

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

DEBT STRATEGIES FUND  
Form N-CSR  
May 10, 2007

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 811-08603

Name of Fund: BlackRock Debt Strategies Fund, Inc.

Fund Address: P.O. Box 9011  
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive  
Officer, BlackRock Debt Strategies Fund, Inc., 800 Scudders Mill Road,  
Plainsboro, NJ 08536. Mailing address: P.O. Box 9011, Princeton, NJ  
08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 02/28/07

Date of reporting period: 03/01/06 - 02/28/07

Item 1 - Report to Stockholders

ALTERNATIVES	BLACKROCK SOLUTIONS	EQUITIES
FIXED INCOME	LIQUIDITY	REAL ESTATE

BlackRock Debt Strategies  
Fund, Inc.

BLACKROCK

ANNUAL REPORT | FEBRUARY 28, 2007

NOT FDIC INSURED  
MAY LOSE VALUE  
NO BANK GUARANTEE

BlackRock Debt Strategies Fund, Inc.

The Benefits and Risks of Leveraging

BlackRock Debt Strategies Fund, Inc. utilizes leveraging through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders will benefit from the incremental yield.

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility. In addition, there is the risk that fluctuations in interest rates on borrowings (or in the dividend rates on any Preferred Stock, if the Fund were to issue Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced.

### Announcement of Annual Stockholders Meeting

The Fund has determined that its annual stockholders meeting originally scheduled to be held in April 2007 will be postponed and will be held in September 2007. Proposals of stockholders intended to be presented at the meeting must be received by the Fund by May 15, 2007 for inclusion in the Fund's proxy statement and form of proxy for that meeting. The persons named as proxies in the proxy materials for the Fund's 2007 annual meeting of stockholders may exercise discretionary authority with respect to any stockholder proposal presented at such meeting if written notice of such proposal has not been received by the Fund by July 1, 2007. Written proposals and notices should be sent to the Secretary of the Fund, 800 Scudders Mill Road, Plainsboro, New Jersey 08536.

2

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

### A Letter to Shareholders

Dear Shareholder

The new year began on a positive note for most financial markets, continuing the momentum from the fourth quarter of 2006. At the end of February, however, global equity markets registered their first significant decline since last summer. The market jitters were triggered by a significant setback in the Chinese market and were exacerbated by several concerns, notably a weakening economy, some disappointing corporate earnings announcements, geopolitical concerns related to Iran's nuclear program and increasing delinquencies in the subprime mortgage market. Despite the recent spate of volatility, underlying stock market fundamentals appear quite sound, supported by a generally good global economic backdrop, tame inflation, relatively low interest rates and attractive valuations.

Not unlike the equity market, the bond market also has seen volatility recently as observers have attempted to interpret mixed economic signals. A bond market rally late last year reversed early in 2007 as the economic data strengthened. Prices improved (and yields fell) again in February as equities struggled. Notably, the Treasury curve remained inverted for much of 2006 and into 2007. The 30-year Treasury yield stood at 4.68% on February 28, 2007, while the one-month Treasury offered the highest yield on the curve at 5.24%.

For its part, the Federal Reserve Board (the Fed) has left the target short-term interest rate on hold at 5.25% since first pausing on August 8, 2006. Although the central bankers continue to express concern about potential inflationary pressures, they also have made reference to signs of economic weakness in their public statements. Most observers expect the Fed to keep interest rates on hold for now, but acknowledge that the combination of a mild economic slowdown and moderating inflation could prompt an interest rate cut later in 2007.

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

Notwithstanding the volatility along the way, most major market indexes managed to post positive returns for the annual and semi-annual reporting periods ended February 28, 2007:

Total Returns as of February 28, 2007	6-month	12-month
U.S. equities (Standard & Poor's 500 Index)	+ 8.93%	+11.97%
Small cap U.S. equities (Russell 2000 Index)	+10.76	+ 9.87
International equities (MSCI Europe, Australasia, Far East Index)	+12.17	+21.07
Fixed income (Lehman Brothers Aggregate Bond Index)	+ 3.66	+ 5.54
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+ 2.89	+ 4.96
High yield bonds (Credit Suisse High Yield Index)	+ 8.62	+12.36

If the recent market movements are any guide, 2007 could be a year of enhanced market volatility. As you navigate the uncertainties of the financial markets, we encourage you to review your investment goals with your financial professional and to make portfolio changes, as needed. We thank you for trusting BlackRock with your investment assets, and we look forward to continuing to serve you in the months and years ahead.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.  
Fund President and Director

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

3

### A Discussion With Your Fund's Portfolio Managers

The Fund's return outpaced that of its composite benchmark for the fiscal year, benefiting from both an overweight exposure to lower-tier credits, as well as its use of leverage.

How did the Fund perform during the fiscal year in light of the existing market conditions?

For the 12-month period ended February 28, 2007, the Common Stock of BlackRock Debt Strategies Fund, Inc. had net annualized yields of 9.38% and 9.03%, based on a year-end per share net asset value of \$7.01 and a per share market price of \$7.28, respectively, and \$.658 per share income dividends. Over the same period, the total investment return on the Fund's Common Stock was +15.35%, based on a change in per share net asset value from \$6.69 to \$7.01, and assuming reinvestment of all distributions. The Fund's total return for the period significantly outpaced the +9.95% return of its benchmark, which is an equal blend of the Credit Suisse High Yield Index and the Credit Suisse Leveraged Loan Index.

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

For the six-month period ended February 28, 2007, the total investment return on the Fund's Common Stock was +9.55%, based on a change in per share net asset value from \$6.72 to \$7.01, and assuming reinvestment of all distributions. The blended benchmark returned +6.39% for the six-month period.

For a description of the Fund's total investment return based on a change in the per share market value of the Fund's Common Stock (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of distributions, please refer to the Financial Highlights section of this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or discount to the Fund's net asset value. As a result, total investment returns based on changes in the market value of the Fund's Common Stock can vary significantly from total investment returns based on changes in the Fund's net asset value.

The leveraged loan market, as measured by the Credit Suisse Leveraged Loan Index, returned +7.57% for the annual period, while the high yield bond market, as measured by the Credit Suisse High Yield Index, returned +12.36%. Despite some volatility late in the reporting period, the non-investment grade markets continued to post strong results. The leveraged loan market posted positive returns in all of the past 12 months, while the high yield market saw positive returns in 11 of the past 12 months. The markets have been aided by the continuation of historically low default rates and strong inflows into the asset classes, both of which have helped to support the prices of the underlying issues.

Support for the leveraged loan market also came from soaring investor demand, which pushed spreads to new lows. The primary driver of this demand is collateralized loan obligations (CLOs), which now account for approximately two-thirds of the leveraged loan market. The cost of funding for these CLOs has dropped dramatically over the past few years, enabling the structured finance vehicles to absorb bank loans at increasingly tighter spreads and still achieve their targeted equity returns. The fact that default rates are at historic lows also has assisted this trend. To supply the CLO juggernaut, the demand for bank loans has been so voracious that we've actually seen bond deals migrate to the loan market, a reversal of historic flows that typically saw deals move from loans into bonds. This trend has marginally curtailed the supply of high yield bonds, keeping spreads there tighter than they otherwise would be.

What factors most influenced Fund performance?

The Fund benefited from its overweight exposure to floating rate high yield bonds and bank loans as opposed to fixed rate high yield issues, in light of the inverted yield curve. The Fund's overweight to lower-tier credits, particularly B-rated and CCC-rated issues, aided performance, as these segments of the non-investment grade market generated the strongest returns. In addition, the Fund continued to make extensive use of its leverage line, with an average level of roughly 30% of total assets. This, too, was beneficial to performance. (For a complete explanation of the benefits and risks of leveraging, refer to page 2 of this report to shareholders.)

What changes were made to the Fund during the period?

During the period, BlackRock, Inc. and Merrill Lynch & Co., Inc. ("Merrill Lynch") combined Merrill Lynch's investment management business, Merrill Lynch Investment Managers, L.P. and its affiliates, including Fund Asset Management, L.P., with BlackRock, Inc. to form a new independent company. While this resulted in some additions to the portfolio management team, there was no change in the overall investment philosophy or focus of the Fund.

