

NUVEEN MICHIGAN QUALITY INCOME MUNICIPAL FUND INC
Form N-CSRS
November 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-6383

Nuveen Michigan Quality Income Municipal Fund, Inc.
(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Address of principal executive offices) (Zip code)

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Chicago, IL 60606
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Registrant's telephone number, including area code: (312) 917-7700

Date of fiscal year end: February 28

Date of reporting period: August 31, 2012

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

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Table of Contents

Chairman’s Letter to Shareholders	4
Portfolio Manager’s Comments	5
Fund Leverage and Other Information	10
Common Share Dividend and Price Information	12
Performance Overviews	14
Shareholder Meeting Report	21
Portfolios of Investments	22
Statement of Assets and Liabilities	61
Statement of Operations	63
Statement of Changes in Net Assets	65
Statement of Cash Flows	68
Financial Highlights	70
Notes to Financial Statements	82
Annual Investment Management Agreement Approval Process	96
Reinvest Automatically, Easily and Conveniently	105
Glossary of Terms Used in this Report	107
Additional Fund Information	111

Chairman's
Letter to Shareholders

Dear Shareholders,

Investors have many reasons to remain cautious. The challenges in the Euro area are casting a shadow over global economies and financial markets. The political support for addressing fiscal issues is eroding as the economic and social impacts become more visible. At the same time, member nations appear unwilling to provide adequate financial support or to surrender sufficient sovereignty to strengthen the banks or unify the Euro area financial system. The gains made in reducing deficits, and the hard-won progress on winning popular acceptance of the need for economic austerity, are at risk. To their credit, European political leaders press on to find compromise solutions, but there is increasing concern that time will begin to run out.

In the U.S., strong corporate earnings have enabled the equity markets to withstand much of the downward pressures coming from weakening job creation, slower economic growth and political uncertainty. The Fed remains committed to low interest rates and announced on September 13, 2012 (after the close of this reporting period) another program of quantitative easing (QE3) to continue until mid-2015. Pre-election maneuvering has added to the already highly partisan atmosphere in Congress. The end of the Bush-era tax cuts and implementation of the spending restrictions of the Budget Control Act of 2011, both scheduled to take place at year-end, loom closer.

During the last year, U.S. based investors have experienced a sharp decline and a strong recovery in the equity markets. The experienced investment teams at Nuveen keep their eye on a longer time horizon and use their practiced investment disciplines to negotiate through market peaks and valleys to achieve long-term goals for investors. Experienced professionals pursue investments that will weather short-term volatility and at the same time, seek opportunities that are created by markets that overreact to negative developments. Monitoring this process is an important consideration for the Fund Board as it oversees your Nuveen Fund on your behalf.

As always, I encourage you to contact your financial consultant if you have any questions about your investment in a Nuveen Fund. On behalf of the other members of your Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

Robert P. Bremner
Chairman of the Board
October 22, 2012

Portfolio Manager's Comments

Nuveen Michigan Quality Income Municipal Fund, Inc. (NUM)
Nuveen Michigan Premium Income Municipal Fund, Inc. (NMP)
Nuveen Michigan Dividend Advantage Municipal Fund (NZW)
Nuveen Ohio Quality Income Municipal Fund, Inc. (NUO)
Nuveen Ohio Dividend Advantage Municipal Fund (NXI)
Nuveen Ohio Dividend Advantage Municipal Fund 2 (NBJ)
Nuveen Ohio Dividend Advantage Municipal Fund 3 (NVJ)

Portfolio manager Daniel Close reviews key investment strategies and the six-month performance of the Nuveen Michigan and Ohio Funds. Dan, who joined Nuveen in 2000, assumed portfolio management responsibility for these seven Funds in 2007.

What key strategies were used to manage the Michigan and Ohio Funds during the six-month reporting period ended August 31, 2012?

