.10	1.4750	46,029
December 31, 1996 . . . . .	17.65	1.4800	51,721
December 31, 1997 . . . . .	18.45	1.4515	58,514
December 31, 1998 . . . . .	16.95	1.5775	58,788
December 31, 1999 . . . . .	15.30	1.6560	58,749
December 31, 2000 . . . . .	12.00	1.5300	51,620
December 31, 2001 . . . . .	11.80	1.2150	56,144
December 31, 2002 . . . . .	9.65	0.9925	50,459
December 31, 2003 . . . . .	10.95	0.8450	61,937
December 31, 2004 . . . . .	11.15	0.8200	67,915
December 31, 2005 . . . . .	10.50	0.7895	68,849
December 31, 2006 . . . . .	10.70	0.7455	75,221
December 31, 2007 . . . . .	10.18	0.7502	76,820
December 31, 2008 . . . . .	7.18	0.7140	58,955
December 31, 2009 . . . . .	9.09	0.6581	80,426
December 31, 2010 . . . . .	9.52	0.7230	90,876
December 31, 2011 . . . . .	9.28	0.7070(a)	95,354
<b>Class N</b>			
February 28, 2005 <sup>(2)</sup> . . . . .	\$11.20	\$ —	\$10,000
December 31, 2005 . . . . .	10.40	0.7320	9,947
December 31, 2006 . . . . .	10.60	0.7140	10,846
December 31, 2007 . . . . .	10.06	0.7119	11,018
December 31, 2008 . . . . .	7.24	0.5238	8,448
December 31, 2009 . . . . .	9.18	0.6323	11,501
December 31, 2010 . . . . .	9.64	0.6683	12,946
December 31, 2011 . . . . .	9.39	0.6782(a)	13,522

(1) Per share amounts presented for the periods prior to December 31, 2007 in this historical record have been restated or adjusted to reflect a reverse stock split of one share for every five shares outstanding effected on January 29, 2007.

(2) Initial date under Nicholas Company, Inc. management.

(3) Assuming reinvestment of distributions.

(a) Paid on April 27, 2011, \$0.1728 and \$0.1668 to respective Class I and Class N shareholders of record as of April 26, 2011. Paid on July 27, 2011, \$0.1887 and \$0.1791 to respective Class I and Class N shareholders of record as of July 26, 2011. Paid on October 28, 2011, \$0.1728 and \$0.1657 to respective Class I and Class N shareholders of record as of October 27, 2011. Paid on December 29, 2011, \$0.1727 and \$0.1666 to respective Class I and Class N shareholders of record as of December 28, 2011.

The Fund distributed no capital gains for the time periods listed.

# 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 June 30, 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 December 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>					
David O. Nicholas, 50 <sup>(1)</sup> , <sup>(3)</sup>	President and Director	<sup>(2)</sup> , 7 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 Equity Income Fund, Inc. and the Fund.	3	None
<b>DISINTERESTED DIRECTORS</b>					
Robert H. Bock, 79	Director	<sup>(2)</sup> , 9 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, 55	Director	<sup>(2)</sup> , 7 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
Jay H. Robertson, 60	Director	<sup>(2)</sup> , 17 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

# Directors and Officers of the Fund (continued)

(unaudited)

<b>Name and Age</b>	<b>Positions Held With Fund</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupations During Past 5 Years</b>
<b>OFFICERS</b>			
Albert O. Nicholas, 80 <sup>(3)</sup>	Executive Vice President	Annual, 34 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 Co-Portfolio Manager of Nicholas Equity Income Fund, Inc. He was a Director of the Fund until October 29, 2004.
David L. Johnson, 69 <sup>(3)</sup>	Executive Vice President	Annual, 30 years	Executive Vice President, Nicholas Company, Inc., the Adviser to the Fund.
Jeffrey T. May, 55	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.
Lawrence J. Pavelec, 53	Senior Vice President and Portfolio Manager	Annual, 9 years	Senior Vice President, Nicholas Company, Inc., the Adviser to the Fund. He has been Portfolio Manager of the Fund since April 2008. He served as Co-Portfolio Manager from April 2003 until April 2008.
Candace L. Lesak, 54	Vice President	Annual, 25 years	Employee, Nicholas Company, Inc., the Adviser to the Fund.

- (1) David O. Nicholas is the only director of the Fund who is an “interested person” of the Fund, as that term is defined in the 1940 Act. Mr. Nicholas is a Director of the Adviser and owns 1% 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 is the son of Albert O. Nicholas. David L. Johnson is the 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 High 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.

# Nicholas Funds Services Offered

(unaudited)

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- IRAs
  - Traditional
  - Roth
  - SIMPLE
  - SEP
- Coverdell Education Accounts
- Profit Sharing Plan
- Automatic Investment Plan
- Direct Deposit of Dividend and Capital Gain Distributions
- Systematic Withdrawal Plan with Direct Deposit
- Monthly Automatic Exchange between Funds
- Telephone Redemption
- Telephone Exchange
- 24-hour Automated Account Information (800-544-6547)
- 24-hour Internet Account Access ([www.nicholasfunds.com](http://www.nicholasfunds.com))

Please call a shareholder representative for further information on the above services or with any other questions you may have regarding the Nicholas Funds (800-544-6547).

# Notes

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***Directors and Officers***

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