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

The Fund increased allocations to certain lower-quality credit tiers. Specifically, the portfolio's position in B-rated and CCC-rated credits was increased to an overweight, reflecting efforts to take advantage of the strong high yield markets in which lower-tier credits provided the greatest returns. The most notable shift in sector exposures was in the automotive sector, where we reduced our underweighting during the period.

How would you characterize the Fund's position at the close of the period?

While volatility picked up at the end of the period, resulting in an investor flight to quality, fundamental and technical valuations remained favorable for the leveraged loan and high yield markets. Even with the noise at the end of the reporting period, the leveraged loan market posted a return of .74% in February, while the high yield market posted a return of better than 1%. This marked the seventh month out of eight in which the Credit Suisse High Yield Index posted monthly returns in excess of 1% and the eighth consecutive month that the Credit Suisse Leveraged Loan Index posted returns of at least +.50%. Market fundamentals remain very strong, with default rates near historical lows and a new-issue calendar that is just beginning to satisfy the non-investment grade investor. As a result, we remain positioned with an overweight exposure to lower-tier credits (B and CCC), as we expect these segments of the market to post the strongest returns.

By and large, borrowers continue to have access to strong liquidity, another force keeping default rates low. Moreover, earnings are expected to grow strongly over the near-term. In our view, with such conditions in place for the bank loan market, investors appear encouraged and ready to support new deals and further spread tightening in the sector.

Kevin J. Booth  
Vice President and Portfolio Manager

Mark J. Williams  
Portfolio Manager

April 3, 2007

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

5

### Portfolio Information

As of February 28, 2007

Ten Largest Holdings	Percent of Net Assets
Charter Communications, Inc. Term Loan B, 7.985% due 4/28/2013	2.7%
Nova Chemicals Corp., 8.502% due 11/15/2013	1.9
Smurfit Kappa Funding Plc, 7.75% due 4/01/2015	1.8
Rainbow National Services LLC, 10.375% due 9/01/2014	1.5
Omnova Solutions, Inc., 11.25% due 6/01/2010	1.4
Frontier Drilling, Inc. Term Loan B, 8.62% - 8.69% due 6/21/2013	1.3

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

HealthSouth Corp., 11.418% due 6/15/2014 .....	1.3
Vought Aircraft Industries, Inc., 8% due 7/15/2011 .....	1.3
Metaldyne Corp., 11% due 6/15/2012 .....	1.3
Michaels Stores, Inc., 11.375% due 11/01/2016 .....	1.3

Five Largest Industries	Percent of Net Assets
Cable -- U.S. ....	16.8%
Chemicals .....	11.3
Information Technology .....	10.9
Paper .....	10.3
Automotive .....	8.2

For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease.

Quality Ratings by S&P/Moody's	Percent of Total Investments
BBB/Baa .....	0.7%
BB/Ba .....	11.3
B/B .....	61.4
CCC/Caa .....	15.0
CC/Ca .....	0.8
D .....	0.5
NR (Not Rated) .....	7.9
Other* .....	2.4

\* Includes portfolio holdings in common stocks, preferred stocks, warrants, other interests and short-term investments.

6 BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007

Schedule of Investments as of February 28, 2007

Face Amount	Corporate Bonds	Value
=====		
Aerospace & Defense -- 3.3%		
\$ 5,000,000	Alliant Techsystems, Inc., 3% due 8/15/2024 (a) (1)	\$ 6,356,250
470,000	Argo-Tech Corp., 9.25% due 6/01/2011	509,950
7,500,000	L-3 Communications Corp., 3% due 8/01/2035 (a) (1)	8,006,250
475,000	TransDigm, Inc., 7.75% due 7/15/2014 (1)	488,063
9,870,000	Vought Aircraft Industries, Inc., 8% due 7/15/2011	9,623,250
		-----
		24,983,763

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

=====		
Airlines -- 0.8%		
	Delta Air Lines, Inc. (e):	
4,200,000	10% due 8/15/2008	2,415,000
5,505,000	8.30% due 12/15/2029	3,275,475
		-----
		5,690,475
=====		
Automotive -- 3.8%		
1,285,000	Delco Remy International, Inc., 9.36% due 4/15/2009 (b)	1,249,663
925,000	Ford Motor Co., 7.45% due 7/16/2031 Ford Motor Credit Co.:	742,313
760,000	5.80% due 1/12/2009	746,504
4,480,000	8.11% due 1/13/2012 (b)	4,504,174
750,000	9.81% due 4/15/2012 (b)	811,105
	The Goodyear Tire & Rubber Co. (l):	
4,500,000	9.14% due 12/01/2009 (b)	4,545,000
1,830,000	8.625% due 12/01/2011	1,944,375
1,620,000	Lear Corp., 8.75% due 12/01/2016	1,561,275
10,050,000	Metaldyne Corp., 11% due 6/15/2012	9,396,750
1,530,000	Titan International, Inc., 8% due 1/15/2012 (l)	1,560,600
1,480,000	United Auto Group, Inc., 7.75% due 12/15/2016 (l)	1,505,900
	Venture Holdings Co. LLC:	
4,450,000	12% due 6/01/2009 (e)	0
1,800,000	Series B, 9.50% due 7/01/2005 (m)	4,500
		-----
		28,572,159
=====		
Broadcasting -- 3.1%		
5,000,000	Canadian Satellite Radio Holdings, Inc., 12.75% due 2/15/2014	5,137,500
1,100,000	LIN Television Corp. Series B, 6.50% due 5/15/2013	1,072,500
2,800,000	Paxson Communications Corp., 8.757% due 1/15/2012 (b) (l)	2,849,000
3,235,000	Sinclair Broadcast Group, Inc. Class A, 4.875% due 7/15/2018	3,129,863
5,795,000	Sirius Satellite Radio, Inc., 9.625% due 8/01/2013	5,852,950
2,800,000	XM Satellite Radio, Inc., 9.871% due 5/01/2013 (b)	2,765,000
2,685,000	Young Broadcasting, Inc., 10% due 3/01/2011	2,664,863
		-----
		23,471,676
=====		
Cable -- International -- 0.1%		
750,000	NTL Cable Plc, 8.75% due 4/15/2014	781,875
=====		
Cable -- U.S. -- 9.9%		
5,950,000	Cablevision Systems Corp. Series B, 9.87% due 4/01/2009 (b)	6,336,750
	Charter Communications Holdings LLC:	
3,750,000	10% due 4/01/2009	3,750,000
2,000,000	11.75% due 1/15/2010	2,000,000
2,000,000	11.125% due 1/15/2011	1,970,000
3,000,000	10% due 5/15/2011	2,955,000
1,289,000	Insight Midwest, LP, 9.75% due 10/01/2009 Intelsat Bermuda Ltd. (b) (l):	1,311,541
8,605,000	11.354% due 6/15/2013	9,228,863
4,890,000	8.872% due 1/15/2015	5,006,138

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

10,350,000	Intelsat Intermediate Holding Co. Ltd., 9.25% due 2/01/2015 (h)	8,564,625
	Intelsat Subsidiary Holding Co. Ltd.:	
3,375,000	8.25% due 1/15/2013	3,518,438
4,800,000	8.625% due 1/15/2015	5,160,000
983,000	Loral Spacecom Corp., 14% due 11/15/2015	1,130,450
3,875,000	Mediacom LLC, 9.50% due 1/15/2013	3,981,563
7,260,000	PanAmSat Corp., 9% due 6/15/2016 (1)	7,967,850
10,000,000	Rainbow National Services LLC, 10.375% due 9/01/2014 (1)	11,200,000
		-----
		74,081,218
=====		
Chemicals -- 9.2%		
3,550,000	ARCO Chemical Co., 9.80% due 2/01/2020	4,162,375
1,490,000	American Pacific Corp., 9% due 2/01/2015 (1)	1,503,038
4,000,000	Compass Minerals International, Inc. Series B, 12% due 6/01/2013 (h)	3,880,000
9,783,000	GEO Specialty Chemicals, Inc., 13.86% due 12/31/2009 (a) (1)	8,070,975
1,280,000	Innophos, Inc., 8.875% due 8/15/2014	1,328,000
	Lyondell Chemical Co.:	
7,650,000	8% due 9/15/2014	8,051,625
1,775,000	8.25% due 9/15/2016	1,908,125
2,400,000	Millennium America, Inc., 7.625% due 11/15/2026	2,352,000
	Momentive Performance Materials, Inc. (1):	
1,050,000	10.125% due 12/01/2014 (g)	1,105,125
1,720,000	11.50% due 12/01/2016	1,788,800
14,060,000	Nova Chemicals Corp., 8.502% due 11/15/2013 (b)	14,060,000
10,000,000	Omnova Solutions, Inc., 11.25% due 6/01/2010	10,687,500
3,768,826	PCI Chemicals Canada, Inc., 10% due 12/31/2008	3,872,469
2,500,000	PolyOne Corp., 6.89% due 9/22/2008	2,406,250
2,612,000	Rockwood Specialties Group, Inc., 10.625% due 5/15/2011	2,755,660
970,000	Terra Capital, Inc., 7% due 2/01/2017 (1)	965,150
		-----
		68,897,092
=====		
Consumer -- Durables -- 0.8%		
6,800,000	Simmons Co., 10.05% due 12/15/2014 (h)	5,644,000
=====		
Consumer -- Non-Durables -- 1.8%		
9,000,000	Hines Nurseries, Inc., 10.25% due 10/01/2011	7,560,000
5,750,000	Levi Strauss & Co., 10.11% due 4/01/2012 (b)	5,872,188
		-----
		13,432,188
=====		

