

Edgar Filing: DEBT STRATEGIES FUND - Form N-Q

DEBT STRATEGIES FUND  
Form N-Q  
July 26, 2006

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY

Investment Company Act File number 811-8603

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: 02/28/2007

Date of reporting period: 03/01/06 - 05/31/06

Item 1 - Schedule of Investments

Debt Strategies Fund, Inc.  
Schedule of Investments as of May 31, 2006 (in U.S. dollars)

|                            | Face<br>Amount | Corporate Bonds   |
|----------------------------|----------------|---|
| -----                      |                |   |
| Aerospace & Defense - 4.1% | \$ 5,000,000   | Alliant Techsystems, Inc., 3% due 8/15/2024 (d) (k)       |
|                            | 7,500,000      | L-3 Communications Corp., 3% due 8/01/2035 (d) (k)        |
|                            | 9,765,000      | Standard Aero Holdings, Inc., 8.25% due 9/01/2014         |
|                            | 8,120,000      | Vought Aircraft Industries, Inc., 8% due 7/15/2011        |
| -----                      |                |   |
| Automotive - 3.3%          | 700,000        | Advanced Accessory Systems LLC, 10.75% due 6/15/2011      |
|                            | 3,150,000      | Cooper-Standard Automotive, Inc., 8.375% due 12/15/2014   |
|                            | 2,700,000      | Delco Remy International, Inc., 9.068% due 4/15/2009 (a)  |
|                            | 4,625,000      | Exide Technologies, 10.50% due 3/15/2013 (d)              |
|                            | 5,000,000      | General Motors Acceptance Corp., 5.968% due 1/16/2007 ( ) |
|                            | 9,050,000      | Metaldyne Corp., 11% due 6/15/2012                        |
|                            | 925,000        | Tenneco Automotive, Inc. Series B, 10.25% due 7/15/2013   |
|                            | 4,450,000      | Venture Holdings Co. LLC, 12% due 6/01/2009 (i)           |
|                            | 1,800,000      | Venture Holdings Co. LLC Series B, 9.50% due 7/01/2005    |
| -----                      |                |   |

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|                     |            |  |
|---------------------|------------|--|
| Broadcasting - 6.8% | 5,000,000  | Canadian Satellite Radio Holdings, Inc., 12.75% due 2/1    |
|                     | 1,100,000  | LIN Television Corp. Series B, 6.50% due 5/15/2013         |
|                     | 2,800,000  | Paxson Communications Corp., 8.318% due 1/15/2012 (a) (d)  |
|                     | 5,625,000  | Paxson Communications Corp., 11.318% due 1/15/2013 (a) (d) |
|                     | 3,235,000  | Sinclair Broadcast Group, Inc. Class A, 4.875% due 7/15    |
|                     | 13,300,000 | Sirius Satellite Radio, Inc., 9.625% due 8/01/2013         |
|                     | 10,000,000 | Xm Satellite Radio, Inc., 9.649% due 5/01/2013 (a) (d)     |
|                     | 8,500,000  | Xm Satellite Radio, Inc., 9.75% due 5/01/2014 (d)          |
|                     | 2,000,000  | Young Broadcasting Inc., 10% due 3/01/2011                 |

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|                      |           |   |
|----------------------|-----------|---|
| Cable -              | 750,000   | NTL Cable Plc, 8.75% due 4/15/2014                  |
| International - 1.2% | 3,500,000 | New Skies Satellites NV, 10.414% due 11/01/2011 (a) |
|                      | 3,700,000 | New Skies Satellites NV, 9.125% due 11/01/2012      |