During this reporting period, municipal bond prices generally rallied, as strong demand and tight supply combined to create favorable market conditions for municipal bonds. Although the availability of tax-exempt supply improved over that of the same six-month period a year earlier, the pattern of new issuance remained light compared with long-term historical trends. This supply/demand dynamic served as a key driver of performance. Concurrent with rising prices, yields continued to decline across most maturities, especially at the longer end of the municipal yield curve, and the yield curve flattened. During this period, we saw an increasing number of borrowers come to market seeking to take advantage of the low rate environment, with approximately 60% of new municipal paper issued by borrowers that were calling existing debt and refinancing at lower rates.

In this environment, we continued to take a bottom-up approach to discovering sectors that appeared undervalued as well as individual credits that had the potential to perform well over the long term and helped us keep the Funds fully invested. During this period, the Michigan Funds found value in several areas of the market, including water and sewer, health care, local general obligation (GO) bonds, Michigan tobacco credits, and, in NUM, a higher education issue. We also added Michigan unemployment obligation assessment revenue bonds issued in June 2012 by the Michigan Finance Authority as a successor to short-term financing completed in December 2011. The new bonds, which were rated AAA by all three national rating agencies, were part of a \$3 billion issue backed by a special tax on employers, with the proceeds used to eliminate the debt incurred when the state borrowed money from the federal government to pay unemployment benefits beginning in 2007.

Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio manager as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

In the Ohio Funds, we also purchased water and sewer credits and local GOs as well as appropriation and dedicated tax issues. In addition, based on recent tobacco consumption data, NUO swapped some of its higher dollar-priced Buckeye tobacco holdings for tobacco bonds with lower dollar prices.

In general during this period, we focused on bonds with long intermediate to longer maturities. This enabled us to take advantage of attractive yields at the longer end of the municipal yield curve and also provided some protection for the Funds' duration and yield curve positioning. We also purchased lower-rated bonds when we found attractive opportunities, as we believed these bonds continued to offer relative value.

Cash for new purchases during this period was generated primarily by the proceeds from a meaningful number of bond calls resulting from the increase in refinancings. During this period, we worked to redeploy these proceeds to keep the Funds as fully invested as possible. Overall, selling was minimal because the bonds in our portfolios generally offered higher yields than those available in the current marketplace. The Michigan Funds sold selected pre-refunded bonds to help finance the purchase of the Michigan unemployment bonds, while the Ohio Funds had only two sales of pre-refunded bonds during this period.

As of August 31, 2012, all seven of these Funds continued to use inverse floating rate securities. We employ inverse floaters for a variety of reasons, including duration management, income enhancement and total return enhancement.

How did the Funds perform?

Individual results for the Nuveen Michigan and Ohio Funds, as well as relevant index and peer group information, are presented in the accompanying table.

Average Annual Total Returns on Common Share Net Asset Value*
For periods ended 8/31/12

	6-Month	1-Year	5-Year	10-Year
Michigan Funds				
NUM	4.48%	13.71%	7.55%	6.27%
NMP	5.12%	13.38%	7.34%	6.04%
NZW	4.68%	13.91%	7.15%	6.28%
S&P Michigan Municipal Bond Index**				
S&P Michigan Municipal Bond Index**	3.56%	9.87%	5.93%	5.23%
S&P Municipal Bond Index**	3.24%	9.35%	6.00%	5.28%
Lipper Michigan Municipal Debt Funds Classification Average**	4.81%	14.99%	7.18%	6.12%
Ohio Funds				
NUO	4.37%	13.42%	7.81%	6.30%
NXI	4.27%	13.61%	7.51%	6.57%
NBJ	3.84%	13.14%	7.45%	6.41%
NVJ	4.43%	13.60%	7.51%	6.39%
S&P Ohio Municipal Bond Index**				
S&P Ohio Municipal Bond Index**	4.42%	10.45%	5.50%	4.98%
S&P Municipal Bond Index**	3.24%	9.35%	6.00%	5.28%
Lipper Other States Municipal Debt Funds Classification Average**	4.63%	14.84%	7.25%	6.24%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on

Fund distributions or upon the sale of Fund shares.

For additional information, see the Performance Overview for your Fund in this report.

- * Six-month returns are cumulative; all other returns are annualized.
- ** Refer to Glossary of Terms Used in this Report for definitions. Indexes and Lipper averages are not available for direct investment.

