

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

DEBT STRATEGIES FUND
Form N-CSRS
November 01, 2005

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

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-08603

Name of Fund: 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, 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: 02/28/06

Date of reporting period: 03/01/05 - 08/31/05

Item 1 - Report to Stockholders

Debt Strategies Fund, Inc.

Semi-Annual Report
August 31, 2005

Debt Strategies Fund, Inc.

The Benefits and Risks of Leveraging

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.

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

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

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.

Portfolio Information as of August 31, 2005

Ten Largest Holdings	Percent of Net Assets
<hr/>	
Century Cable Holdings LLC*	2.4%
Charter Communications Operating LLC	2.1
United Rentals North America, Inc.	2.0
Commonwealth Brands, Inc.*	1.8
XM Satellite Radio, Inc.	1.8
PolyOne Corp.	1.8
FelCor Lodging LP	1.7
NewPage Corp.*	1.7
Intelsat Bermuda Ltd.*	1.7
Sealy Mattress Co.	1.6
<hr/>	

* Includes combined holdings.

Five Largest Industries	Percent of Net Assets
<hr/>	
Cable -- U.S.	17.5%
Chemicals	14.3
Telecommunications	9.5
Paper	9.2
Information Technology	7.0
<hr/>	

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
<hr/>	
BBB/Baa	0.9%
BB/Ba	10.5
B/B	59.4
CCC/Caa	14.3
CC/Ca	0.2
C/C	0.1
D	0.8
NR (Not Rated)	10.5
Other*	3.3
<hr/>	

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

2 DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

A Letter From the President

Dear Shareholder

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Amid what we've coined a "muddle through" year for the financial markets, the major market benchmarks managed to post positive results for the current reporting period:

Total Returns as of August 31, 2005	6-month	12-month
U.S. equities (Standard & Poor's 500 Index)	+2.33%	+12.56%
Small-cap U.S. equities (Russell 2000 Index)	+5.75%	+23.10%
International equities (MSCI Europe Australasia Far East Index)	+1.98%	+23.58%
Fixed income (Lehman Brothers Aggregate Bond Index)	+2.85%	+ 4.15%
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+2.85%	+ 5.31%
High yield bonds (Credit Suisse First Boston High Yield Index)	+1.35%	+ 8.98%

Since June 2004, the Federal Reserve Board (the Fed) has tirelessly advanced its interest rate-hiking program, bringing the federal funds rate to 3.5% by August 31 (and to 3.75% on September 20). Economists and investors have struggled to project the Fed's future moves, vacillating from expectations for an impending end to monetary tightening to fears that the central bank may increase interest rates more than is necessary to moderate economic growth and keep inflation in check. Most recently, the devastation of Hurricane Katrina added a new element of ambiguity in terms of its impact on the economy and Fed sentiment. Many now believe the Fed will suspend its interest rate-hiking campaign at some point this year.

Equity market returns over the past several months have reflected a degree of investor uncertainty. After a strong finish to 2004, the S&P 500 Index posted gains in four of the first eight months of 2005. Up to this point, strong corporate earnings reports and low long-term bond yields have worked in favor of equities. Factors that pose the greatest risks to stocks include record-high oil prices, continued interest rate hikes and the possibility for disappointing earnings for the remainder of the year.

Fixed income markets have fared relatively well in the face of monetary tightening. As the short end of the yield curve moved in concert with Fed interest rate hikes, long-term bond yields remained low, perpetuating the yield curve flattening trend. Because bond prices move in the opposite direction of yields, the result has been that longer-term bonds have outperformed short-term bonds. At period end, the spread between two-year and 10-year Treasury yields was just 18 basis points (.18%).

Financial markets are likely to face continued crosscurrents for the remainder of 2005, particularly as the economy digests the impact of Hurricane Katrina. Nevertheless, opportunities do exist and we encourage you to work with your financial advisor to diversify your portfolio among a variety of asset types. This can help to diffuse risk while also tapping into the potential benefits of a broader range of investment alternatives. As always, we thank you for trusting Merrill Lynch Investment Managers with your investment assets.

Sincerely,

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
President and Director

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

3

A Discussion With Your Fund's Portfolio Manager

We continued our efforts to build a well-diversified portfolio and to protect the Fund's underlying value in the case of rising long-term interest rates.

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

For the six-month period ended August 31, 2005, the Common Stock of Debt Strategies Fund, Inc. had net annualized yields of 9.29% and 9.42%, based on a period-end per share net asset value of \$6.79 and a per share market price of \$6.70, respectively, and \$.318 per share income dividends. Over the same period, the total investment return on the Fund's Common Stock was +0.93%, based on a change in per share net asset value from \$7.06 to \$6.79, and assuming reinvestment of all distributions. The Fund's total return for the period trailed the +2.11% return of its benchmark, which is an equal blend of the Credit Suisse First Boston (CSFB) High Yield Index and the CSFB Leveraged Loan Index.

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 dividends, 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 high yield market was highly volatile during the six-month reporting period. General Motors Corp. (GM) announced higher-than-expected losses on March 16. This exacerbated concerns that both GM and Ford Motor Co. would be lowered to junk bond status and exerted significant downward pressure on the entire high yield market. Concurrent with this development, the 10-year Treasury rate shot up to 4.6% in the last week of March, adding yet more downward price pressure on the high yield market. The Merrill Lynch High Yield Index declined 2.72% in March and 1.04% in April. The market subsequently gained some perspective on the GM and Ford downgrades and staged a four-month rally totaling approximately 4.9% by August 31. This high yield upturn was complemented by a rally in the 10-year Treasury rate, which finished the period at 4.02%, 58 basis points (.58%) off its peak for the reporting period. The later part of this Treasury rally was fueled by an investor flight to quality in the aftermath of Hurricane Katrina.

Conditions in the leveraged loan market were much less unsettled than those in the high yield bond market. Three primary factors account for this. First, credit concerns have less of an impact on leveraged loans compared to high yield bonds due to the senior secured status of most leveraged bank loans. Second, leveraged bank loans are set off of the London InterBank Offered Rate (LIBOR), and are less affected by moves in long-term interest rates. Third, demand for bank loans has been greatly boosted by the influx of collateralized loan obligations (CLOs) into the market. For the eight months ended August 31, 2005, we saw \$26.2 billion in CLO issuance. Generally speaking, bank loans lack call

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

protection, and corporate treasurers have exploited this robust demand to refinance at increasingly tighter spreads to LIBOR.

Despite increasing leverage and greater high yield issuance at the lower end of the credit rating spectrum, default rates continued to decline, reaching their lowest levels since 1994 at .45% for leveraged loans and .91% for high yield bonds, as of June 30, 2005, according to CSFB. While strong market liquidity and gross domestic product growth projections in the 3% - 4% range have enabled companies to stretch their credit parameters, it must be noted that default rates are a lagging indicator. The average incubation period for a high yield credit default is roughly 36 months. Consequently, current rates are more reflective of the underwriting standards of 2002 - 2003 than those of today.

What factors most influenced Fund performance?

The Fund's underperformance of the benchmark reflects the portfolio's relatively aggressive credit stance. In general, credits rated B and CCC fared worse than those rated BB during the credit correction prompted by the GM downgrade. Price weakness was amplified by the Fund's leverage lines, which were actively used during the period. The Fund's maximum leverage amount is 33%; we maintained leverage in the 25% - 30% range during this reporting period.

Specific credits that detracted from performance during the past six months included Anchor Glass Container Corp., Pliant Corp. and GEO Specialty Chemicals, Inc. A common theme among these three investments is the meaningful impact that high energy prices are having on U.S. manufacturers.

4

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

In terms of Anchor Glass Container, we owned \$9.625 million in bonds of this glass bottle manufacturer priced at 101 as of February 28, 2005. We purchased additional bonds on price weakness, leaving the Fund with an \$11.9 million position priced at 67 at period-end. Anchor Glass' financial performance continued to weaken in the midst of high natural gas and soda ash prices, culminating in a Chapter 11 filing on August 8, 2005.