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|                     |            |   |
|---------------------|------------|---|
| Cable - U.S. - 9.1% | 7,500,000  | Adelphia Communications Corp., 6% due 2/15/2006 (k) (m)   |
|                     | 3,450,000  | CSC Holdings, Inc., 7.25% due 7/15/2008                   |
|                     | 4,225,000  | Cablevision Systems Corp. Series B, 9.62% due 4/01/2009   |
|                     | 3,750,000  | Charter Communications Holdings LLC, 10% due 4/01/2009    |
|                     | 2,000,000  | Charter Communications Holdings LLC, 11.75% due 1/15/20   |
|                     | 2,000,000  | Charter Communications Holdings LLC, 11.125% due 1/15/2   |
|                     | 725,000    | Charter Communications Holdings LLC, 9.92% due 4/01/201   |
|                     | 3,000,000  | Charter Communications Holdings LLC, 10% due 5/15/2011    |
|                     | 2,500,000  | Insight Midwest, LP, 9.75% due 10/01/2009                 |
|                     | 3,825,000  | Intelsat Subsidiary Holding Co. Ltd., 9.614% due 1/15/2   |
|                     | 3,375,000  | Intelsat Subsidiary Holding Co. Ltd., 8.25% due 1/15/20   |
|                     | 4,800,000  | Intelsat Subsidiary Holding Co. Ltd., 8.625% due 1/15/2   |
|                     | 1,023,000  | Loral Spacecom Corp., 14% due 10/15/2015 (b)              |
|                     | 2,350,000  | Mediacom Broadband LLC, 11% due 7/15/2013                 |
|                     | 3,875,000  | Mediacom LLC, 9.50% due 1/15/2013                         |
|                     | 11,750,000 | PanAmSat Holding Corp., 9.926% due 11/01/2014 (c)         |
|                     | 10,000,000 | Rainbow National Services LLC, 10.375% due 9/01/2014 (d)  |
|                     | 10,350,000 | Zeus Special Subsidiary Ltd., 9.25% due 2/01/2015 (c) (d) |

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|                  |           |  |
|------------------|-----------|--|
| Chemicals - 8.8% | 3,550,000 | ArCo Chemical Co., 9.80% due 2/01/2020                               |
|                  | 4,000,000 | Compass Minerals International, Inc. Series B, 12% due 6/01/2013 (c) |

Debt Strategies Fund, Inc.  
Schedule of Investments as of May 31, 2006 (in U.S. dollars)

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|  | Face<br>Amount | Corporate Bonds  |
|--|----------------|--|
|  | \$ 9,783,000   | GEO Specialty Chemicals, Inc., 13.50% due 12/31/2009 (k) |
|  | 1,900,000      | Huntsman International, LLC, 9.875% due 3/01/2009        |
|  | 1,199,000      | Huntsman International, LLC, 10.125% due 7/01/2009       |
|  | 1,500,000      | Innophos, Inc., 8.875% due 8/15/2014                     |
|  | 2,400,000      | Millennium America, Inc., 7.625% due 11/15/2026          |
|  | 18,000,000     | Nova Chemicals Corp., 8.405% due 11/15/2013 (a)          |
|  | 10,000,000     | Omnova Solutions, Inc., 11.25% due 6/01/2010             |