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

7

Schedule of Investments (continued)

Face Amount	Corporate Bonds	Value
=====		
Diversified Media -- 4.2%		
	Affinion Group, Inc.:	
\$ 280,000	10.125% due 10/15/2013	\$ 302,400



## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

590,000	11.50% due 10/15/2015	640,150
2,000,000	Cadmus Communications Corp., 8.375% due 6/15/2014	2,025,000
4,250,000	Idearc Inc., 8% due 11/15/2016 (l)	4,366,875
7,500,000	Liberty Media Corp., 0.75% due 3/30/2023 (a)	9,000,000
2,675,000	Muzak Holdings, LLC, 13% due 3/15/2010	692,156
3,875,000	NBC Acquisition Corp., 11% due 3/15/2013 (h)	3,216,250
580,000	Network Communications, Inc., 10.75% due 12/01/2013	598,850
4,325,000	Nielsen Finance LLC, 8.125% due 8/01/2014 (l)	4,725,063
5,300,000	Universal City Florida Holding Co. I, 10.239% due 5/01/2010 (b)	5,485,500
		-----
		31,052,244
=====		
Energy -- Exploration & Production -- 0.9%		
480,000	Berry Petroleum Co., 8.25% due 11/01/2016	478,800
3,000,000	Chaparral Energy, Inc., 8.50% due 12/01/2015	2,992,500
2,445,000	Compton Petroleum Finance Corp., 7.625% due 12/01/2013	2,396,100
960,000	Stone Energy Corp., 8.11% due 7/15/2010 (b) (l)	961,200
		-----
		6,828,600
=====		
Energy -- Other -- 2.6%		
2,735,000	Aleris International, Inc., 9% due 12/15/2014 (g) (l)	2,899,100
2,045,000	Dresser-Rand Group, Inc., 7.375% due 11/01/2014	2,075,675
8,000,000	Ocean RIG ASA, 9.36% due 4/04/2011 (b)	8,000,000
6,300,000	SemGroup LP, 8.75% due 11/15/2015 (l)	6,394,500
		-----
		19,369,275
=====		
Financial -- 1.3%		
5,743,690	Archimedes Funding III Ltd., 5.50% due 11/29/2011 (b) (l)	3,647,243
1,500,000	Investcorp SA, 7.54% due 10/21/2008	1,522,208
930,000	NCO Group, Inc., 10.23% due 11/15/2013 (b) (l)	934,650
2,000,000	Pennant CBO Ltd., 13.43% due 3/14/2011	1,880,000
35,000	PreTSL XXIV, 0% due 7/03/2032 (d) (l)	1,794,450
		-----
		9,778,551
=====		
Food & Tobacco -- 0.1%		
842,946	Archibald Candy Corp., 10% due 11/01/2007 (e)	53,687
600,000	Swift & Co., 12.50% due 1/01/2010	628,500
		-----
		682,187
=====		
Gaming -- 2.5%		
	Galaxy Entertainment Finance Co. Ltd. (l):	
1,975,000	10.42% due 12/15/2010 (b)	2,093,500
1,250,000	9.875% due 12/15/2012	1,364,063
2,560,000	Little Traverse Bay Bands of Odawa Indians, 10.25% due 2/15/2014 (l)	2,636,800
915,000	Penn National Gaming, Inc., 6.75% due 3/01/2015	880,688
	Snoqualmie Entertainment Authority (l):	
1,015,000	9.15% due 2/01/2014 (b)	1,030,225
480,000	9.125% due 2/01/2015	495,600
3,400,000	Station Casinos, Inc., 7.75% due 8/15/2016	3,493,500

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

3,490,000	Tropicana Entertainment, 7.86%	
	due 12/15/2014 (l)	3,511,813
3,000,000	Tunica-Biloxi Gaming Authority, 9%	
	due 11/15/2015 (l)	3,187,500
		-----
		18,693,689
=====		
Health Care -- 6.5%		
5,000,000	Angiotech Pharmaceuticals, Inc., 9.11%	
	due 12/01/2013 (b) (l)	5,162,500
3,525,000	CDRV Investors, Inc., 9.75% due 1/01/2015 (h)	2,828,813
4,963,829	Cinacalcet Royalty Corp., 8% due 3/30/2017	5,274,068
	Elan Finance Plc:	
3,525,000	7.75% due 11/15/2011	3,472,125
4,825,000	9.405% due 11/15/2011 (b)	4,909,438
	HealthSouth Corp. (l):	
9,000,000	11.354% due 6/15/2014 (b)	9,990,000
2,095,000	10.75% due 6/15/2016	2,341,163
5,000,000	Risperdal Consta Pharma, 7% due 1/01/2018	4,487,500
6,000,000	Tenet Healthcare Corp., 7.375% due 2/01/2013	5,610,000
1,400,000	VWR International, Inc., 8% due 4/15/2014	1,421,000
4,100,000	Vanguard Health Holding Co. I, LLC, 11.25%	
	due 10/01/2015 (h)	3,351,750
		-----
		48,848,357
=====		
Housing -- 5.8%		
1,300,000	CPG International I, Inc., 10.50% due 7/01/2013	1,361,750
3,070,000	Esco Corp., 9.23% due 12/15/2013 (b) (l)	3,192,800
	Goodman Global Holding Co., Inc.:	
2,319,000	8.329% due 6/15/2012 (b)	2,347,988
8,200,000	7.875% due 12/15/2012	8,364,000
7,175,000	Masonite Corp., 11% due 4/06/2015 (l)	7,157,063
5,850,000	Nortek, Inc., 8.50% due 9/01/2014	5,952,375
5,450,000	Ply Gem Industries, Inc., 9% due 2/15/2012	4,932,250
3,000,000	Scranton Products, Inc., 12.117%	
	due 7/01/2012 (b)	3,090,000
2,250,000	Stanley-Martin Communities LLC, 9.75%	
	due 8/15/2015	2,058,750
5,000,000	Technical Olympic USA, Inc., 8.25%	
	due 4/01/2011 (l)	4,850,000
		-----
		43,306,976
=====		
Information Technology -- 7.4%		
	Amkor Technology, Inc.:	
6,950,000	9.25% due 2/15/2008	7,089,000
3,000,000	7.125% due 3/15/2011	2,887,500
210,000	7.75% due 5/15/2013	203,700
2,370,000	9.25% due 6/01/2016	2,417,400
2,275,000	BMS Holdings, Inc., 12.40%	
	due 2/15/2012 (b) (l)	2,252,250
245,000	Compagnie Generale de Geophysique SA,	
	7.50% due 5/15/2015	249,900
670,000	Compagnie Generale de Geophysique-Veritas,	
	7.75% due 5/15/2017	693,450
	Freescale Semiconductor, Inc. (l):	
8,990,000	9.125% due 12/15/2014 (g)	9,113,613
5,470,000	9.23% due 12/15/2014 (b)	5,524,700
630,000	Nortel Networks Ltd., 9.61% due 7/15/2011 (b) (l)	674,100
420,000	Open Solutions, Inc., 9.75% due 2/01/2015 (l)	433,650
	SunGard Data Systems, Inc.:	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