The Fund's \$12.3 million bond position in Pliant, a flexible plastic manufacturing company, slid 25 points to 72 during the period. The company's difficulty in passing along rising raw material costs, namely oil-based resins, is a challenge facing the entire industry.

The price of our 339,340 share GEO equity position retreated from 15 per share to 8.25 per share following weaker-than-expected profit margins. It appears that the significantly higher raw material prices had not been fully reflected in sales prices. GEO manufactures functional chemicals for a variety of markets, including industrial water treatment, paints and coatings, construction and electronics. We received this equity following the company's emergence from Chapter 11 bankruptcy in November 2004.

Specific credits that made outsized contributions to performance during the six-month reporting period included High Voltage Engineering Corporation (HVE), Centerpoint Energy, Inc. and Loral Cyberstar, Inc. Our 501,000 shares of common equity in HVE rallied from 1.50 per share to 9.00 per share during the period. The price of this equity, which we received in 2004 via a Chapter 11 reorganization, had been under pressure as the company faced daunting liquidity issues arising from overextended working capital positions. Subsequently, the company's principal division, Robicon, was sold to Siemens AG at a surprisingly strong multiple. This propelled the stock upward. We liquidated this position in August.

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

The Fund's \$7 million position in the convertible bonds of Centerpoint Energy rallied from 113 to 120 during the period, as improving fundamentals drove the common stock higher. Centerpoint is in the midst of a transition from an integrated utility to a pure transmission and distribution company. During the period, the stock also benefited from several favorable court rulings concerning disposition of stranded asset costs.

At February 28, 2005, the Fund held a \$2.5 million position in the bonds of bankrupt satellite manufacturer Loral Cyberstar. The bonds were marked at 74. We purchased another \$4 million during the period at an average price of 74.52. Since its emergence from Chapter 11, the company's operational prospects have improved markedly and its bonds appreciated to 90.0 by period-end. We believe the satellite market holds great promise.

What changes were made to the portfolio during the period?

We continued to increase the Fund's exposure to floating rate notes during the period, culminating in a portfolio composition of 60% fixed rate/40% floating rate at period-end. Our primary concern has been, and continues to be, the potential for a negative price impact on the Fund's net asset value if long-term interest rates rise. Long-term interest rates actually declined (with the 10-year Treasury yield falling from 4.38% at February 28, 2005 to 4.02% at August 31, 2005), and the Fund has paid the cost for our defensive shift in the form of foregone interest. This cost, however, has been reduced as the underlying LIBOR base for the floating rate investments has risen in lockstep with the federal funds interest rate increases. At August 31, 2005, three-month LIBOR was 3.87% versus 2.92% at February 28, 2005, and it should continue to rise with future Federal Reserve Board (the Fed) interest rate increases. Since June 2004, the Fed has increased the target short-term interest rate 11 consecutive times, from 1% to 3.75% as of September 20, 2005.

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

Going forward, we plan to maintain the portfolio's 60% fixed rate/40% floating rate composition, relying on floating rate notes as opposed to bank loans, where we have seen further spread compression. Our investment approach will continue to be credit-driven, with the aim of maintaining a well-diversified investment portfolio. We also intend to maintain our use of leverage within a target range of 25% - 30%.

Kevin J. Booth
Vice President and Portfolio Manager

September 20, 2005

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

5

Schedule of Investments

(in U.S. dollars)

Face Amount	Corporate Bonds	Va
=====		
Aerospace & Defense--3.0%		
\$ 5,000,000	Alliant Techsystems, Inc., 3% due 8/15/2024 (d) (k)	\$ 5,72
7,500,000	L-3 Communications Corp., 3% due 8/01/2035 (d) (k)	7,75

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

8,120,000	Vought Aircraft Industries, Inc., 8% due 7/15/2011	7,99
		21,47
=====		
Airlines--0.6%		
4,241,544	American Airlines, Inc. Series 2001-1, 7.379% due 11/23/2017	3,16
5,875,000	Delta Air Lines, Inc., 2.875% due 2/18/2024 (d) (k) (m)	96
		4,12
=====		
Automotive--2.6%		
700,000	Advanced Accessory Systems LLC, 10.75% due 6/15/2011	61
4,950,000	Cooper-Standard Automotive, Inc., 8.375% due 12/15/2014	4,50
2,700,000	Delco Remy International, Inc., 7.599% due 4/15/2009 (a)	2,67
1,550,000	Dura Operating Corp. Series D, 9% due 5/01/2009	1,24
4,900,000	Exide Technologies, 10.50% due 3/15/2013 (d)	3,77
6,050,000	Metaldyne Corp., 11% due 6/15/2012	4,65
925,000	Tenneco Automotive Inc., Series B, 10.25% due 7/15/2013	1,04
4,450,000	Venture Holdings Co. LLC (i): 12% due 6/01/2009	
1,800,000	Series B, 9.50% due 7/01/2005	
		18,51
=====		
Broadcasting--5.0%		
3,950,000	Emmis Communications Corp., 9.745% due 6/15/2012 (a)	3,99
6,000,000	Granite Broadcasting Corp., 9.75% due 12/01/2010	5,66
3,870,000	Sinclair Broadcast Group, Inc. Class A, 4.875% due 7/15/2018 (k)	3,52
8,300,000	Sirius Satellite Radio, Inc., 9.625% due 8/01/2013 (d)	8,15
12,625,000	XM Satellite Radio, Inc., 9.193% due 5/01/2009 (a)	12,76
2,000,000	Young Broadcasting Inc., 10% due 3/01/2011	1,92
		36,03
=====		
Cable--International--0.1%		
750,000	NTL Cable Plc, 8.75% due 4/15/2014	79
=====		
Cable--U.S.--10.5%		
7,500,000	Adelphia Communications Corp., 6% due 2/15/2006 (i) (k)	35
2,000,000	Atlantic Broadband Finance LLC, 9.375% due 1/15/2014 (d)	1,94
3,450,000	CSC Holdings, Inc., 7.25% due 7/15/2008	3,48
4,225,000	Cablevision Systems Corp. Series B, 7.88% due 4/01/2009 (a)	4,36
3,750,000	Charter Communications Holdings LLC: 10% due 4/01/2009 (a)	3,21
2,000,000	11.75% due 1/15/2010	1,70
2,000,000	11.125% due 1/15/2011	1,53
2,700,000	9.92% due 4/01/2011	2,02
3,000,000	10% due 5/15/2011	2,24

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

2,500,000	Insight Midwest, LP, 9.75% due 10/01/2009	2,59
	Intelsat Bermuda Ltd. (d):	
3,825,000	8.695% due 1/15/2012 (a)	3,89
3,375,000	8.25% due 1/15/2013	3,43
4,800,000	8.625% due 1/15/2015	4,98
7,398,000	Loral Cyberstar, Inc., 10% due 7/15/2006 (i)	6,91
2,350,000	Mediacom Broadband LLC, 11% due 7/15/2013	2,56
3,875,000	Mediacom LLC, 9.50% due 1/15/2013	3,94
	New Skies Satellites NV:	
3,500,000	8.539% due 11/01/2011 (a)	3,63
3,700,000	9.125% due 11/01/2012	3,83
10,000,000	Rainbow National Services LLC,	
	10.375% due 9/01/2014 (d)	11,40
10,350,000	Zeus Special Subsidiary Ltd.,	
	9.25% due 2/01/2015 (c) (d)	6,98