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|  |            |  |
|--|------------|--|
|  | 5,025,101  | PCI Chemicals Canada, Inc., 10% due 12/31/2008                       |
|  | 2,500,000  | PolyOne Corp., 6.89% due 9/22/2008                                   |
|  | 2,612,000  | Rockwood Specialties Group, Inc., 10.625% due 5/15/2011              |
|  | 450,000    | Rockwood Specialties Group, Inc., 7.50% due 11/15/2014               |
| -----                                    |            |  |
| Consumer - Durables - 1.6%               | 16,500,000 | Simmons Co., 11.074% due 12/15/2009 (c)                              |
| -----                                    |            |  |
| Consumer -                               | 9,000,000  | Hines Nurseries, Inc., 10.25% due 10/01/2011                         |
| Non-Durables - 1.6%                      | 2,750,000  | Levi Strauss & Co., 9.74% due 4/01/2012 (a)                          |
| -----                                    |            |  |
| Diversified Media - 3.9%                 | 2,350,000  | AMC Entertainment, Inc., 11% due 2/01/2016 (d)                       |
|  | 2,000,000  | Cadmus Communications Corp., 8.375% due 6/15/2014                    |
|  | 7,000,000  | Houghton Mifflin Co., 12.031% due 5/15/2011 (a) (d)                  |
|  | 7,500,000  | Liberty Media Corp., 0.75% due 3/30/2023 (k)                         |
|  | 2,675,000  | Muzak Holdings, LLC, 13% due 3/15/2010                               |
|  | 3,875,000  | NBC Acquisition Corp., 11% due 3/15/2013 (c)                         |
|  | 375,000    | Universal City Florida Holding Co. I, 8.375% due 5/01/2012           |
|  | 5,300,000  | Universal City Florida Holding Co. I, 9.899% due 5/01/2012           |
| -----                                    |            |  |
| Energy - Exploration & Production - 2.0% | 3,000,000  | Chaparral Energy, Inc., 8.50% due 12/01/2015 (d)                     |
|  | 5,500,000  | Compton Petroleum Finance Corp., 7.625% due 12/01/2013               |
|  | 6,000,000  | Tronox Worldwide LLC, 9.50% due 12/01/2012 (d)                       |
| -----                                    |            |  |
| Energy - Other - 3.7%                    | 6,150,000  | Aventine Renewable Energy Holdings, Inc., 11.329% due 12/01/2015 (d) |
|  | 1,000,000  | Dresser, Inc., 9.375% due 4/15/2011                                  |
|  | 2,045,000  | Dresser-Rand Group, Inc., 7.375% due 11/01/2014                      |
|  | 8,000,000  | Ocean RIG ASA, 8.99% due 4/04/2011                                   |
|  | 6,950,000  | SemGroup LP, 8.75% due 11/15/2015 (d)                                |
|  | 2,000,000  | VeraSun Energy Corp., 9.875% due 12/15/2012 (d)                      |
| -----                                    |            |  |
| Financial - 1.0%                         | 5,743,690  | Archimedes Funding III Ltd., 5.50% due 11/29/2011 (a) (d)            |
|  | 1,500,000  | Investcorp SA, 7.54% due 10/21/2008                                  |
|  | 2,000,000  | Pennant CBO Ltd., 13.43% due 3/14/2011                               |
| -----                                    |            |  |
| Food & Drug - 0.2%                       | 1,000,000  | Stripes Acquisition LLC, 10.625% due 12/15/2013 (d)                  |
| -----                                    |            |  |
| Food & Tobacco - 0.2%                    | 842,946    | Archibald Candy Corp., 10% due 11/01/2007 (i)                        |
|  | 1,175,000  | Doane Pet Care Co., 10.75% due 3/01/2010                             |
| -----                                    |            |  |
| Gaming - 3.6%                            | 9,250,000  | Galaxy Entertainment Finance Co. Ltd., 10.42% due 12/15/2011         |
|  | 1,250,000  | Galaxy Entertainment Finance Co. Ltd., 9.875% due 12/15/2011         |
|  | 5,250,000  | Inn of the Mountain Gods Resort & Casino, 12% due 11/15/2011         |
|  | 2,000,000  | Jacobs Entertainment, Inc., 11.875% due 2/01/2009                    |
|  | 3,275,000  | Little Traverse Bay Bands of Odawa Indians, 10.25% due 12/15/2011    |

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Debt Strategies Fund, Inc.

Schedule of Investments as of May 31, 2006

(in U.S. dollars)