6 Nuveen Investments

For the six months ended August 31, 2012, the cumulative returns on common share net asset value (NAV) for the three Michigan Funds exceeded the return for the S&P Michigan Municipal Bond Index. Among the Ohio Funds, NVJ, NUO and NXI performed in line with the S&P Ohio Municipal Bond Index, and NBJ trailed the S&P Ohio return. All seven Funds outperformed the S&P Municipal Bond Index. For the same period, NMP exceeded the average return for the Lipper Michigan Municipal Debt Funds Classification Average, NZW performed in line with this classification and NUM underperformed the Lipper Michigan average, while the Ohio Funds trailed the average return for the Lipper Other States Municipal Debt Funds Classification Average. Shareholders of the Ohio Funds should note that the performance of the Lipper Other States Classification represents the overall average of returns for funds from ten different states with a wide variety of municipal market conditions, which may make direct comparisons less meaningful.

Key management factors that influenced the Funds' returns during this period included duration and yield curve positioning, credit exposure and sector allocation. The use of regulatory leverage also was an important positive factor affecting the Funds' performance. Leverage is discussed in more detail later in this report.

In an environment of declining rates and flattening yield curve, municipal bonds with longer maturities generally outperformed those with shorter maturities during this period. Overall, credits at the longest end of the municipal yield curve posted the strongest returns, while bonds at the shortest end produced the weakest results. For the period, duration and yield curve positioning was a positive contributor to the performance of all of these Funds, which had heavier exposures to the outperforming longer segments of the yield curve and correspondingly smaller weightings in the shorter parts of the curve that produced weaker returns. All of the Funds also benefited from their holdings of zero coupon bonds, which generally outperformed the market during this period due to their longer durations.

Credit exposure was another important factor in the Funds' performance during these six months, as lower quality bonds generally outperformed higher quality bonds. This outperformance was due in part to the greater demand for lower rated bonds as investors looked for investment vehicles offering higher yields. As investors became more comfortable taking on additional investment risk, credit spreads, or the difference in yield spreads between U.S. Treasury securities and comparable investments such as municipal bonds, narrowed through a variety of rating categories. As a result of this spread compression, the Funds generally benefited from their holdings of lower rated credits. Among the Michigan Funds, this was especially true in NMP, which had the highest allocation of bonds rated BBB, while NUM's heavier weighting in AAA bonds detracted from its performance.

During this period, revenue bonds as a whole outperformed the general municipal market. Holdings that generally made positive contributions to the Funds' returns included health care (together with hospitals), education, housing and transportation credits. Tobacco credits backed by the 1998 master tobacco settlement agreement also performed very well, as these bonds benefited from several market developments, including increased demand for higher yielding investments by investors who had become less risk-averse. In addition, based on recent data showing that cigarette sales

had fallen less steeply than anticipated, the 46 states participating in the agreement, including Michigan and Ohio, stand to receive increased payments from the tobacco companies. As of August 31, 2012, all three of the Michigan Funds were overweight in tobacco bonds relative to the S&P Michigan Index, which benefited their performance as these bonds rallied. Although the Ohio Funds' participation in this rally was restrained by their underweight relative to the S&P Ohio Index's weighting in tobacco bonds, NUO benefited from having the largest allocation of tobacco credits among these Funds, while NBJ held the fewest of these bonds.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities, were the poorest performing market segment during this period. The underperformance of these bonds can be attributed primarily to their shorter effective maturities and higher credit quality. On the whole, the Ohio Funds held heavier weightings of pre-refunded bonds than the Michigan Funds, with NUO having the largest allocation of these bonds as of August 31, 2012, while NMP held the fewest pre-refunded bonds overall. General obligation (GO) bonds and utilities credits also lagged the performance of the general municipal market for this period.

APPROVED FUND REORGANIZATIONS

On April 18, 2012, the Funds' Board of Directors/Trustees approved a series of reorganizations for all the Michigan and Ohio Funds included in this report. The reorganizations are intended to create a single larger state Fund, which would potentially offer shareholders the following benefits:

- Lower Fund expense ratios (excluding the effects of leverage), as fixed costs are spread over a larger asset base;
- Enhanced secondary market trading, as larger Funds potentially make it easier for investors to buy and sell Fund shares;
- Lower per share trading costs through reduced bid/ask spreads due to a larger common share float; and
- Increased Fund flexibility in managing the structure and cost of leverage over time.