		75,03
=====		
Chemicals--10.6%		
3,550,000	ArCo Chemical Co., 9.80% due 2/01/2020	4,01
2,320,000	BCP Caylux Holdings Luxembourg SCA,	
	9.625% due 6/15/2014	2,63
4,000,000	Compass Minerals International, Inc. Series B,	
	12% due 6/01/2013 (c)	3,42
9,783,000	GEO Specialty Chemicals, Inc.,	
	12.016% due 12/31/2009 (k)	10,27
	Huntsman International, LLC:	
1,900,000	9.875% due 3/01/2009	2,02
1,199,000	10.125% due 7/01/2009	1,23
3,150,000	ISP Holdings, Inc. Series B,	
	10.625% due 12/15/2009	3,33
1,500,000	Innophos, Inc., 8.875% due 8/15/2014 (d)	1,54
6,000,000	Invista B.V., 9.25% due 5/01/2012 (d)	6,60
2,400,000	Millennium America, Inc.,	
	7.625% due 11/15/2026	2,25
10,000,000	Omnova Solutions, Inc., 11.25% due 6/01/2010	10,65
7,575,917	PCI Chemicals Canada, Inc., 10% due 12/31/2008	8,06
11,700,000	PolyOne Corp., 10.625% due 5/15/2010	12,56
	Rockwood Specialties Group, Inc.:	
3,700,000	10.625% due 5/15/2011	4,07
450,000	7.50% due 11/15/2014 (d)	45
1,656,000	Terra Capital, Inc., 11.50% due 6/01/2010	1,89
691,000	United Agri Products, Inc., 8.25% due 12/15/2011	73

		75,76
=====		
Consumer--Durables--2.4%		
10,750,000	Sealy Mattress Co., 8.25% due 6/15/2014	11,47
10,000,000	Simmons Co., 10.207% due 12/15/2014 (c) (d)	5,75

		17,22
=====		
Consumer--Non-Durables--3.2%		
2,000,000	Ames True Temper, Inc., 7.599% due 1/15/2012 (a)	1,95
3,400,000	Chattem, Inc., 6.87% due 3/01/2010 (a)	3,42
2,000,000	General Binding Corp., 9.375% due 6/01/2008	2,03
3,000,000	Hines Nurseries, Inc., 10.25% due 10/01/2011	3,08
4,000,000	North Atlantic Holding Co., Inc., 12.25%	
	due 3/01/2014 (c)	1,06
10,500,000	Playtex Products, Inc., 9.375% due 6/01/2011	11,13

		22,68

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

6 DEBT STRATEGIES FUND, INC. AUGUST 31, 2005

Schedule of Investments (continued) (in U.S. dollars)

Face Amount	Corporate Bonds	Va
=====		
Diversified Media--3.5%		
\$ 2,000,000	Cadmus Communications Corp., 8.375% due 6/15/2014	\$ 2,07
775,000	Houghton Mifflin Co.: 9.875% due 2/01/2013	83
3,000,000	11.415% due 10/15/2013 (c)	2,33
7,500,000	Liberty Media Corp., 0.75% due 3/30/2023 (k)	8,27
1,800,000	Loews Cineplex Entertainment Corp., 8.875% due 8/01/2008 (i) 0	
2,675,000	Muzak Holdings, LLC, 13% due 3/15/2010	83
3,875,000	NBC Acquisition Corp., 11% due 3/15/2013 (c)	2,85
1,700,000	Nebraska Book Co., Inc., 8.625% due 3/15/2012	1,63
375,000	Universal City Florida Holding Co. I: 8.375% due 5/01/2010	39
5,300,000	8.443% due 5/01/2010 (a)	5,55
		----- 24,80
=====		
Energy--Other--3.7%		
6,150,000	Aventine Renewable Energy Holdings, Inc., 9.87% due 12/15/2011 (a) (d)	6,18
1,000,000	Dresser, Inc.: 9.375% due 4/15/2011	1,05
2,325,000	Dresser-Rand Group, Inc., 7.375% due 11/01/2014 (d)	2,40
6,480,000	Giant Industries, Inc.: 11% due 5/15/2012	7,32
3,525,000	8% due 5/15/2014	3,70
6,250,000	Star Gas Partners LP, 10.25% due 2/15/2013	5,56
		----- 26,22
=====		
Financial--2.3%		
5,777,222	Archimedes Funding III Ltd., 5.50% due 11/29/2011 (a) (d)	4,47
1,500,000	Investcorp SA, 7.54% due 10/21/2008	1,52
2,000,000	Pennant CBO Ltd., 13.43% due 3/14/2011	1,54
7,625,000	Refco Finance Holdings LLC, 9% due 8/01/2012	8,31
1,500,000	SKM-LibertyView CBO Ltd. Series 1A (f) (i): Class C1, 8.71% due 4/10/2011	52
1,000,000	Class D, 11.91% due 4/10/2011	1
		----- 16,38
=====		
Food & Drug--0.3%		
2,750,000	Duane Reade, Inc., 9.75% due 8/01/2011	2,17
=====		

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Food & Tobacco--3.0%			
	949,670	Archibald Candy Corp., 10% due 11/01/2007 (i)	28
		Commonwealth Brands, Inc. (d):	
	4,550,000	9.75% due 4/15/2008	4,80
	8,000,000	10.625% due 9/01/2008	8,44
	1,175,000	Doane Pet Care Co., 10.75% due 3/01/2010	1,28
	1,362,000	Dole Food Co., Inc., 8.875% due 3/15/2011	1,45
	2,875,000	Gold Kist Inc., 10.25% due 3/15/2014	3,27
	28,918,000	New World Pasta Co., 9.25% due 2/15/2009 (i)	2,02
			21,55
=====			
Gaming--1.4%			
	4,000,000	Inn of the Mountain Gods Resort & Casino, 12% due 11/15/2010	4,59
	2,000,000	Jacobs Entertainment, Inc., 11.875% due 2/01/2009	2,14
	1,825,000	Majestic Star Casino LLC, 9.50% due 10/15/2010	1,83
	1,725,000	Penn National Gaming, Inc., 6.75% due 3/01/2015	1,70
			10,28
=====			
Health Care--5.7%			
	6,000,000	CDRV Investors, Inc., 9.75% due 1/01/2015 (c)	3,48
	5,000,000	Cinacalcet Royalty Corp., 8% due 3/30/2017	5,20
		Elan Finance Plc (d):	
	3,525,000	7.75% due 11/15/2011	3,10
	4,825,000	7.79% due 11/15/2011 (a)	4,27
		HealthSouth Corp.:	
	2,500,000	8.50% due 2/01/2008	2,51
	2,500,000	10.75% due 10/01/2008	2,58
	3,000,000	7.625% due 6/01/2012	2,91
	5,000,000	Risperdal Consta Pharma, 7% due 1/01/2018	4,35
	6,000,000	Tenet Healthcare Corp., 7.375% due 2/01/2013	5,85
	1,400,000	VWR International, Inc., 8% due 4/15/2014	1,38
		Vanguard Health Holding Co., LLC:	
	4,100,000	I, 11.25% due 10/01/2015	3,04
	2,325,000	II, 9% due 10/01/2014	2,52
			41,23
=====			
Housing--2.8%			
		Compression Polymers Corp. (d):	
	2,000,000	10.46% due 7/01/2012 (a)	2,00
	1,300,000	10.50% due 7/01/2013	1,31
	421,312	Formica Holdings Corp., 8.76% due 6/10/2011	40
		Goodman Global Holding Co., Inc. (d):	
	3,190,000	6.41% due 6/15/2012 (a)	3,17
	8,200,000	7.875% due 12/15/2012	7,74
	2,500,000	Nortek, Inc., 8.50% due 9/01/2014	2,43
	2,250,000	Stanley-Martin Communities, 9.75% due 8/15/2015 (d)	2,27
	1,000,000	US Concrete, Inc., 8.375% due 4/01/2014	1,00
			20,34
=====			
Information Technology--6.1%			
		Amkor Technology, Inc.:	
	6,950,000	9.25% due 2/15/2008	6,53
	1,000,000	10.50% due 5/01/2009	91
	5,000,000	Cypress Semiconductor Corp., 1.25% due 6/15/2008 (k)	5,96