|                                  | Face<br>Amount | Corporate Bonds   |
|----------------------------------|----------------|---|
|                                  | \$ 915,000     | Penn National Gaming, Inc., 6.75% due 3/01/2015           |
|                                  | 3,000,000      | Tunica-Biloxi Gaming Authority, 9% due 11/15/2015 (d)     |
| <hr/>                            |                |   |
| Health Care - 4.3%               | 3,525,000      | CDRV Investors, Inc., 9.75% due 1/01/2015 (c)             |
|                                  | 5,000,000      | Cinacalcet Royalty Corp., 8% due 3/30/2017 (d)            |
|                                  | 3,525,000      | Elan Finance Plc, 7.75% due 11/15/2011                    |
|                                  | 4,825,000      | Elan Finance Plc, 9.17% due 11/15/2011 (a)                |
|                                  | 5,000,000      | Risperdal Consta Pharma, 7% due 1/01/2018                 |
|                                  | 6,000,000      | Tenet Healthcare Corp., 7.375% due 2/01/2013              |
|                                  | 1,400,000      | VWR International, Inc., 8% due 4/15/2014                 |
|                                  | 4,100,000      | Vanguard Health Holding Co. I, LLC, 11.25% due 10/01/2012 |
| <hr/>                            |                |   |
| Housing - 4.2%                   | 3,000,000      | Compression Polymers Corp., 11.44% due 7/01/2012 (a) (d)  |
|                                  | 1,300,000      | Compression Polymers Corp., 10.50% due 7/01/2013 (d)      |
|                                  | 3,190,000      | Goodman Global Holding Co., Inc., 8.329% due 6/15/2012    |
|                                  | 8,200,000      | Goodman Global Holding Co., Inc., 7.875% due 12/15/2012   |
|                                  | 2,500,000      | Nortek, Inc., 8.50% due 9/01/2014                         |
|                                  | 5,450,000      | Ply Gem Industries, Inc., 9% due 2/15/2012                |
|                                  | 2,250,000      | Stanley-Martin Communities LLC, 9.75% due 8/15/2015       |
|                                  | 5,000,000      | Technical Olympic USA, Inc., 8.25% due 4/01/2011 (d)      |
| <hr/>                            |                |   |
| Information<br>Technology - 5.6% | 6,950,000      | Amkor Technology, Inc., 9.25% due 2/15/2008               |
|                                  | 1,000,000      | Cypress Semiconductor Corp., 1.25% due 6/15/2008 (k)      |
|                                  | 4,725,000      | Freescale Semiconductor, Inc., 7.818% due 7/15/2009 (a)   |
|                                  | 1,375,000      | MagnaChip Semiconductor SA, 8.579% due 12/15/2011 (a)     |
|                                  | 1,050,000      | MagnaChip Semiconductor SA, 8% due 12/15/2014             |
|                                  | 7,075,000      | Sungard Data Systems, Inc., 9.125% due 8/15/2013 (d)      |
|                                  | 3,825,000      | Sungard Data Systems, Inc., 9.431% due 8/15/2013 (a) (d)  |
|                                  | 4,818,000      | Sungard Data Systems, Inc., 10.25% due 8/15/2015 (d)      |
|                                  | 2,925,000      | Telcordia Technologies, Inc., 10% due 3/15/2013 (d)       |
|                                  | 5,075,000      | Viasystems, Inc., 10.50% due 1/15/2011                    |
| <hr/>                            |                |   |
| Leisure - 3.3%                   | 6,600,000      | Felcor Lodging LP, 9.57% due 6/01/2011 (a)                |
|                                  | 5,000,000      | HRP Myrtle Beach Operations LLC, 9.829% due 4/01/2012 (d) |
|                                  | 5,000,000      | HRP Myrtle Beach Operations LLC, 12.50% due 4/01/2013 (d) |
|                                  | 5,000,000      | HRP Myrtle Beach Holdings LLC, 14.50% due 4/01/2014       |
|                                  | 2,000,000      | True Temper Sports, Inc., 8.375% due 9/15/2011            |
| <hr/>                            |                |   |
| Manufacturing - 2.2%             | 4,000,000      | CPI Holdco, Inc., 10.561% due 2/01/2015 (a)               |
|                                  | 4,525,000      | EaglePicher Inc., 9.75% due 9/01/2013 (i)                 |
|                                  | 5,875,000      | Invensys Plc, 9.875% due 3/15/2011 (d)                    |
|                                  | 2,500,000      | Propex Fabrics, Inc., 10% due 12/01/2012                  |