The approved reorganizations are as follows:

Acquired Fund	Symbol	Acquiring Fund	Symbol
• Nuveen Michigan Premium Income Municipal Fund, Inc.	NMP	Nuveen Michigan Quality Income Municipal Fund, Inc.	NUM
• Nuveen Michigan3 Dividend Advantage Municipal Fund	NZW		
• Nuveen Ohio Dividend Advantage Municipal Fund	NXI		
• Nuveen Ohio Dividend Advantage Municipal Fund 2	NBJ	Nuveen Ohio Quality Income Municipal Fund, Inc.	NUO
• Nuveen Ohio Dividend Advantage Municipal Fund 3	NVJ		

If shareholders approve the reorganizations, and upon the closing of the reorganizations, the Acquired Funds will transfer their assets to the Acquiring Funds in exchange for common and preferred shares of the Acquiring Funds, and the assumption by the Acquiring Funds of the liabilities of the Acquired Funds. The Acquired Funds will then be liquidated, dissolved and terminated in accordance with their Declaration of Trust. In addition, shareholders of the Acquired Funds will become shareholders of the Acquiring Funds. Holders of common shares will receive newly issued common shares of the Acquiring Funds, the aggregate net asset value of which will be equal to the aggregate net asset value of the common shares of the Acquired Funds held immediately prior to the reorganizations (including for this purpose fractional Acquiring Fund shares to which shareholders would be entitled). Fractional shares will be sold on the open market and shareholders will receive cash in lieu of such fractional shares. Holders of preferred shares of each Acquired Fund will receive on a one-for-one basis newly issued preferred shares of their Acquiring Fund, in exchange for preferred shares of their Acquired Fund held immediately prior to the reorganization.

Nuveen Investments

9

Fund Leverage and
Other Information

IMPACT OF THE FUNDS' LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the return of the Funds relative to their benchmarks was the Funds' use of leverage. The Funds use leverage because their managers believe that, over time, leveraging provides opportunities for additional income and total return for common shareholders. However, use of leverage also can expose common shareholders to additional volatility. For example, as the prices of securities held by a Fund decline, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a Fund generally are rising. Leverage had a positive impact on the performance of the Funds over this reporting period.

THE FUNDS' REGULATORY LEVERAGE

As of August 31, 2012, the Funds have issued and outstanding MuniFund Term Preferred (MTP) Shares or Variable Rate MuniFund Term Preferred (VMTP) Shares as shown in the accompanying tables.

MTP Shares

Fund	Series	MTP Shares Issued at Liquidation Value	Annual Interest Rate	NYSE Ticker
NZW	2015	\$ 16,313,000	2.30%	NZW PrC
NXI	2015	\$ 19,450,000	2.35%	NXI PrC
NXI	2016	\$ 11,653,400	2.95%	NXI PrD
NBJ	2014	\$ 24,244,000	2.35%	NBJ PrA
NVJ	2014	\$ 18,470,150	2.35%	NVJ PrA

VMTP Shares

Fund	Series	VMTP Shares Issued at Liquidation Value
NUM	2014	\$ 87,900,000
NMP	2014	\$ 53,900,000
NUO	2014	\$ 73,500,000

(Refer to Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies for further details on MTP and VMTP Shares.)

RISK CONSIDERATIONS

Fund shares are not guaranteed or endorsed by any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation. Past performance is no guarantee of future results. Fund common shares are subject to a variety of risks, including:

Investment and Market Risk. An investment in common shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in common shares represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Price Risk. Shares of closed-end investment companies like these Funds frequently trade at a discount to their NAV. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Leverage Risk. Each Fund's use of leverage creates the possibility of higher volatility for the Fund's per share NAV, market price, distributions and returns. There is no assurance that a Fund's leveraging strategy will be successful.

Tax Risk. The tax treatment of Fund distributions may be affected by new IRS interpretations of the Internal Revenue Code and future changes in tax laws and regulations.