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

4,725,000	Freescale Semiconductor, Inc., 6.349% due 7/15/2009 (a)	4,87
	MagnaChip Semiconductor SA:	
1,375,000	7.12% due 12/15/2011 (a)	1,38
1,050,000	8% due 12/15/2014	98
	Sungard Data Systems, Inc. (d):	
3,825,000	8.525% due 8/15/2013 (a)	3,95
7,075,000	9.125% due 8/15/2013	7,42
4,100,000	10.25% due 8/15/2015	4,28
2,925,000	Telcordia Technologies Inc., 10% due 3/15/2013 (d)	2,77
5,075,000	Viasystems, Inc., 10.50% due 1/15/2011	4,99

		44,10
=====		
Leisure--2.0%		
12,000,000	FelCor Lodging LP, 7.78% due 6/01/2011 (a)	12,51
2,000,000	True Temper Sports, Inc., 8.375% due 9/15/2011	1,94

		14,45
=====		

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

7

Schedule of Investments (continued)

(in U.S. dollars)

Face Amount	Corporate Bonds	Va
=====		
Manufacturing--4.5%		
\$ 575,000	Aearo Co., 8.25% due 4/15/2012	\$ 57
4,000,000	CPI Holdco, Inc., 9.672% due 2/01/2015 (a)	3,96
4,525,000	EaglePicher Inc., 9.75% due 9/01/2013 (i)	3,39
5,875,000	Invensys Plc, 9.875% due 3/15/2011 (d)	5,90
4,899,000	Medis Technologies Ltd., 6% due 7/15/2010 (d)(k)	4,94
8,300,000	Mueller Group, Inc., 10% due 5/01/2012	8,89
600,000	NMHG Holding Co., 10% due 5/15/2009	64
4,000,000	Propex Fabrics, Inc., 10% due 12/01/2012	3,86

		32,18
=====		
Metal--Other--1.0%		
1,100,000	Aleris International, Inc., 9% due 11/15/2014	1,16
5,500,000	James River Coal Co., 9.375% due 6/01/2012	5,81

		6,97
=====		
Packaging--4.9%		
11,905,000	Anchor Glass Container Corp., 11% due 2/15/2013 (i)	7,97
3,800,000	Consolidated Container Co. LLC, 10.75% due 6/15/2009 (c)	3,15
4,400,000	Crown European Holdings SA, 9.50% due 3/01/2011	4,85
1,100,000	Graham Packing Co., Inc.,	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

	9.875% due 10/15/2014	1,13
12,300,000	Pliant Corp., 13% due 6/01/2010	8,85
	Tekni-Plex, Inc.:	
2,000,000	12.75% due 6/15/2010	1,42
1,000,000	10.875% due 8/15/2012 (d)	1,08
1,250,000	8.75% due 11/15/2013 (d)	1,09
6,575,000	Wise Metals Group LLC, 10.25% due 5/15/2012	5,40

		34,98
=====		
Paper--9.1%		
6,500,000	Abitibi-Consolidated, Inc.,	
	7.37% due 6/15/2011 (a)	6,50
6,025,000	Ainsworth Lumber Co. Ltd.,	
	7.24% due 10/01/2010 (a)	5,96
	Boise Cascade LLC:	
2,150,000	6.474% due 10/15/2012 (a)	2,16
900,000	7.125% due 10/15/2014	87
7,600,000	Bowater, Inc., 6.87% due 3/15/2010 (a)	7,67
3,775,000	Domtar, Inc., 7.125% due 8/15/2015	3,76
4,250,000	Georgia-Pacific Corp., 9.375% due 2/01/2013	4,74
2,000,000	Graphic Packaging International Corp.,	
	9.50% due 8/15/2013	2,05
	JSG Funding Plc:	
2,000,000	9.625% due 10/01/2012	2,04
6,125,000	7.75% due 4/01/2015	5,39
	NewPage Corp. (d):	
8,000,000	9.943% due 5/01/2012 (a)	7,96
4,725,000	12% due 5/01/2013	4,48
1,600,000	Smurfit-Stone Container Enterprises, Inc.,	
	8.375% due 7/01/2012	1,59
3,450,000	Tembec Industries, Inc., 8.625% due 6/30/2009	2,77
7,281,000	Western Forest Products, Inc.,	
	15% due 7/28/2009 (b) (d)	7,10

		65,10
=====		
Service--5.0%		
	Allied Waste North America, Inc.:	
1,440,000	7.875% due 4/15/2013	1,48
6,250,000	Series B, 7.375% due 4/15/2014	5,87
2,000,000	Buhrmann US, Inc., 7.875% due 3/01/2015 (d)	2,02
1,750,000	Cardtronics, Inc., 9.25% due 8/15/2013 (d)	1,78
7,500,000	HydroChem Industrial Services, Inc.,	
	9.25% due 2/15/2013 (d)	7,35
3,000,000	Neff Rental LLC, 11.25% due 6/15/2012 (d)	3,19
14,825,000	United Rentals North America, Inc.,	
	7.75% due 11/15/2013	14,49

		36,20
=====		
Telecommunications--9.4%		
5,000,000	ADC Telecommunications, Inc.,	
	3.996% due 6/15/2013 (a) (k)	5,00
3,265,000	Alaska Communications Systems Holdings, Inc.,	
	9.875% due 8/15/2011	3,57
7,500,000	Cincinnati Bell, Inc., 8.375% due 1/15/2014	7,57
6,000,000	LCI International, Inc., 7.25% due 6/15/2007	5,91
	Qwest Capital Funding, Inc.:	
2,000,000	6.375% due 7/15/2008	1,96
8,200,000	6.875% due 7/15/2028	6,80
7,900,000	Qwest Communications International, Inc.,	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

	7.29% due 2/15/2009 (a)	7,86
2,675,000	Qwest Corp., 7.12% due 6/15/2013 (a)(d)	2,80
	Terremark Worldwide Inc. (k):	
4,475,000	9% due 6/15/2009	3,75
6,000,000	9% due 6/15/2009 (d)	5,04
	Time Warner Telecom Holdings, Inc.:	
7,000,000	7.79% due 2/15/2011 (a)	7,17
6,000,000	9.25% due 2/15/2014	6,09
4,000,000	Time Warner Telecom, Inc., 9.75% due 7/15/2008	4,06

		67,61
=====		
Transportation--0.9%		
3,000,000	Progress Rail Services Corp.,	
	7.75% due 4/01/2012 (d)	3,04
3,500,000	Titan Petrochemicals Group Ltd.,	
	8.50% due 3/18/2012 (d)	3,34

		6,39
=====		
Utility--2.4%		
7,000,000	Centerpoint Energy, Inc. Series B,	
	3.75% due 5/15/2023 (k)	8,94
6,000,000	Sierra Pacific Resources, 8.625% due 3/15/2014	6,63
1,425,000	Williams Cos., Inc., 8.625% due 6/01/2010	1,54

		17,11
=====		
Wireless Communications--3.5%		
5,500,000	Alamosa Delaware, Inc., 8.50% due 1/31/2012	5,96
267,000	American Tower Corp., 9.375% due 2/01/2009	28
	Dobson Cellular Systems:	
1,750,000	8.375% due 11/01/2011	1,85
4,675,000	8.443% due 11/01/2011 (a)	4,86
950,000	Horizon PCS, Inc., 11.375% due 7/15/2012	1,10
2,500,000	iPCS Escrow Co., 11.50% due 5/01/2012	2,88
1,600,000	Rural Cellular Corp., 8.37% due 3/15/2010 (a)	1,65
6,600,000	US Unwired, Inc., 7.66% due 6/15/2010 (a)	6,86

		25,47

	Total Corporate Bonds	
	(Cost--\$800,350,166)--109.5%	785,26
=====		

8 DEBT STRATEGIES FUND, INC. AUGUST 31, 2005

Schedule of Investments (continued) (in U.S. dollars)

Face Amount	Floating Rate Loan Interests*	Va
=====		
Automotive--1.9%		
\$ 6,000,000	Delphi Automotive Systems Corp. Term Loan,	
	10.30% due 6/14/2011	\$ 6,16
4,501,182	Intermet Corp. Term Loan B, 8.25% due 3/31/2009	4,47