6,300,000	9.125% due 8/15/2013	6,725,250
4,600,000	9.973% due 8/15/2013 (b)	4,807,000
4,818,000	10.25% due 8/15/2015	5,239,575
735,000	Telcordia Technologies, Inc., 10% due 3/15/2013 (1)	687,225
2,915,026	UGS Capital Corp. II, 10.348% due 6/01/2011 (g) (1)	2,966,039
3,500,000	Viasystems, Inc., 10.50% due 1/15/2011	3,552,500
		-----
		55,516,852

8 BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007

Schedule of Investments (continued)

Face Amount	Corporate Bonds	Value
=====		
Leisure -- 2.7%		
\$ 5,565,860	HRP Myrtle Beach Holdings LLC, 14.50% due 4/01/2014 (g) (1)	\$ 5,718,921
	HRP Myrtle Beach Operations LLC (1):	
5,000,000	9.829% due 4/01/2012 (b)	5,050,000
5,000,000	12.50% due 4/01/2013	5,037,500
2,600,000	Travelport, Inc., 9.985% due 9/01/2014 (b) (1)	2,684,500
2,000,000	True Temper Sports, Inc., 8.375% due 9/15/2011	1,790,000
		-----
		20,280,921
=====		
Manufacturing -- 2.5%		
4,000,000	CPI Holdco, Inc., 11.151% due 2/01/2015 (b)	4,130,000
175,000	Fedders North America, Inc., 9.875% due 3/01/2014	107,625
3,815,000	Invensys Plc, 9.875% due 3/15/2011 (1)	4,101,125
2,660,000	Jarden Corp., 7.50% due 5/01/2017	2,696,575
	NXP B.V. (1):	
2,200,000	8.11% due 10/15/2013 (b)	2,249,500
2,300,000	9.50% due 10/15/2015	2,374,750
	RBS Global, Inc. (1):	
1,480,000	9.50% due 8/01/2014	1,561,400
1,685,000	8.875% due 9/01/2016	1,718,700
		-----
		18,939,675
=====		
Metal -- Other -- 2.3%		
	Indalex Holding Corp.:	
1,500,000	11.50% due 2/01/2014	1,612,500
5,000,000	11.50% due 2/01/2014 (1)	5,350,000
6,350,000	James River Coal Co., 9.375% due 6/01/2012	5,461,000
4,550,000	RathGibson, Inc., 11.25% due 2/15/2014	4,823,000
		-----
		17,246,500
=====		
Packaging -- 2.0%		
	Berry Plastics Holding Corp.:	
665,000	8.875% due 9/15/2014	688,275
375,000	9.23% due 9/15/2014 (b)	387,188
1,100,000	Graham Packing Co., Inc., 9.875% due 10/15/2014	1,133,000
6,215,000	Packaging Dynamics Finance Corp., 10%	

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

	due 5/01/2016 (l)	6,525,750
6,325,000	Wise Metals Group LLC, 10.25% due 5/15/2012	6,103,625
		-----
		14,837,838
=====		
Paper -- 9.5%		
6,500,000	Abitibi-Consolidated, Inc., 8.855% due 6/15/2011 (b)	6,532,500
9,725,000	Ainsworth Lumber Co. Ltd (b): 9.249% due 10/01/2010	8,217,625
8,000,000	9.364% due 4/01/2013	6,240,000
	Boise Cascade LLC:	
2,150,000	8.382% due 10/15/2012 (b)	2,150,000
900,000	7.125% due 10/15/2014	882,000
7,600,000	Bowater, Inc., 8.355% due 3/15/2010 (b)	7,676,000
3,775,000	Domtar, Inc., 7.125% due 8/15/2015	3,789,156
705,000	Graphic Packaging International Corp., 9.50% due 8/15/2013	751,706
	NewPage Corp.:	
8,000,000	11.739% due 5/01/2012 (b)	8,720,000
4,725,000	12% due 5/01/2013	5,150,250
13,625,000	Smurfit Kappa Funding Plc, 7.75% due 4/01/2015	13,761,250
1,600,000	Smurfit-Stone Container Enterprises, Inc., 8.375% due 7/01/2012	1,632,000
	Verso Paper Holdings LLC (l):	
4,400,000	9.11% due 8/01/2014 (b)	4,532,000
530,000	11.375% due 8/01/2016	569,750
		-----
		70,604,237
=====		
Retail -- 3.7%		
2,815,000	Buffets, Inc., 12.50% due 11/01/2014	2,955,750
	Michaels Stores, Inc. (l):	
3,790,000	10% due 11/01/2014	4,055,300
8,660,000	11.375% due 11/01/2016	9,396,100
	The Neiman Marcus Group, Inc.:	
4,800,000	9% due 10/15/2015 (g)	5,280,000
5,000,000	10.375% due 10/15/2015	5,600,000
		-----
		27,287,150
=====		
Service -- 1.8%		
2,000,000	Buhrmann US, Inc., 7.875% due 3/01/2015	2,005,000
3,000,000	Neff Rental LLC, 11.25% due 6/15/2012	3,337,500
1,090,000	PNA Intermediate Holding Corp., 12.36% due 2/15/2013 (b) (l)	1,095,450
4,280,000	Sally Holdings LLC, 10.50% due 11/15/2016 (l)	4,429,800
145,000	Seitel Acquisition Corp., 9.75% due 2/15/2014 (l)	147,175
	Yankee Acquisition Corp. (l):	
810,000	8.50% due 2/15/2015	828,225
1,395,000	9.75% due 2/15/2017	1,429,875
		-----
		13,273,025
=====		
Telecommunications -- 4.1%		
5,000,000	ADC Telecommunications, Inc., 5.729% due 6/15/2013 (a) (b)	4,818,750
	Cincinnati Bell, Inc.:	
4,905,000	7.25% due 7/15/2013	5,088,938
195,000	8.375% due 1/15/2014	200,119
2,600,000	Nordic Telephone Co. Holdings ApS, 8.875%	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

	due 5/01/2016 (1)	2,801,500
7,900,000	Qwest Communications International, Inc., 8.86% due 2/15/2009 (b)	7,979,000
2,675,000	Qwest Corp., 8.605% due 6/15/2013 (b)	2,919,094
6,000,000	Time Warner Telecom Holdings, Inc., 9.25% due 2/15/2014	6,435,000
		-----
		30,242,401
=====		
Transportation -- 0.5%		
790,000	Britannia Bulk Plc, 11% due 12/01/2011 (1)	769,263
1,500,000	Navios Maritime Holdings, Inc., 9.50% due 12/15/2014 (1)	1,541,250
1,760,000	Titan Petrochemicals Group Ltd., 8.50% due 3/18/2012 (1)	1,584,000
		-----
		3,894,513
=====		

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

9

Schedule of Investments (continued)

Face Amount	Corporate Bonds	Value
=====		
Utility -- 1.9%		
\$ 4,142,000	CenterPoint Energy, Inc. Series B, 3.75% due 5/15/2023 (a)	\$ 6,528,828
1,150,000	Conexant Systems, Inc., 9.11% due 11/15/2010 (b) (1)	1,184,500
4,000,000	El Paso Performance-Linked Trust, 7.75% due 7/15/2011 (1)	4,250,000
440,000	Reliant Energy, Inc., 9.50% due 7/15/2013	476,850
1,425,000	Williams Cos., Inc., 8.625% due 6/01/2010	1,505,156
		-----
		13,945,334
=====		
Wireless Communications -- 3.7%		
1,905,000	Centennial Communications Corp., 11.11% due 1/01/2013 (b)	2,009,775
5,250,000	Cricket Communications, Inc., 9.375% due 11/01/2014 (1)	5,538,750
3,560,000	Digicel Group Ltd. (1): 8.875% due 1/15/2015	3,475,450
7,120,000	9.125% due 1/15/2015 (g)	6,933,100
2,150,000	FiberTower Corp., 9% due 11/15/2012 (a) (1)	2,464,438
2,500,000	iPCS Escrow Co., 11.50% due 5/01/2012	2,762,500
620,000	Orascom Telecom Finance SCA, 7.875% due 2/08/2014	616,900
3,270,000	West Corp., 11% due 10/15/2016 (1)	3,539,775
		-----
		27,340,688
=====		
	Total Corporate Bonds (Cost -- \$730,260,727) -- 98.8%	737,523,459
=====		
=====		
	Floating Rate Loan Interests**	