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|  |                |   |
|--|----------------|---|
| Metal - Other - 2.8%   | 1,100,000      | Aleris International, Inc., 9% due 11/15/2014                     |
|  | 5,000,000      | Indalex Holding Corp., 11.50% due 2/01/2014 (d)                   |
|  | 8,500,000      | James River Coal Co., 9.375% due 6/01/2012                        |
|  | 4,550,000      | RathGibson, Inc., 11.25% due 2/15/2014 (d)                        |
| Packaging - 1.4%   | 1,100,000      | Graham Packing Co., Inc., 9.875% due 10/15/2014                   |
|  | 4,000,000      | Packaging Dynamics Finance Corp., 10% due 5/01/2016 (d)           |
|  | 6,325,000      | Wise Metals Group LLC, 10.25% due 5/15/2012                       |
| Paper - 9.4%   | 6,500,000      | Abitibi-Consolidated, Inc., 8.829% due 6/15/2011 (a)              |
|  | 9,725,000      | Ainsworth Lumber Co. Ltd., 8.71% due 10/01/2010 (a)               |
| <p>Debt Strategies Fund, Inc.<br/>           Schedule of Investments as of May 31, 2006 <span style="float: right;">(in U.S. dollars)</span></p> |                |   |
|  | Face<br>Amount | Corporate Bonds   |
|  | \$ 8,000,000   | Ainsworth Lumber Co. Ltd., 9.068% due 4/01/2013 (a) (d)           |
|  | 2,150,000      | Boise Cascade LLC, 7.943% due 10/15/2012 (a)                      |
|  | 900,000        | Boise Cascade LLC, 7.125% due 10/15/2014                          |
|  | 7,600,000      | Bowater, Inc., 8.329% due 3/15/2010 (a)                           |
|  | 3,775,000      | Domtar, Inc., 7.125% due 8/15/2015                                |
|  | 2,000,000      | Graphic Packaging International Corp., 9.50% due 8/15/2015        |
|  | 13,625,000     | JSG Funding Plc, 7.75% due 4/01/2015                              |
|  | 8,000,000      | NewPage Corp., 11.399% due 5/01/2012 (a)                          |
|  | 4,725,000      | NewPage Corp., 12% due 5/01/2013                                  |
|  | 1,600,000      | Smurfit-Stone Container Enterprises, Inc., 8.375% due 7/15/2015   |
| Retail - 1.6%  | 6,000,000      | Neiman-Marcus Group, Inc., 9% due 10/15/2015 (d)                  |
|  | 5,000,000      | Neiman-Marcus Group, Inc., 10.375% due 10/15/2015 (d)             |
| Service - 3.8%   | 250,000        | Avis Budget Car Rental LLC, 7.576% due 5/15/2014 (a) (d)          |
|  | 2,000,000      | Buhrmann US, Inc., 7.875% due 3/01/2015                           |
|  | 7,500,000      | HydroChem Industrial Services, Inc., 9.25% due 2/15/2015          |
|  | 3,000,000      | Neff Rental LLC, 11.25% due 6/15/2012 (d)                         |
|  | 14,825,000     | United Rentals North America, Inc., 7.75% due 11/15/2015          |
| Telecommunications - 5.5%  | 5,000,000      | ADC Telecommunications, Inc., 5.795% due 6/15/2013 (a) (d)        |
|  | 7,500,000      | Cincinnati Bell, Inc., 8.375% due 1/15/2014                       |
|  | 2,600,000      | Nordic Telephone Co. Holdings ApS, 8.875% due 5/01/2016           |
|  | 7,900,000      | Qwest Communications International, Inc., 8.67% due 2/15/2009 (a) |

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|  |              |  |
|--|--------------|--|
|  | 2,675,000    | Qwest Corp., 8.579% due 6/15/2013 (a)                                  |
|  | 7,000,000    | Time Warner Telecom Holdings, Inc., 9.17% due 2/15/2011                |
|  | 6,000,000    | Time Warner Telecom Holdings, Inc., 9.25% due 2/15/2014                |
| -----                                      |              |  |
| Transportation - 0.8%                      | 3,000,000    | Progress Rail Services Corp., 7.75% due 4/01/2012 (d)                  |
|  | 2,500,000    | Titan Petrochemicals Group Ltd., 8.50% due 3/18/2012 (d)               |
| -----                                      |              |  |
| Utility - 1.3%                             | 4,142,000    | Centerpoint Energy, Inc. Series B, 3.75% due 5/15/2023                 |
|  | 3,375,000    | Dynegy Holdings, Inc., 8.375% due 5/01/2016 (d)                        |
|  | 1,425,000    | Williams Cos., Inc., 8.625% due 6/01/2010                              |
| -----                                      |              |  |
| Wireless                                   | 2,500,000    | iPCS Escrow Co., 11.50% due 5/01/2012                                  |
| Communications - 1.6%                      | 1,600,000    | Rural Cellular Corp., 9.41% due 3/15/2010 (a)                          |
|  | 6,600,000    | US Unwired, Inc., 9.579% due 6/15/2010 (a)                             |
| -----                                      |              |  |
|  |              | Total Corporate Bonds (Cost - \$723,088,166) - 98.9%                   |
| -----                                      |              |  |
|  |              | Floating Rate Loan Interests**   |
| -----                                      |              |  |
| Airlines - 1.1%                            | 3,000,000    | Delta Air Lines Term Loan B, 11.01% due 3/16/2008                      |
|  | 3,000,000    | Delta Air Lines Term Loan B, 13.51% due 3/16/2008                      |
|  | 250,000      | United Air Lines Delay Draw Term Loan, 8.875% due 2/01/2012            |
|  | 1,750,000    | United Air Lines Term Loan B, 8.625% due 2/01/2012                     |
| -----                                      |              |  |
| Automotive - 2.4%                          | 7,775,042    | Delphi Automotive Systems Term Loan B, 13.50% due 6/14/2010            |
|  | 1,685,185    | Intermet Corp. Letter of Credit, 8.49% due 11/08/2010                  |
|  | 4,814,815    | Intermet Corp. Term Loan B, 9.87% due 11/08/2010                       |
|  | 2,185,236    | Tenneco Automotive, Inc. Term Loan B, 7.19% due 12/12/2010             |
|  | 959,936      | Tenneco Automotive, Inc. Tranche B-1 Credit Linked Depo due 12/12/2010 |
| -----                                      |              |  |
| Debt Strategies Fund, Inc.                 |              |  |
| Schedule of Investments as of May 31, 2006 |              | (in U.S. dollars)  |
|  | Face         |  |
|  | Amount       | Floating Rate Loan Interests**   |
| -----                                      |              |  |
| Cable - U.S. - 7.8%                        | \$10,000,000 | Adelphia Communications Corp. Term Loan B, 10% due 6/30/2010           |
|  | 4,310,344    | Cebridge Connections Term Loan B, 7.319% due 11/05/2013                |
|  | 7,000,000    | Century Cable Holdings LLC, Discretionary Term Loan, 10%               |