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Tenneco Automotive, Inc.:		
2,185,236	Term Loan B, 6.08% due 12/12/2010	2,22
959,936	Tranche B-1 Credit Linked Deposit, 5.76% due 12/12/2010	97

13,84		
=====		
Cable--U.S.--6.7%		
Century Cable Holdings LLC:		
7,000,000	Discretionary Term Loan, 9.50% due 12/31/2009	6,95
10,000,000	Term Loan B, 8.50% due 6/30/2009	9,94
14,831,561	Charter Communications Operating LLC Tranche B Term Loan, 6.83% - 6.93% due 4/07/2011	14,89
7,880,000	Insight Midwest Holdings LLC Term Loan C, 5.625% due 12/31/2009	7,99
993,739	New Skies Satellites, BV Term Loan, 5.688% - 5.875% due 5/04/2011	1,00
Olympus Cable Holdings LLC:		
6,000,000	Term Loan B, 8.50% due 9/30/2010	5,96
1,500,000	Tranche 2 Term Loan A, 8.50% due 6/30/2010	1,48

48,25		
=====		
Chemicals--3.0%		
3,100,000	Huntsman International LLC Term Loan B, 5.323% due 8/16/2012	3,14
Invista B.V. New Tranche:		
3,532,632	B-1 Term Loan, 5.75% due 4/29/2011	3,59
1,532,691	B-2 Term Loan, 5.75% due 4/29/2011	1,55
1,516,457	Pinnacle Polymers Term Loan, 6.109% due 12/15/2006	1,53
3,184,000	Rockwood Specialties Group, Inc., Tranche B Term Loan, 5.93% due 12/10/2012	3,24
8,000,000	Wellman, Inc. Second Lien Term Loan, 10.46% - 10.71% due 2/10/2010	8,12

21,19		
=====		
Consumer--Durables--0.7%		
5,000,000	Simmons Co. Term Loan, 7% due 6/19/2012	5,07
=====		
Consumer--Non-Durables--1.4%		
9,825,000	Levi Strauss & Co. Tranche A Term Loan, 10.434% - 10.635% due 9/29/2009	10,29
=====		
Energy--Exploration & Production--0.5%		
Quest Cherokee LLC:		
222,222	Line of Credit, 8.325% due 12/31/2008	22
1,500,000	Revolving Credit, 8.25% due 7/22/2009	1,45
1,764,444	Term Loan B, 8.61% - 10.25% due 7/22/2010	1,76

3,43		
=====		
Energy--Other--0.8%		
Dresser, Inc.:		
1,148,861	Term Loan C, 5.99% due 4/10/2009	1,16
2,500,000	Term Loan Unsecured, 6.91% due 3/01/2010	2,54
2,000,000	EPCO Holdings, Inc. Term Loan B, 5.84% due 8/18/2010	2,03

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

			5,74
=====			
Food & Tobacco--0.5%			
3,693,700	Dr. Pepper/Seven Up Bottling Group, Inc. Term Loan B, 5.339% - 5.609% due 12/19/2010		3,75
=====			
Gaming--0.6%			
4,122,245	Buffington Harbor Parking Associates LLC Term Loan B, 10.375% due 7/01/2011		4,12
=====			
Health Care--1.1%			
4,500,000	HealthSouth Corp. Term Loan, 10.375% due 1/16/2011		4,66
3,399,153	Medpointe Healthcare Inc. Tranche B Term Loan, 8.89% - 8.99% due 9/30/2008		3,44

			8,11
=====			
Housing--3.2%			
4,627,970	General Growth Properties, Inc. Term Loan B, 5.67% due 11/12/2008		4,68
4,980,066	Headwaters, Inc. First Lien Term Loan, 5.87% - 7.75% due 4/30/2011		5,05
2,939,910	LNR Property Corp. Tranche B Term Loan, 6.53% - 6.71% due 2/03/2008		2,97
10,000,000	Stile U.S. Acquisition Corp. Bridge Loan, 9.384% due 4/06/2015		10,00

			22,71
=====			
Information Technology--0.9%			
3,097,500	Fidelity National Information Solutions, Inc. Term Loan B, 5.321% due 3/09/2013		3,10
3,366,563	Telcordia Technologies Inc. Term Loan, 6.51 - 6.61% due 9/15/2012		3,36

			6,47
=====			
Manufacturing--0.7%			
5,000,000	Invensys International Holdings Ltd. Second Lien Term Loan, 8.529% due 12/04/2009		5,12
=====			
Metal--Other--1.0%			
3,000,000	Euramax International Plc: First Lien Term Loan, 6.125% due 6/29/2012		3,02
4,000,000	Second Lien Term Loan, 10.55% due 6/29/2013		4,06

			7,08
=====			
Packaging--1.3%			
2,350,057	Anchor Glass Container Corp. Second Lien Revolving Credit, 10.57% due 9/26/2005		2,35
6,774,814	Owens-Illinois Group, Inc. French Tranche C-1, 5.45% due 4/01/2008		6,84

			9,20
=====			
Service--0.6%			
3,950,000	Waste Services, Inc. Tranche B Term Loan, 7.87% - 8.53% due 3/31/2011		4,01
=====			

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Steel--0.0%

	Acme Metals, Inc. Term Loan (i):	
7,000,072	11.75% due 12/01/2005	
711,758	12% due 12/01/2005	

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

9

Schedule of Investments (continued)

(in U.S. dollars)

Face Amount	Floating Rate Loan Interests*		Va
=====			
Utility--2.2%			
\$ 7,840,000	Calpine Corp. Second Lien Term Loan, 9.349% due 7/15/2007	\$	6,41
5,000,000	Covanta Energy Corp. Second Lien Term Loan, 8.96% - 9.141% due 6/24/2013		5,03
1,500,000	El Paso Corp.: Deposit Account, 2.77% due 11/23/2009		1,52
2,470,000	Term Loan, 6.438% due 11/23/2009		2,50

			15,48
=====			
Wireless Communications--0.8%			
5,910,000	Centennial Cellular Operating Co. Term Loan, 5.63% - 6.11% due 2/09/2011		6,01

	Total Floating Rate Loan Interests (Cost--\$201,782,631)--27.9%		199,94
=====			
Shares Held	Common Stocks		
=====			
Chemicals--0.7%			
339,340	GEO Specialty Chemicals, Inc. (j)		2,88
82,516	Pioneer Cos., Inc. (j)		1,82

			4,70
=====			
Energy--Other--0.8%			
239,975	Trico Marine Services, Inc. (j)		5,44
=====			
Financial--0.4%			
35,000	Preferred Term Securities VI (d) (j)		2,68
=====			
Food & Tobacco--0.5%			
1,428,423	Viskase Cos., Inc.		3,42
=====			
Leisure--0.0%			
27,787	Lodgian, Inc. (j)		29

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Manufacturing--0.2%	724,291	ACP Holding Co. (d) (j)	1,44
Paper--0.1%	211,149	Western Forest Products, Inc. (j)	46
Service--0.5%	90,876	Outsourcing Solutions Inc. (j)	3,81
Steel--0.0%	41,149	Acme Package Corp. Senior Holdings (j) (l)	11
Telecommunications--0.1%	59,534	IDT Corp. Class B (j)	78
		Total Common Stocks (Cost--\$17,333,780)--3.3%	23,19

Preferred Stocks

Automotive--0.6%	200,000	General Motors Corp. Series C, 6.25% (d) (k)	4,28
Broadcasting--0.0%	2	Paxson Communications Corp., 9.75% (b) (d) (k)	

Shares
Held

Preferred Stocks

Va

Cable--U.S.--0.0%	5,000	Adelphia Communications Corp., Series B, 13%	
		Total Preferred Stocks (Cost--\$5,357,155)--0.6%	4,29

Warrants (g)