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

=====		
Aerospace & Defense -- 0.4%		
750,000	IAP Worldwide Services Inc. Term Loan, 9.688% due 12/31/2012	751,406
2,000,000	MRO Acquisitions Corp. First Lien Term Loan, 7.86% due 9/15/2010	2,018,750
		-----
		2,770,156
=====		
Airlines -- 1.0%		
	Delta Air Lines:	
3,000,000	Term Loan B, 10.11% due 3/16/2008	3,013,749
3,000,000	Term Loan C, 12.86% due 3/16/2008	3,018,282
1,500,000	United Air Lines, Inc. Term Loan B, 7.375% due 1/30/2014	1,506,095
		-----
		7,538,126
=====		
Automotive -- 4.4%		
1,000,000	Delphi Automotive Systems Term Loan, 7.625% due 12/31/2007	1,005,625
	Intermet Corp.:	
1,685,185	Letter of Credit, 10.20% due 11/08/2010	1,407,130
4,814,815	Term Loan B, 10.351% due 11/08/2010	4,020,370
	JL French Corp.:	
3,980,000	First Lien Term Loan B, 8.375% due 6/05/2011	3,878,013
2,000,000	Second Lien Term Loan, 10.875% due 6/05/2012	1,833,334
1,750,000	Keystone Automotive Operations Inc. Term Loan B, 8.82% due 1/15/2012	1,763,125
	Metaldyne Corp.:	
86,538	Letter of Credit, 8.92% - 9.125% due 1/15/2012	87,476
627,404	Term Loan, 9.125% due 1/15/2014	634,201
	Navistar International Transportation Corp.:	
1,866,667	Revolving Credit, 5.22% - 8.61% due 6/30/2012	1,897,467
5,133,333	Term Loan, 8.61% due 6/30/2012	5,218,033
2,000,000	OshKosh Truck Corp. Term Loan B, 7.35% due 11/30/2013	2,015,714
	Tenneco Automotive, Inc.:	
2,185,236	Term Loan B, 7.31% due 12/12/2010	2,192,884
959,936	Tranche B-1 Credit Linked Deposit, 7.32% due 12/12/2010	963,295
5,750,000	Visteon Corp. Term Loan B, 8.38% due 6/13/2013	5,804,625
		-----
		32,721,292
=====		
Broadcasting -- 1.3%		
6,500,000	Ellis Communications Term Loan, 10% due 12/30/2011	6,483,750
500,000	Multicultural Radio Broadcasting Inc. Term Loan, 8.098% due 12/15/2012	501,250
1,000,000	NEP Supershooters, LP Term Loan B, 7.595% due 2/13/2014	1,009,688
1,500,000	Persona Communications Second Lien Term Loan, 11.32% due 4/30/2014	1,513,125
		-----
		9,507,813
=====		
Cable -- U.S. -- 5.7%		
	Cebridge Connections:	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

8,317,962	Second Lien Term Loan, 11.49% due 5/04/2014	8,520,712
4,610,344	Term Loan B, 7.61% due 11/05/2013	4,654,285
20,000,000	Charter Communications, Inc. Term Loan, 7.985% due 4/28/2013	20,128,760
9,000,000	Insight Midwest Holdings LLC Term Loan B, 5.32% - 7.572% due 4/03/2014	9,083,251
		-----
		42,387,008
=====		
Chemicals -- 2.0%		
2,177,316	Huntsman ICI Holdings Term Loan B, 7.07% due 8/16/2012	2,189,291
717,000	NuSil Technology Term Loan, 8.07% due 10/31/2013	720,585
3,136,000	Rockwood Specialties Group, Inc. Tranche E Term Loan, 7.36% due 12/10/2012	3,160,696
10,000,000	Wellman, Inc. Second Lien Term Loan, 12.11% due 2/10/2010	8,620,000
		-----
		14,690,572
=====		

10 BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007

Schedule of Investments (continued)

Face Amount	Floating Rate Loan Interests**	Value
=====		
Consumer -- Non-Durables -- 0.1%		
\$ 300,000	Gold Toe Investment Corp. Second Lien Term Loan, 11.36% due 4/30/2014	\$ 304,875
660,646	Renfro Corp. Term Loan B, 8.60% due 9/30/2013	665,601
		-----
		970,476
=====		
Diversified Media -- 2.0%		
4,000,000	Affinion Group Term Loan, 11.66% due 3/01/2012	3,956,668
7,000,000	Idearc, Inc. Term Loan, 7.32% due 11/15/2014	7,056,875
997,500	Nielsen Finance LLC Term Loan, 8.125% due 8/15/2013	1,006,487
1,000,000	Penton Media Term Loan, 10.345% due 2/15/2014	1,018,125
1,750,000	Riverdeep Group Ltd. Bridge Loan, 11.066% due 12/21/2007	1,745,625
		-----
		14,783,780
=====		
Energy -- Exploration & Production -- 1.7%		
375,000	Carrizo Oil & Gas, Inc. Second Lien Term Loan, 10.114% due 7/21/2010	380,625
750,000	Energy Transfer Equity LP Term Loan B, 7.095% due 11/01/2012	756,563
10,000,000	Frontier Drilling Term Loan B, 8.62% - 8.69% due 6/21/2013	10,000,000
500,000	Longyear Global Holdings, Inc. Second Lien Term Loan, 10.32% due 10/31/2013	505,000

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

1,240,625	MEG Energy Corp. Term Loan, 7.375% due 4/03/2013	1,248,572
		-----
		12,890,760
=====		
Energy -- Other -- 1.3%		
	Coletto Creek:	
466,980	Letter of Credit, 8.128% due 7/31/2013	468,536
31,847	Term Loan B, 8.128% due 7/31/2013	31,953
1,000,000	Exco Resources, Inc. Second Lien Term Loan, 11.32% - 11.375% due 10/31/2011	1,008,750
8,000,000	Scorpion Drilling Ltd. Second Lien Term Loan, 13.61% due 5/05/2015	8,240,000
		-----
		9,749,239
=====		
Financial -- 0.9%		
6,000,000	JG Wentworth Manufacturing Term Loan, 8.864% due 4/12/2011	6,060,000
250,000	Kyle Acquisition Term Loan B, 8.875% due 7/20/2009	253,281
		-----
		6,313,281
=====		
Food & Tobacco -- 3.8%		
	Aramark Corp.:	
592,573	Letter of Credit, 7.445% due 1/30/2014	598,425
8,407,427	Term Loan, 7.47% due 1/30/2014	8,490,450
1,000,000	Bolthouse Farms, Inc. Second Lien Term Loan, 10.864% due 12/01/2013	1,010,833
2,764,573	Commonwealth Brands Term Loan, 7.625% due 12/22/2012	2,774,941
	Dole Food Co., Inc.:	
1,041,279	Term Loan B, 7.438% - 9.25% due 4/12/2013	1,041,800
3,470,930	Term Loan C, 7.438% - 9.25% due 4/04/2013	3,472,666
465,116	Tranche D, 5.23% due 4/12/2013	465,349
997,494	Eight O'Clock Coffee Second Lien Term Loan, 8.125% due 7/21/2012	997,494
6,000,000	QCE LLC Second Lien Term Loan, 11.114% due 11/05/2013	6,024,168
2,070,000	S&C Holdco 2, Inc. Term Loan, 8% due 3/19/2010	1,945,800
1,750,000	Sturm Foods Inc. Term Loan, 7.875% due 1/30/2014	1,759,844
		-----
		28,581,770
=====		
Gaming -- 1.3%		
2,250,000	Edge-Star Partners LLC First Lien Term Loan, 9.36% due 11/18/2007	2,250,000
	Green Valley Ranch Gaming LLC Term Loan:	
481,818	7.36% due 2/16/2014	487,038
500,000	8.61% due 8/30/2014	508,000
1,500,000	Tropicana Opco Term Loan B, 7.86% due 12/15/2011	1,515,834
5,000,000	Venetian Macau U.S. Finance Co. LLC Term Loan B, 8.12% due 5/25/2013	5,050,626
		-----
		9,811,498
=====		
Health Care -- 0.7%		



Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

2,000,000	DaVita, Inc. Term Loan B, 6.82% due 7/30/2012	2,010,500
3,500,000	Health Management Associates, Inc. Term Loan B, 7.07% due 1/15/2014	3,525,158
		-----
		5,535,658
=====		
Housing -- 0.6%		
2,953,125	Headwaters, Inc. Term Loan, 7.32% due 4/30/2011	2,958,662
997,500	Ply Gem Industries, Inc. First Lien Term Loan, 8.37% due 10/31/2011	1,008,722
500,000	Yellowstone Club Term Loan B, 7.695% due 10/15/2010	499,375
		-----
		4,466,759
=====		

BLACKROCK DEBT STRATEGIES FUND, INC.                      FEBRUARY 28, 2007                      11

Schedule of Investments (continued)

Face Amount	Floating Rate Loan Interests**	Value
=====		
Information Technology -- 3.4%		
\$ 3,686,354	Activant Solutions Term Loan B, 7.375% due 5/02/2013	\$ 3,688,658
886,494	Advanced Micro Devices, Inc. Term Loan B, 7.57% due 10/31/2013	894,452
8,000,000	Aspect Software Second Lien Term Loan, 12.438% due 7/05/2012	8,013,336
1,000,000	ClientLogic Holding Corp. Term Loan B, 7.82% - 7.86% due 1/30/2014	1,005,417
500,000	Intergraph Corp. Term Loan: 7.87% due 5/15/2014	503,438
1,000,000	11.36% due 11/15/2014	1,006,875
449,571	Nuance Communications, Inc. Term Loan B, 6.82% due 12/29/2013	450,133
300,000	RedPrairie Corp. Term Loan: 8.375% due 7/31/2012	300,000
898,747	8.375% - 10.25% due 7/31/2012	898,747
3,500,000	The Reynolds and Reynolds Company Third Lien Term Loan, 12.845% due 4/26/2014	3,583,125
3,315,938	Telcordia Technologies, Inc. Term Loan, - 8.11% due 9/15/2012	3,275,526
2,000,000	Verifone, Inc. Term Loan B, 7.10% - 7.11% due 2/28/2013	2,005,000
		-----
		25,624,707
=====		
Leisure -- 0.8%		
3,620,000	Easton-Bell Sports Inc. Term Loan B, 11.39% due 5/01/2012	3,529,500
2,250,000	National Cinemedia LLC Term Loan B, 7.09% due 2/28/2015	2,266,875
		-----
		5,796,375
=====		
Manufacturing -- 0.5%		
500,000	Baldor Electric Co. Term Loan B, 7.063%	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

	due 2/15/2014	504,250
1,000,000	Brand Energy Term Loan B, 7.625%	
	due 2/15/2014	1,011,250
1,000,000	Harrington Holdings, Inc. Term Loan, 7.82%	
	due 1/15/2014	1,007,500
1,488,327	John Maneely Co. Term Loan B, 8.595% - 10.50%	
	due 12/15/2013	1,504,761
		-----
		4,027,761
=====		
Metal -- Other -- 1.2%		
	Euramax International Plc:	
6,000,000	Second Lien Term Loan, 12.36%	
	due 6/29/2013	6,022,500
2,551,265	Tranche 3 Term Loan B, 7.875%	
	due 6/29/2012	2,558,919
		-----
		8,581,419
=====		
Packaging -- 0.8%		
3,645,813	Anchor Glass Container Corp. Term Loan B,	
	7.61% - 7.614% due 5/03/2013	3,636,698
2,000,000	Graham Packaging Co. LP Second Lien Term	
	Loan, 9.625% due 4/07/2012	2,018,000
		-----
		5,654,698
=====		
Paper -- 0.7%		
5,000,000	Verso Paper Holdings LLC Term Loan B,	
	11.57% due 2/01/2013	5,018,750
=====		
Retail -- 0.4%		
1,500,000	Burlington Coat Factory Warehouse Corp.	
	Term Loan B, 7.61% due 4/15/2013	1,500,626
1,000,000	David's Bridal Inc. Term Loan B, 7.40%	
	due 1/30/2014	1,002,708
650,000	Petco Animal Supplies, Inc. Term Loan,	
	8.07% - 8.10% due 10/31/2012	657,177
		-----
		3,160,511
=====		
Service -- 1.9%		
750,000	Brickman Group, Inc. Term Loan, 7.36% - 7.399%	
	due 1/30/2014	753,281
750,000	Brock Holdings Term Loan, 7.32% due 2/28/2014	757,266
3,500,000	NES Rentals Holdings, Inc. Term Loan C,	
	12.125% due 7/12/2013	3,521,875
750,000	Pearson Government Solutions Term Loan B,	
	7.61% due 2/28/2013	759,375
	RiskMetrics Group Holdings LLC:	
750,000	First Lien Term Loan, 7.595% due 1/15/2014	757,500
250,000	Second Lien Term Loan, 10.845% due 7/11/2014	252,500
7,549,200	Waste Services, Inc. Term Loan D,	
	8.07% due 3/31/2011	7,634,129
		-----
		14,435,926
=====		
Steel -- 0.1%		
500,000	McJunkin Corp. Term Loan B, 7.595%	
	due 1/30/2014	505,000
=====		
Telecommunications -- 0.8%		

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

1,000,000	Kentucky Data Link Inc. Term Loan B, 8.75% due 2/28/2015	1,007,500
500,000	Time Warner Telecom Term Loan, 7.32% due 1/07/2013	498,907
3,161,871	Winstar Communications Debtor In Possession, 6.366% due 12/31/2006 (m)	4,252,717
		-----
		5,759,124
=====		
Utility -- 1.0%		
2,000,000	Calpine Corp. Second Priority Debtor in Possession, 9.364% due 12/20/2007	2,016,666
4,000,000	Generac Portable Products, Inc. Second Lien Term Loan, 11.375% due 5/15/2014	3,990,000
	MACH Gen LLC:	
70,312	Letter of Credit, 7.323% due 2/22/2014	70,664
679,687	Term Loan, 7.36% due 2/22/2014	682,576
750,000	NE Energy Second Lien Term Loan, 7.82% due 10/31/2014	760,313
		-----
		7,520,219
=====		

12 BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007

Schedule of Investments (continued)

Face Amount	Floating Rate Loan Interests**	Value
=====		
Wireless Communications -- 1.0%		
\$ 4,750,000	Centennial Cellular Operating Co. Term Loan, 7.614% due 2/09/2011	\$ 4,791,563
3,000,000	West Corp. Term Loan, 7.735% - 7.763% due 10/31/2013	3,024,582
		-----
		7,816,145
=====		
	Total Floating Rate Loan Interests (Cost -- \$292,951,116) -- 39.8%	296,618,823
=====		

Shares Held	Common Stocks	
=====		
Cable -- U.S. -- 0.9%		
150,084	Loral Space & Communications Ltd. (d)	6,986,410
=====		
Chemicals -- 0.1%		
339,340	GEO Specialty Chemicals, Inc. (d)	339,340
=====		
Food & Tobacco -- 0.3%		
1,428,423	Viskase Cos., Inc. (d)	2,385,466
=====		
Information Technology -- 0.1%		
55,172	Cypress Semiconductor Corp. (d)	1,048,267
=====		
Leisure -- 0.1%		
5,000	HRP PIK Corp. Class B (1)	50

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

27,787	Lodgian, Inc. (d)	371,790
		-----
		371,840
=====		
Manufacturing -- 0.8%		
724,291	ACP Holding Co. (d)	1,050,222
403	GenTek Inc. (d)	13,859
286,757	Medis Technologies Ltd. (d)	4,926,485
		-----
		5,990,566
=====		
Paper -- 0.1%		
211,149	Western Forest Products, Inc. Restricted Shares (d)	380,920
=====		
Service -- 0.2%		
90,876	Outsourcing Solutions Inc. (d)	1,635,764
=====		
Steel -- 0.0%		
41,149	Acme Package Corp. Senior Holdings (d) (k)	0
=====		
	Total Common Stocks	
	(Cost -- \$19,958,803) -- 2.6%	19,138,573
=====		
Preferred Stocks		
=====		
Cable -- U.S. -- 0.3%		
10,159	Loral Spacecom Corp. Series A, 12% (d) (g)	2,052,118
=====		
	Total Preferred Stocks	
	(Cost -- \$2,008,180) -- 0.3%	2,052,118
=====		
	Shares	
	Held	Warrants (i)
		Value
=====		
Broadcasting -- 0.0%		
15,000	Sirius Satellite Radio, Inc.	
	(expires 5/15/2009)	\$ 6,750
=====		
Health Care -- 0.0%		
126,761	HealthSouth Corp. (expires 1/16/2014)	101,409
=====		
Manufacturing -- 0.1%		
652,739	ACP Holding Co. (expires 9/30/2013)	913,835
	GenTek Inc.:	
471	Tranche B (expires 11/10/2008)	23,550
231	Tranche C (expires 11/10/2010)	10,626
		-----
		948,011
=====		
Paper -- 0.0%		
18	Cellu Tissue Holdings, Inc. (expires 5/08/2007)	0
7,000	MDP Acquisitions Plc (expires 10/01/2013)	140,000
		-----
		140,000
=====		
Wireless Communications -- 0.1%		
1,325	American Tower Corp. (expires 8/01/2008)	720,522
=====		
	Total Warrants	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