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|  |            |  |
|--|------------|--|
|  | 20,000,000 | Charter Communications, Inc. Term Loan B, 7.776% due 4/                |
|  | 7,820,000  | Insight Midwest Holdings LLC Term Loan C, 7% due 12/31/                |
|  | 6,000,000  | Olympus Cable Holdings LLC Term Loan B, 10% due 9/30/20                |
|  | 1,500,000  | Olympus Cable Holdings LLC Tranche 2 Term Loan A, 9.25%                |
| -----                                    |            |  |
| Chemicals - 2.3%                         | 2,876,190  | Huntsman ICI Holdings Term Loan B, 6.831% due 8/16/2012                |
|  | 3,168,000  | Rockwood Specialties Group, Inc. Tranche D Term Loan, 7                |
|  | 10,000,000 | Wellman, Inc. Second Lien Term Loan, 11.899% due 2/10/2                |
| -----                                    |            |  |
| Energy - Exploration & Production - 0.2% | 1,250,000  | MEG Energy Corp. Term Loan B, 7% due 4/03/2013                         |
| -----                                    |            |  |
| Energy - Other - 1.6%                    | 377,915    | Dresser, Inc. Term Loan C, 7.60% due 4/10/2009                         |
|  | 2,500,000  | Dresser, Inc. Term Loan Unsecured, 8.65% due 2/25/2010                 |
|  | 6,000,000  | Scorpion Drilling Ltd. Second Lien Term Loan, 12.581% d                |
|  | 2,000,000  | Scorpion Drilling Ltd. Second Lien Term Loan, 12.581% d                |
| -----                                    |            |  |
| Financial - 0.8%                         | 3,000,000  | JG Wentworth Manufacturing Term Loan, 8.545% due 4/12/2                |
|  | 3,000,000  | JG Wentworth Manufacturing Term Loan, 8.545% due 4/14/2                |
| -----                                    |            |  |
| Food & Tobacco - 2.1%                    | 1,000,000  | Bolthouse Farms, Inc. Second Lien Term Loan, 10.37% due                |
|  | 2,860,000  | Commonwealth Brands Term Loan, 7.438% due 12/22/2012                   |
|  | 465,116    | Dole Food Co., Inc. Letter of Credit, 4.92% due 4/12/20                |
|  | 1,046,512  | Dole Food Co., Inc. Term Loan B, 6.875%-8.75% due 4/12/                |
|  | 3,488,372  | Dole Food Co., Inc. Term Loan C, 6.875%-8.75% due 4/04/                |
|  | 6,000,000  | QCE LLC Second Lien Term Loan, 10.938% due 10/24/2013                  |
| -----                                    |            |  |
| Housing - 2.3%                           | 4,672,338  | Headwaters, Inc. Term Loan B-1, 7.08% due 4/30/2011                    |
|  | 2,157,110  | LNR Property Corp. Tranche B Term Loan, 8.04%-8.08% due                |
|  | 10,000,000 | Stile U.S. Acquisition Corp. Bridge Loan, 11% due 4/06/                |
| -----                                    |            |  |
| Information Technology - 1.4%            | 3,960,000  | Activant Solutions Term Loan B, 7.188% due 5/02/2013                   |
|  | 3,071,250  | Fidelity National Information Solutions, Inc. Term Loan due 3/09/2013  |
|  | 3,341,250  | Telcordia Technologies, Inc. Term Loan, 7.668%-7.727% d                |
| -----                                    |            |  |
| Manufacturing - 0.7%                     | 5,000,000  | Invensys International Holdings Ltd. Second Lien Term L due 12/04/2009 |
| -----                                    |            |  |
| Metal - Other - 1.2%                     | 1,989,474  | Euramax International Plc Second Lien Term Loan, 12% du                |