Broadcasting--0.0%	15,000	Sirius Satellite Radio, Inc. (expires 5/15/2009)	
Health Care--0.0%	126,761	HealthSouth Corp. (expires 1/16/2014)	31
Manufacturing--0.2%	652,739	ACP Holding Co. (expires 9/30/2013)	1,30
Paper--0.0%	18	Cellu Tissue Holdings, Inc. Series A (expires 9/28/2011)	17
	7,000	MDP Acquisitions Plc (expires 10/01/2013)	3

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Beneficial Interest		Other Interests (e)	
=====			
Wireless Communications--0.1%			20
1,325	American Tower Corp. (expires 8/01/2008)		44

	Total Warrants		
	(Cost--\$870,754)--0.3%		2,28
=====			
Beneficial Interest			
Other Interests (e)			
=====			
Airlines--0.2%			
\$ 2,641,443	US Airways Group, Inc. (Certificate of Beneficial Interest)		1,10
=====			
Automotive--0.0%			
3,614,601	Cambridge Industries, Inc. (Litigation Trust Certificates) (j)		3
=====			
Cable--U.S.--0.3%			
9,500,000	Pegasus Satellite Communications, Inc. (Litigation Trust Certificates) (j)		2,45

	Total Other Interests		
	(Cost--\$3,530,676)--0.5%		3,60
=====			
Short-Term Securities			
=====			
\$ 332,089	Merrill Lynch Liquidity Series, LLC Cash Sweep Series I (h)		33

	Total Short-Term Securities		
	(Cost--\$332,089)--0.0%		33
=====			
Total Investments (Cost--\$1,029,557,251**)--142.1%			1,018,91
Liabilities in Excess of Other Assets--(42.1%)			(301,64)
Net Assets--100.0%			\$ 717,26
=====			

10 DEBT STRATEGIES FUND, INC. AUGUST 31, 2005

Schedule of Investments (concluded) (in U.S. dollars)

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

** The cost and unrealized appreciation (depreciation) of investments as of August 31, 2005, as computed for federal income tax purposes, were as

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

follows:

Aggregate cost	\$1,029,317,429
	=====
Gross unrealized appreciation	\$ 51,330,406
Gross unrealized depreciation	(61,736,265)

Net unrealized depreciation	\$ (10,405,859)
	=====

- (a) Floating rate note.
- (b) Represents a pay-in-kind security which may pay interest/dividends in additional face/shares.
- (c) Represents a step bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.
- (d) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (e) Other interests represent beneficial interest in liquidation trusts and other reorganization entities.
- (f) Mortgage-Backed Securities are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- (g) 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.
- (h) 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 Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$128,407	\$17,274

- (i) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.
- (j) Non-income producing security.
- (k) Convertible security.
- (l) Restricted securities as to resale, representing 0.02% of net assets, were as follows:

Issue	Acquisition Date	Cost	Value
Acme Package Corp. Senior Holdings	11/25/2002	--	\$113,160

- (m) Issuer filed for bankruptcy.

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 such industry sub-classifications for reporting ease. Industries are shown as a percent of net assets.

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

See Notes to Financial Statements.

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

11

Statement of Assets, Liabilities and Capital

As of August 31, 2005

Assets

Investments in unaffiliated securities, at value (identified cost--\$1,029,225,162)	
Investments in affiliated securities, at value (identified cost--\$332,089)	
Cash	
Receivables:	
Interest (including \$3,030 from affiliates)	\$ 16
Commitment fees	-----
Prepaid expenses and other assets	
Total assets	

Liabilities

Loans	
Unfunded loan commitment	
Payables:	
Investment adviser	
Dividends to shareholders	
Interest on loans	
Other affiliates	
Securities purchased	-----
Accrued expenses and other liabilities	
Total liabilities	

Net Assets

Net assets	
------------------	--

Capital

Common Stock, \$.10 par value, 200,000,000 shares authorized....	
Paid-in capital in excess of par	
Undistributed investment income--net	\$ 5
Accumulated realized capital losses--net	(352)
Unrealized depreciation--net	(10)
Total accumulated losses--net	
Total capital--Equivalent to \$6.79 per share based on 105,570,363 shares of Capital Stock outstanding	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

(market price--\$6.70)

See Notes to Financial Statements.

12 DEBT STRATEGIES FUND, INC. AUGUST 31, 2005

Statement of Operations

For the Six Months Ended August 31, 2005

Investment Income

Interest (including \$17,274 from affiliates)
 Dividends
 Facility and other fees
 Total income

Expenses

Loan interest expense	\$	5
Investment advisory fees		3
Borrowing costs		
Accounting services		
Professional fees		
Transfer agent fees		
Listing fees		
Printing and shareholder reports		
Custodian fees		
Directors' fees and expenses		
Pricing services		
Other		
Total expenses		
Investment income--net		

Realized & Unrealized Loss--Net

Realized loss on investments--net		
Change in unrealized appreciation/depreciation on:		
Investments--net		(17)
Unfunded corporate loans--net		
Total realized and unrealized loss--net		
Net Increase in Net Assets Resulting from Operations		

See Notes to Financial Statements.

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Statements of Changes in Net Assets

	For Month Augu 2
Increase (Decrease) in Net Assets:	
=====	
Operations	

Investment income--net	\$ 34
Realized loss--net	(11)
Change in unrealized appreciation/depreciation--net	(17)

Net increase in net assets resulting from operations	5

=====	
Dividends to Shareholders	

Dividends to shareholders from investment income--net	(33)

=====	
Capital Share Transactions	

Value of shares issued in reinvestment of dividends	-----
Net increase in net assets resulting from capital share transactions	-----

=====	
Net Assets	

Total increase (decrease) in net assets	(27)
Beginning of period	745

End of period*	\$ 717
	=====
* Undistributed investment income--net	\$ 5
	=====

See Notes to Financial Statements.

14 DEBT STRATEGIES FUND, INC. AUGUST 31, 2005

Statement of Cash Flows

For the Six Months Ended August 31, 2005

Cash Provided by Operating Activities

Net increase in net assets resulting from operations	\$ 5
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:...	

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Increase in receivables	(1)
Decrease in prepaid expenses and other assets	
Increase in other liabilities	
Realized and unrealized loss--net	28
Amortization of premium and discount	(2)
Proceeds from sales and paydowns of long-term securities	224
Proceeds on other investment related transactions	2
Purchases of long-term securities	(247)
Purchases of short-term investments--net	
Net cash provided by operating activities	10
=====	
Cash Used for Financing Activities	

Cash receipts from borrowings	209
Cash payments on borrowings	(190)
Dividends paid to shareholders	(33)
Net cash used for financing activities	(14)
=====	
Cash	

Net decrease in cash	(4)
Cash at beginning of period	4
Cash at end of period	\$
=====	
Cash Flow Information	

Cash paid for interest	\$ 4
=====	

See Notes to Financial Statements.

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

15

Financial Highlights

	For the Six Months Ended August 31, 2005	For the Year Ended February 28, 2005	For t Year E Februar 200
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 period	\$ 7.06	\$ 6.71	\$ 5
Investment income--net***33	.67	
Realized and unrealized gain (loss)--net .	(.28)	.34	1
Total from investment operations05	1.01	2
Less dividends from investment income--net	(.32)	(.66)	(

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Recovery of previously expensed offering costs (capital write-off) resulting from the issuance of Common Stock	--	--	
Net asset value, end of period	\$ 6.79	\$ 7.06	\$ 6.79
Market price per share, end of period	\$ 6.70	\$ 6.71	\$ 6.70
=====			
Total Investment Return**			
Based on net asset value per share93% [@]	15.95%	41.2%
Based on market price per share	4.78% [@]	10.53%	26.1%
=====			
Ratios to Average Net Assets			
Expenses, excluding interest expense	1.01%*	1.02%	1.02%
Expenses	2.41%*	1.83%	1.83%
Investment income--net	9.61%*	9.84%	12.1%
=====			
Leverage			
Amount of borrowings, end of period (in thousands)	\$317,100	\$298,400	\$269,000
Average amount of borrowings outstanding during the period (in thousands)	\$298,546	\$304,549	\$239,000
Average amount of borrowings outstanding per share during the period***	\$ 2.83	\$ 2.89	\$ 2.83
=====			
Supplemental Data			
Net assets, end of period (in thousands) .	\$717,269	\$745,256	\$706,000
Portfolio turnover	21.26%	60.11%	70.0%
=====			

* Annualized.