(Cost -- \$870,754) -- 0.2% 1,916,692

Beneficial Interest		Other Interests (f)	
=====			
Automotive -- 0.0%			
\$ 3,614,601	Cambridge Industries, Inc. (Litigation Trust Certificates)		0
=====			
Cable -- U.S. -- 0.0%			
Adelphia C.V.U.:			
5,000	Preferred Escrow		0
7,500,000	Series ACC-4		30,086
500,000	Series ACC-6B		0
			-----
			30,086
=====			
Total Other Interests			
(Cost -- \$30,051) -- 0.0%			30,086
=====			
Short-Term Securities			
=====			
\$ 1,914,750	BlackRock Liquidity Series, LLC Cash Sweep Series, 5.33% (c) (j)		1,914,750
=====			
Total Short-Term Securities			
(Cost -- \$1,914,750) -- 0.3%			1,914,750
=====			
Total Investments (Cost -- \$1,047,994,381*) -- 142.0%			1,059,194,501
Liabilities in Excess of Other Assets -- (42.0%)			(313,250,438)
Net Assets -- 100.0%			\$ 745,944,063
=====			

BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007 13

Schedule of Investments (concluded)

\* The cost and unrealized appreciation (depreciation) of investments as of February 28, 2007, as computed for federal income tax purposes, were as follows:

Aggregate cost .....	\$1,049,269,104
=====	
Gross unrealized appreciation .....	\$ 41,713,553
Gross unrealized depreciation .....	(31,788,156)
-----	
Net unrealized appreciation .....	\$ 9,925,397
=====	

\*\* Floating rate loan interests in which the Fund invests generally pay interest at rates that are periodically redetermined by reference to a base lending rate plus a premium. The base lending rates are generally (i) the lending rate offered by one or more European banks, such as LIBOR (London InterBank Offered Rate), (ii) the prime rate offered by one or

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

more U.S. banks or (iii) the certificate of deposit rate.

- (a) Convertible security.
- (b) Floating rate security.
- (c) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	Net Activity	Interest
BlackRock Liquidity Series, LLC Cash Sweep Series	\$1,914,750	\$329,962

- (d) Non-income producing security.
- (e) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.
- (f) Other interests represent beneficial interest in liquidation trusts and other reorganization entities and are non-income producing.
- (g) Represents a pay-in-kind security which may pay interest/dividends in additional face/shares.
- (h) Represents a step bond; the interest rate shown reflects the effective yield at the time of purchase.
- (i) Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date. See Notes to Financial Statements.
- (j) Represents the current yield as of February 28, 2007.
- (k) Restricted security as to resale, representing 0.0% of net assets, were as follows:

Issue	Acquisition Date	Cost	Value
Acme Package Corp. Senior Holdings	11/25/2002	--	--

- (l) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (m) As a result of bankruptcy proceedings, the company did not repay the principal amount of the security upon maturity and is non-income producing.
- o For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets. These industry classifications are unaudited.
- o Swaps outstanding as of February 28, 2007 were as follows:

	Notional Amount	Unrealized
Sold credit default protection on Novelis Inc. and receive 1.40%		
Broker, JPMorgan Chase		

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

Expires January 2008	\$ 4,000,000	\$ (5,632)
Sold credit default protection on Ford Motor Company and receive 3.80%		
Broker, Lehman Brothers Special Finance Expires March 2010	\$10,000,000	(41,310)
Bought credit default protection on Smithfield Foods, Inc. and pay 1.52%		
Broker, Credit Suisse First Boston Expires March 2012	\$ 4,000,000	(1,924)
-----		
Total		\$ (48,866) =====

14 BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007

Statement of Assets, Liabilities and Capital

As of February 28, 2007

=====

Assets

-----

Investments in unaffiliated securities, at value (identified cost -- \$1,046,079,631) ....	
Investments in affiliated securities, at value (identified cost -- \$1,914,750) .....	
Cash .....	
Unfunded loan commitment .....	
Receivables:	
Interest .....	
Securities sold .....	
Swaps .....	
Commitment fees .....	
Prepaid expenses and other assets .....	
Total assets .....	

=====

Liabilities

-----

Loans .....	
Unrealized depreciation on swaps .....	
Payables:	
Securities purchased .....	
Investment adviser .....	
Interest on loans .....	
Swaps .....	
Other affiliates .....	
Accrued expenses .....	
Total liabilities .....	

=====

Net Assets

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

-----  
Net assets .....

=====  
Capital  
-----

Common Stock, par value \$.10 per share, 200,000,000 shares authorized (106,402,769  
shares issued and outstanding) .....  
Paid-in capital in excess of par .....  
Undistributed investment income -- net .....  
Accumulated realized capital losses -- net .....  
Unrealized appreciation -- net .....  
  
Total accumulated losses -- net .....  
  
Total capital -- Equivalent to \$7.01 net asset value  
per share of Common Stock (market price -- \$7.28) .....

See Notes to Financial Statements.

BLACKROCK DEBT STRATEGIES FUND, INC.                      FEBRUARY 28, 2007                      15

Statement of Operations

For the Year Ended February 28, 2007

=====  
Investment Income  
-----

Interest (including \$329,962 from affiliates) .....  
Facility and other fees .....  
Dividends .....  
  
Total income .....

=====  
Expenses  
-----

Loan interest expense .....  
Investment advisory fees .....  
Borrowing costs .....  
Accounting services .....  
Transfer agent fees .....  
Professional fees .....  
Listing fees .....  
Printing and shareholder reports .....  
Custodian fees .....  
Directors' fees and expenses .....  
Pricing services .....  
Other .....  
  
Total expenses .....  
  
Investment income -- net .....



Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

=====  
 Realized & Unrealized Gain (Loss) -- Net  
 -----

Realized gain (loss) on:

Investments -- net .....  
 Swaps -- net .....  
 Foreign currency transactions -- net .....

Change in unrealized appreciation/depreciation on:

Investments -- net .....  
 Swaps -- net .....  
 Unfunded corporate loans -- net .....

Total realized and unrealized gain -- net .....

Net Increase in Net Assets Resulting from Operations .....

See Notes to Financial Statements.

16

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:  
 =====

Operations  
 -----

Investment income -- net .....  
 Realized loss -- net .....  
 Change in unrealized appreciation/depreciation -- net .....

Net increase in net assets resulting from operations .....

=====  
 Dividends to Shareholders  
 -----

Dividends to shareholders from investment income -- net .....

=====  
 Stock Transactions  
 -----

Value of shares issued to Common Stock shareholders in reinvestment of dividends .....

Net increase in net assets resulting from stock transactions .....

=====  
 Net Assets  
 -----

Total increase (decrease) in net assets .....  
 Beginning of year .....

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

End of year\* .....  
\* Undistributed investment income -- net .....

See Notes to Financial Statements.

BLACKROCK DEBT STRATEGIES FUND, INC.                      FEBRUARY 28, 2007                      17

Statement of Cash Flows

For the Year Ended February 28, 2007

=====  
Cash Provided by Operating Activities  
-----

Net increase in net assets resulting from operations .....  
Adjustments to reconcile net increase in net assets resulting from operations to net cash  
used for operating activities:  
    Increase in other receivables .....  
    Decrease in prepaid expenses and other assets .....  
    Increase in other liabilities .....  
    Realized and unrealized gain -- net .....  
    Amortization of premium and discount .....  
    Paid-in-kind income .....  
Proceeds from sales and paydowns of long-term securities .....  
Purchases of long-term securities .....  
Net purchases of short-term investments .....  
  