Debt Strategies Fund, Inc.  
Schedule of Investments as of May 31, 2006

(in U.S. dollars)

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|                                   | Face<br>Amount | Floating Rate Loan Interests**  |
|-----------------------------------|----------------|---|
|                                   | \$ 2,551,265   | Euramax International Plc Tranche 3 Term Loan B, 7.688%                 |
|                                   | 4,010,526      | Euramax International Plc Tranche 4 Second Lien Term Loan due 6/29/2013 |
| Packaging - 1.8%                  | 4,285,714      | Anchor Glass Container Corp. Term Loan B, 7.309% due 5/                 |
|                                   | 2,000,000      | Graham Packaging Co. LP Second Lien Term Loan, 9.25% due                |
|                                   | 6,774,814      | Owens-Illinois Group, Inc. Tranche Term Loan C, 6.78% due               |
| Service - 0.9%                    | 2,160,000      | Waste Services, Inc. Term Loan B, 8.09%-8.34% due 3/31/                 |
|                                   | 3,920,000      | Waste Services, Inc. Term Loan B, 8.33%-8.34% due 3/31/                 |
| Steel - 0.0%                      | 7,000,072      | Acme Metals, Inc. Term Loan, 11.75%-12% due 12/01/2005                  |
|                                   | 711,758        | Acme Metals, Inc. Term Loan, 12.25% due 12/01/2005 (m)                  |
| Telecommunications - 0.6%         | 3,161,871      | Winstar Communications Debtor In Possession, 6.366% due                 |
| Utility - 1.5%                    | 2,000,000      | Calpine Corp. Delay Draw Term Loan, 8.979% due 12/20/20                 |
|                                   | 5,000,000      | Covanta Energy Corp. Second Lien Term Loan, 10.47%-10.5                 |
|                                   | 1,500,000      | El Paso Corp. Deposit Account, 4.29% due 11/23/2009                     |
|                                   | 1,940,000      | El Paso Corp. Term Loan, 7.75% due 11/23/2009                           |
| Wireless<br>Communications - 0.8% | 5,500,000      | Centennial Cellular Operating Co. Term Loan, 7.21%-7.57                 |
|                                   |                | Total Floating Rate Loan Interests (Cost - \$210,608,166)               |
|                                   |                |   |
|                                   | Shares<br>Held | Common Stocks   |
| Cable - U.S. - 0.6%               | 142,475        | Loral Space & Communications Ltd. (j)                                   |
| Chemicals - 0.1%                  | 339,340        | GEO Specialty Chemicals, Inc. (j)                                       |
| Financial - 0.3%                  | 35,000         | Preferred Term Securities VI (d)  |
| Food & Tobacco - 0.5%             | 1,428,423      | Viskase Cos., Inc. (j)  |
| Food Products - 0.2%              | 173,918        | New World Pasta Co. (l)   |
| Leisure - 0.0%                    | 27,787         | Lodgian, Inc. (j)   |
| Manufacturing - 1.1%              | 724,291        | ACP Holding Co. (j)   |
|                                   | 286,757        | Medis Technologies Ltd. (j)   |



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|  |         |   |
|--|---------|---|
| Paper - 0.1%                                     | 211,149 | Western Forest Products, Inc. Restricted Shares (j) |
| Service - 0.5%                                   | 90,876  | Outsourcing Solutions, Inc. (j)                     |
| Steel - 0.0%                                     | 41,149  | Acme Package Corp. Senior Holdings (j) (l)          |
| Total Common Stocks (Cost - \$26,722,494) - 3.4% |         |   |

Preferred Stocks

|  |         |   |
|--|---------|---|
| Automotive - 0.6%                                  | 200,000 | General Motors Corp. Series C, 6.25% (k)        |
| Broadcasting - 0.0%                                | 2       | Paxson Communications Corp., 9.75% (b) (d) (k)  |
| Cable - U.S. - 0.2%                                | 5,000   | Adelphia Communications Corp. Series B, 13% (j) |
|  | 8,956   | Loral Spacecom Corp. Series A, 12%              |
| Total Preferred Stocks (Cost - \$7,130,961) - 0.8% |         |   |