** 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.

@ Aggregate total investment return.

See Notes to Financial Statements.

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

1. Significant Accounting Policies:

Debt Strategies Fund, Inc. (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. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim period. All such adjustments are of a normal, recurring nature. 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 Board of Directors. Floating rate loans are valued at the mean between the last available bid and asked prices from one or more brokers or dealers as obtained from Loan Pricing Corporation. 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, the Investment Adviser will value the floating rate loans at fair value, which is intended to approximate market value.

Securities that are held by the Fund that are traded on stock exchanges or the Nasdaq National 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 over-the-counter ("OTC") market, Nasdaq Small Cap 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. Floating rate loan interests are valued at the mean between the last available bid and asked prices from one or more brokers or dealers as obtained from a pricing service. 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 Investment Adviser believes that this method

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

no longer produces fair valuations. Repurchase agreements will be valued at cost plus accrued interest. The Fund employs certain pricing services to provide securities prices for the Fund. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by the pricing services retained by the Fund, which may use a matrix system for valuations. The procedures of a pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors.

Generally, trading in foreign securities, as well as U.S. Government securities and money market instruments, 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 also are generally determined prior to the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

17

Notes to Financial Statements (continued)

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 may be valued at their fair value as determined in good faith by the Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Board of Directors.

(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 futures contracts. 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

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

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 over-the-counter 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 pre-determined 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 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.

(e) Income taxes -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no

18 DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

Notes to Financial Statements (continued)

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) 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 premiums and discounts on debt securities.

(g) Dividends and distributions -- Dividends from net investment income are

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(h) 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.

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to perform the investment advisory function. For such services, the Fund pays a monthly fee at an annual rate of .60% of the Fund's average weekly net assets plus the proceeds of any outstanding borrowings used for leverage.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated, an affiliate of FAM, or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by FAM or its affiliates.

For the six months ended August 31, 2005, the Fund reimbursed FAM \$8,050 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, ML & Co., and/or MLIM, LLC.

3. Investments:

Purchases and sales (including paydowns) of investments, excluding short-term securities, for the six months ended August 31, 2005 were \$242,780,552 and \$213,410,682, respectively.

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Notes to Financial Statements (concluded)

4. Capital Share Transactions:

The Fund is authorized to issue 200,000,000 shares of Common Stock, par value \$.10 per share. Shares issued and outstanding during the six months ended August 31, 2005 remained constant and during the year ended February 28, 2005 increased by 374,356 as a result of dividend reinvestment.

5. Unfunded Loan Interests:

As of August 31, 2005, the Fund had unfunded loan commitments of approximately \$1,000,000, which would be extended at the option of the borrower, pursuant to the following loan agreement:

Borrower	Unfunded Commitment (in Thousands)
Quest Cherokee LLC	\$1,000

6. Short-Term Borrowings:

On May 24, 2005, the Fund renewed its revolving credit and security agreement funded by a commercial paper asset securitization program with Citigroup North America, Inc. ("Citigroup") as Agent, certain secondary backstop lenders, and certain asset securitization conduits as lenders (the "Lenders"). The agreement was renewed for one year and has a maximum limit of \$370,000,000. Under the Citigroup program, the conduits will fund advances to the Fund through the issuance of highly rated commercial paper. As security for its obligations to the Lenders under the revolving securitization facility, the Fund has granted a security interest in substantially all of its assets to and in favor of the Lenders. The interest rate on the Fund's borrowings is based on the interest rate carried by the commercial paper plus a program fee. The Fund pays additional borrowing costs including a backstop commitment fee.

The weighted average annual interest rate was 3.35% and the average borrowing was approximately \$298,546,000 for the six months ended August 31, 2005.

7. Capital Loss Carryforward:

On February 28, 2005, the Fund had a net capital loss carryforward of \$326,319,995, of which \$12,067,388 expires in 2006, \$27,376,921 expires in 2007, \$51,234,056 expires in 2008, \$21,442,332 expires in 2009, \$90,564,493 expires in 2010, \$85,285,305 expires in 2011, \$17,223,475 expires in 2012 and \$21,126,025 expires in 2013. This amount will be available to offset like amounts of any future taxable gains.

8. Subsequent Event:

The Fund paid an ordinary income dividend in the amount of \$.053000 per share on September 30, 2005 to shareholders of record on September 14, 2005.

20

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

Disclosure of Investment Advisory Agreement

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Activities of and Composition of the Board of Directors

All but one member of the Board of Directors is an independent director whose only affiliation with Fund Asset Management, L.P. (the "Investment Adviser") or other Merrill Lynch affiliates is as a director of the Fund and certain other funds advised by the Investment Adviser or its affiliates. The Chairman of the Board is also an independent director. New director nominees are chosen as nominees by a Nominating Committee comprised of independent directors. All independent directors also are members of the Board's Audit Committee and the independent directors meet in executive session at each in-person Board meeting. The Board and the Audit Committee meet in person for at least two days each quarter and conduct other in-person and telephone meetings throughout the year, some of which are formal board meetings, and some of which are informational meetings. The independent counsel to the independent directors attends all in-person Board and Audit Committee meetings and other meetings at the independent directors' request.

Investment Advisory Agreement -- Matters Considered by the Board

Every year, the Board considers approval of the Fund's investment advisory agreement (the "Investment Advisory Agreement"). The Board assesses the nature, scope and quality of the services provided to the Fund by the personnel of the Investment Adviser and its affiliates, including administrative services, shareholder services, oversight of fund accounting, marketing services and assistance in meeting legal and regulatory requirements. The Board also receives and assesses information regarding the services provided to the Fund by certain unaffiliated service providers.

At various times throughout the year, the Board also considers a range of information in connection with its oversight of the services provided by the Investment Adviser and its affiliates. Among the matters considered are: (a) fees (in addition to management fees) paid to the Investment Adviser and its affiliates by the Fund, such as transfer agency fees; (b) Fund operating expenses paid to third parties; (c) the resources devoted to and compliance reports relating to the Fund's investment objective, policies and restrictions, and its compliance with its Code of Ethics and the Investment Adviser's compliance policies and procedures; and (d) the nature, cost and character of non-investment management services provided by the Investment Adviser and its affiliates.

The Board believes that the Investment Adviser is one of the most experienced global asset management firms and considers the overall services provided by the Investment Adviser to be generally of high quality. The Board also believes that the Investment Adviser is financially sound and well managed and notes that the Investment Adviser is affiliated with one of America's largest financial firms. The Board works closely with the Investment Adviser in overseeing the Investment Adviser's efforts to achieve good performance. As part of this effort, the Board discusses portfolio manager effectiveness and, when performance is not satisfactory, discusses with the Investment Adviser taking steps such as changing investment personnel.

Annual Consideration of Approval by the Board of Directors

In the period prior to the Board meeting to consider renewal of the Investment Advisory Agreement, the Board requested and received materials specifically relating to the Fund's Investment Advisory Agreement. These materials included (a) information compiled by Lipper Inc. ("Lipper") on the fees and expenses and the investment performance of the Fund as compared to a comparable group of funds as classified by Lipper; (b) information comparing the Fund's market price with its net asset value per share; (c) a discussion by the Fund's portfolio management team of investment strategies used by the Fund during its most recent

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

fiscal year; (d) information on the profitability to the Investment Adviser and its affiliates of the Investment Advisory Agreement and other relationships with the Fund; and (e) information provided by the Investment Adviser concerning investment advisory fees charged to other clients, such as offshore funds under similar investment mandates and generally to institutional clients. The Board also considers other matters it deems important to the approval process such as services related to the valuation and pricing of Fund portfolio holdings, allocation of Fund brokerage fees (including the related benefits to the Investment Adviser of "soft dollars"), the Fund's portfolio turnover statistics, and direct and indirect benefits to the Investment Adviser and its affiliates from their relationship with the Fund.