Cash provided by operating activities .....

=====  
Cash Used for Financing Activities  
-----

Cash receipts from borrowings .....  
Cash payments from borrowings .....  
Dividends paid to shareholders .....  
Decrease in bank overdraft .....  
  
Cash used for financing activities .....

=====  
Cash  
-----

Net increase in cash .....  
Cash at beginning of year .....  
  
Cash at end of year .....

=====  
Cash Flow Information  
-----

Cash paid for interest .....

=====  
Non-Cash Financing Activities  
-----

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

Value of capital shares issued on reinvestment of dividends to shareholders .....

See Notes to Financial Statements.

18

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

### Financial Highlights

	For the Year February	
	2007	2006
The following per share data and ratios have been derived from information provided in the financial statements.		
=====		
Per Share Operating Performance		
-----		
Net asset value, beginning of year .....	\$ 6.69	\$ 7.00
Investment income -- net** .....	.68	.66
Realized and unrealized gain (loss) -- net .....	.28	(.33)
-----		
Total from investment operations .....	.96	.22
-----		
Less dividends from investment income -- net .....	(.64)	(.66)
-----		
Recovery of previously expensed offering costs (capital write-off) resulting from the issuance of Common Stock .....	--	--
-----		
Net asset value, end of year .....	\$ 7.01	\$ 6.66
=====		
Market price per share, end of year .....	\$ 7.28	\$ 6.70
=====		
Total Investment Return*		
-----		
Based on net asset value .....	15.35%	4.5%
=====		
Based on market price per .....	18.37%	11.3%
=====		
Ratios to Average Net Assets		
-----		
Expenses, excluding interest expense .....	.99%	1.0%
=====		
Expenses .....	3.16%	2.6%
=====		
Investment income -- net .....	9.97%	9.5%
=====		
Leverage		
-----		
Amount of borrowings, end of year (in thousands) .....	\$298,600	\$259,900
=====		
Average amount of borrowings outstanding during the year (in thousands) .....	\$283,906	\$294,370
=====		

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

Average amount of borrowings outstanding per share during  
the year\*\* ..... \$ 2.68 \$ 2.7

Supplemental Data

Net assets, end of year (in thousands) ..... \$745,944 \$708,41  
Portfolio turnover ..... 64.91% 45.6

\* Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

\*\* Based on average shares outstanding.

+ Amount is less than \$.01 per share.

See Notes to Financial Statements.

BLACKROCK DEBT STRATEGIES FUND, INC. FEBRUARY 28, 2007 19

Notes to Financial Statements

1. Significant Accounting Policies:

On September 29, 2006, Debt Strategies Fund, Inc. was renamed BlackRock Debt Strategies Fund, Inc. (the "Fund"). The Fund is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock shares are listed on the New York Stock Exchange ("NYSE") under the symbol DSU.

(a) Corporate debt obligations -- The Fund invests principally in debt obligations of companies, including floating rate loans made by banks and other financial institutions and both privately and publicly offered corporate bonds and notes. Because agents and intermediaries are primarily commercial banks and other financial institutions, the Fund's investment in floating rate loans could be considered concentrated in financial institutions.

(b) Valuation of investments -- Floating rate loans are valued in accordance with guidelines established by the Fund's Board of Directors. As of October 2, 2006, floating rate loan interests are valued at the mean between the last available bid prices from one or more brokers or dealers as obtained from Loan Pricing Corporation. Previously floating rate loan interests were valued at the mean between the last available bid and asked prices as obtained from the same pricing source. This change had no significant effect on the valuation of these loans. For the limited number of floating rate loans for which no reliable price quotes are available, such floating rate loans will be valued by Loan Pricing Corporation through the use of pricing matrixes to determine valuations. If the pricing service does not provide a value for floating rate loans, BlackRock Advisors, LLC (the "Manager"), an indirect, wholly owned subsidiary of BlackRock, Inc., will value the floating rate loans at fair value, which is intended to approximate market value.

Debt securities are traded primarily in the over-the-counter ("OTC") market and

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

are valued at the last available bid price in the OTC market or on the basis of values obtained by a pricing service. Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general direction of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Fund.

Securities held by the Fund that are traded on stock exchanges or the NASDAQ Global Market are valued at the last sale price or official close price on the exchange on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available asked price for short positions. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions in securities traded in the OTC market, NASDAQ Capital Market or Bulletin Board are valued at the last available bid price or yield equivalent obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions in securities traded in the OTC market are valued at the last available asked price. Portfolio securities that are traded both in the OTC market and on a stock exchange are valued according to the broadest and most representative market. When the Fund writes an option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based on the last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last asked price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last bid price. Swap agreements are valued based upon quoted fair valuations received daily by the Fund from a pricing service or counterparty. Other investments, including futures contracts and related options, are stated at market value. Obligations with remaining maturities of 60 days or less are valued at amortized cost unless the Manager believes that this method no longer produces fair valuations. Valuation of other short-term investment vehicles is generally based on the net asset value of the underlying investment vehicle or amortized cost. Repurchase agreements will be valued at cost plus accrued interest.

Generally, trading in foreign securities, as well as U.S. government securities, money market instruments and certain fixed income securities, is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates will generally be determined as of the close of business on the NYSE. Occasionally, events

20

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

Notes to Financial Statements (continued)

affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities will be valued at their fair value as determined in good faith by the Fund's Board of Directors or by the Manager using a pricing service and/or procedures approved by the Fund's Board of Directors.

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

(c) Derivative financial instruments -- The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

- o Financial futures contracts -- The Fund may purchase or sell financial futures contracts and options on such financial futures contracts. Financial futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits, and maintains as collateral, such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.
- o Forward foreign exchange contracts -- The Fund may enter into forward foreign exchange contracts as a hedge against either specific transactions or portfolio positions. The contract is marked-to-market daily and the change in market value is recorded by the Fund as an unrealized gain or loss. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed.
- o Options -- The Fund may write covered call and put options and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

- o Swaps -- The Fund may enter into swap agreements, which are OTC contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. The net payments can be made for a set period of time or may be triggered by a predetermined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security. These periodic payments received or made by the Fund are recorded in the accompanying Statement of Operations as realized gains or losses, respectively. Gains or losses are also realized upon termination of the swap agreements. Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). Risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements.

(d) Foreign currency transactions -- Transactions denominated in foreign

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

currencies are recorded at the exchange rate prevailing when recognized. Assets and liabilities denominated in foreign currencies are valued at the exchange rate at the end of the period. Foreign currency transactions are the result of settling (realized) or valuing (unrealized) assets or liabilities expressed in foreign currencies into U.S. dollars. Realized and unrealized gains or losses from investments include the effects of foreign exchange rates on investments. The Fund invests in foreign securities, which may involve a number of risk factors and special considerations not present with investments in securities of U.S. corporations.

(e) Income taxes -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to reg-

BLACKROCK DEBT STRATEGIES FUND, INC.

FEBRUARY 28, 2007

21

### Notes to Financial Statements (continued)

ulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(f) Recent accounting pronouncements -- In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109." FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity including mutual funds before being measured and recognized in the financial statements. Adoption of FIN 48 is required for the last net asset value calculation in the first required financial statement reporting period for fiscal years beginning after December 15, 2006. The impact on the Fund's financial statements, if any, is currently being assessed.

In September 2006, Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. At this time, management is evaluating the implications of FAS 157 and its impact on the Fund's financial statements, if any, has not been determined.

In addition, in February 2007, FASB issued "Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"), which is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FAS 157. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. At this time, management is evaluating the implications of FAS 159 and its impact on the Fund's financial statements, if any, has not been determined.

(g) Security transactions and investment income -- Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis. The Fund amortizes all

## Edgar Filing: DEBT STRATEGIES FUND - Form N-CSR

premiums and discounts on debt securities.

(h) Dividends and distributions -- Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(i) Securities lending -- The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it collects a fee from the borrower. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

(j) Reclassifications -- U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$27,376,921 has been reclassified between paid-in capital in excess of par and accumulated net realized capital losses, and \$27,448 has been reclassified between undistributed net investment income and accumulated net realized capital losses as a result of permanent differences attributable to expiration of capital loss carryforwards, amortization methods on fixe