Certain Specific Renewal Data

In connection with the most recent renewal of the Fund's Investment Advisory Agreement in August 2005, the independent directors' and Board's review included the following:

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

21

Disclosure of Investment Advisory Agreement (concluded)

Services Provided by the Investment Adviser -- The Board reviewed the nature, extent and quality of services provided by the Investment Adviser, including the investment advisory services and the resulting performance of the Fund. The Board focused primarily on the Investment Adviser's investment advisory services and the Fund's investment performance, having concluded that the other services provided to the Fund by the Investment Adviser were satisfactory. The Board compared Fund performance -- both including and excluding the effects of the Fund's fees and expenses -- to the performance of a comparable group of mutual funds, and the performance of a relevant index or combination of indexes. While the Board reviews performance data at least quarterly, consistent with the Investment Adviser's investment goals, the Board attaches more importance to performance over relatively long periods of time, typically three to five years. The Fund's performance after fees and expenses ranked in the third quintile compared to its peers for the one-year period ended May 31, 2005; in the first quintile compared to its peers for the three-year period ended May 31, 2005; and in the second quintile compared to its peers for the five-year period ended May 31, 2005. Considering these factors, the Board concluded that the Fund's performance supported the continuation of the Investment Advisory Agreement.

The Investment Adviser's Personnel and Investment Process -- The Board reviewed the Fund's investment objectives and strategies. The Board discussed with senior management of the Investment Adviser responsible for investment operations and the senior management of the Investment Adviser's taxable fixed-income investing group the strategies being used to achieve the stated objectives. Among other things, the Board considered the size, education and experience of the Investment Adviser's investment staff, its use of technology, and the Investment Adviser's approach to training and retaining portfolio managers and other research, advisory and management personnel. The Board also reviewed the Investment Adviser's compensation policies and practices with respect to the Fund's portfolio manager. The Board also considered the experience of the Fund's portfolio manager and noted that Mr. Booth has more than twenty years experience in the financial industry. The Board noted that the Investment Adviser and its investment staff have extensive experience in analyzing and managing the types of investments used by the Fund. The Board concluded that the Fund benefits from that expertise.

Management Fees and Other Expenses -- The Board reviewed the Fund's contractual management fee rate and actual management fee rate as a percentage of total

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

assets at common asset levels -- the actual rate includes advisory and administrative service fees and the effects of any fee waivers -- compared to the other funds in its Lipper category. It also compared the Fund's total expenses to those of other comparable funds. The Board considered the services provided to and the fees charged by the Investment Adviser to other types of clients, such as offshore funds, with similar investment mandates and noted that the fees charged by the Investment Adviser in those cases typically exceeded those being charged to the Fund. The Board also noted that, as a general matter, fees charged to institutional clients were lower than the fees charged to the Fund, but believed that less extensive services were being provided to such clients. The Fund's contractual and actual management fee rates were lower than the median fees charged by comparable funds, as determined by Lipper. The Board has concluded that the Fund's management fee and fee rate and overall expense ratio are acceptable compared to those of other comparable funds.

Profitability -- The Board considered the cost of the services provided to the Fund by the Investment Adviser, and the Investment Adviser's and its affiliates' profits in relating to the management of the Fund and the MLIM/FAM-advised funds. As part of its analysis, the Board reviewed the Investment Adviser's methodology in allocating its costs to the management of the Fund and concluded that there was a reasonable basis for the allocation. The Board believes the Investment Adviser's profits are acceptable in relation to the nature and quality of services provided and given the level of fees and expenses overall.

Economies of Scale -- The Board considered whether there have been economies of scale in respect of the management of MLIM/FAM-advised funds, whether the MLIM/FAM-advised funds (including the Fund) have appropriately benefited from any economies of scale, and whether there is potential for realization of any further economies of scale. The Board considered economies of scale to the extent applicable to the Fund's closed-end structure and determined that no changes were currently necessary.

Conclusion

After the independent directors deliberated in executive session, the entire Board, including all of the independent directors, approved the renewal of the existing Investment Advisory Agreement, concluding that the advisory fee was reasonable in relation to the services provided and that a contract renewal was in the best interests of the shareholders.

22 DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

Officers and Directors

Robert C. Doll, Jr., President and Director
Ronald Forbes, Director
Cynthia A. Montgomery, Director
Jean Margo Reid, Director
Roscoe S. Suddarth, Director
Richard R. West, Director
Edward D. Zinbarg, Director
Kevin J. Booth, Vice President
Donald C. Burke, Vice President and Treasurer
Jeffrey Hiller, Chief Compliance Officer
Alice A. Pellegrino, Secretary

Custodian

The Bank of New York
100 Church Street

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

New York, NY 10286

Transfer Agent

The Bank of New York
101 Barclay Street -- 11 East
New York, NY 10286

NYSE Symbol

DSU

Proxy Results

During the six-month period ended August 31, 2005, Debt Strategies Fund, Inc.'s shareholders voted on the following proposal. The proposal was approved at a shareholders' meeting on August 23, 2005. A description of the proposal and number of shares voted are as follows:

		Shares Voted For	Share Fro
1. To elect the Fund's Board of Directors:	Robert C. Doll, Jr.	94,401,550	3,0
	Ronald W. Forbes	94,495,122	2,9
	Cynthia A. Montgomery	94,356,298	3,1
	Jean Margo Reid	94,382,462	3,1
	Roscoe S. Suddarth	94,439,957	3,0
	Richard R. West	94,438,602	3,0
	Edward D. Zinbarg	94,338,933	3,1

Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this Web site at <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

DEBT STRATEGIES FUND, INC.

AUGUST 31, 2005

23

[LOGO] Merrill Lynch Investment Managers

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

www.mlim.ml.com

Mercury Advisors

A Division of Merrill Lynch Investment Managers

www.mercury.ml.com

Debt Strategies Fund, Inc. seeks to provide current income by investing primarily in a diversified portfolio of U.S. companies' debt instruments, including corporate loans, that are rated in the lower rating categories of the established rating services (Baa or lower by Moody's Investors Service, Inc. or BBB or lower by Standard & Poor's) or unrated debt instruments of comparable quality.

This report, including the financial information herein, is transmitted to shareholders of Debt Strategies Fund, Inc. for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. The Fund leverages its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) at www.mutualfunds.ml.com; and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at www.mutualfunds.ml.com and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Debt Strategies Fund, Inc.
Box 9011
Princeton, NJ 08543-9011

#DEBT -- 8/05

Item 2 - Code of Ethics - Not Applicable to this semi-annual report

Item 3 - Audit Committee Financial Expert - Not Applicable to this semi-annual report

Item 4 - Principal Accountant Fees and Services - Not Applicable to this semi-annual report

Item 5 - Audit Committee of Listed Registrants - Not Applicable to this semi-annual report

Item 6 - Schedule of Investments - Not Applicable

Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Not Applicable to this semi-annual report

Item 8 - Portfolio Managers of Closed-End Management Investment Companies - Not

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Applicable to this semi-annual report

Item 9 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable

Item 10 - Submission of Matters to a Vote of Security Holders - Not Applicable

Item 11 - Controls and Procedures

11(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.

11(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal half-year of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12 - Exhibits attached hereto

12(a) (1) - Code of Ethics - Not Applicable to this semi-annual report

12(a) (2) - Certifications - Attached hereto

12(a) (3) - Not Applicable

12(b) - Certifications - Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Debt Strategies Fund, Inc.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of
Debt Strategies Fund, Inc.

Date: October 19, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of

Edgar Filing: DEBT STRATEGIES FUND - Form N-CSRS

Debt Strategies Fund, Inc.

Date: October 19, 2005

By: /s/ Donald C. Burke

Donald C. Burke,
Chief Financial Officer of
Debt Strategies Fund, Inc.

Date: October 19, 2005