Warrants (h)

|                     |        |  |
|---------------------|--------|--|
| Broadcasting - 0.0% | 15,000 | Sirius Satellite Radio, Inc. (expires 5/15/2009) |
|---------------------|--------|--|

Debt Strategies Fund, Inc.  
 Schedule of Investments as of May 31, 2006 (in U.S. dollars)

Shares  
 Held Warrants (h)

|                                   |         |  |
|-----------------------------------|---------|--|
| Food Products - 0.1%              | 128,828 | New World Pasta Co. Series A (expires 12/07/2010) (l)    |
|                                   | 143,142 | New World Pasta Co. Series B (expires 12/07/2010) (l)    |
| Health Care - 0.0%                | 126,761 | HealthSouth Corp. (expires 1/16/2014)                    |
| Manufacturing - 0.2%              | 652,739 | ACP Holding Co. (expires 9/30/2013)                      |
| Paper - 0.0%                      | 17      | Cellu Tissue Holdings, Inc. Series A (expires 9/28/2011) |
|                                   | 7,000   | MDP Acquisitions Plc (expires 10/01/2013)                |
| Wireless<br>Communications - 0.1% | 1,325   | American Tower Corp. (expires 8/01/2008)                 |

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Total Warrants (Cost - \$1,490,560) - 0.4%

|   | Beneficial Interest | Other Interests (e)                                     |
|---|---------------------|---|
| Automotive - 0.0%                                 | \$ 3,614,601        | Cambridge Industries, Inc. (Litigation Trust Certificat |
| Cable - U.S. - 0.1%                               | 9,500,000           | Pegasus Satellite Communications, Inc. (Litigation Trus |
| Total Other Interests (Cost - \$1,440,678) - 0.1% |                     |   |

Short-Term Securities

15,935 Merrill Lynch Liquidity Series, LLC Cash Sweep Series I

Total Short-Term Securities (Cost - \$15,935) - 0.0%

Total Investments (Cost - \$970,496,960\*) - 133.1%

Liabilities in Excess of Other Assets - (33.1%)

Net Assets - 100.0%

\* The cost and unrealized appreciation (depreciation) of investments as of May 31, 2006, as computed for federal income tax purposes, were as follows:

|                               |                 |
|-------------------------------|-----------------|
| Aggregate cost                | \$ 970,754,900  |
| Gross unrealized appreciation | \$ 33,691,657   |
| Gross unrealized depreciation | (48,010,200)    |
| Net unrealized depreciation   | \$ (14,318,543) |

- \*\* 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.
- (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.
  - (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 and are non-income producing.
  - (f) 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:

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| Affiliate  | Net Activity | Interest Income |
|--|--------------|-----------------|
| Merrill Lynch Liquidity Series, LLC<br>Cash Sweep Series I | \$15,935     | \$34,651        |

- (g) Represents the current yield as of 5/31/2006.
- (h) 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.
- (i) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.
- (j) Non-income producing security.
- (k) Convertible security.

Debt Strategies Fund, Inc.  
Schedule of Investments as of May 31, 2006 (in U.S. dollars)

- (l) Restricted securities as to resale, representing 0.3% of net assets, were as follows:

| Issue   | Acquisition Date |      |
|---|------------------|------|
| Acme Package Corp. Senior Holdings                | 11/25/2002       |      |
| New World Pasta Co.                               | 5/19/2006        | \$ 4 |
| New World Pasta Co. Series A (expires 12/07/2010) | 5/19/2006        |      |
| New World Pasta Co. Series B (expires 12/07/2010) | 5/19/2006        |      |
| Total   |                  | \$ 5 |

- (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.
- o Swaps outstanding as of May 31, 2006 were as follows:

Notional Amount

Sold credit default protection on General Motors Corp.

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and receive 5%

Broker, Citibank N.A.  
Expires December 2006

\$ 8,000,000

Sold credit default protection on General Motors Corp.  
and receive 5%

Broker, Lehman Brothers Special Finance  
Expires December 2006

\$ 7,000,000

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Total

Item 2 - Controls and Procedures

2(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.

2(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 quarter 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 3 - Exhibits

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

Date: July 21, 2006

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

Date: July 21, 2006

By: /s/ Donald C. Burke

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

Date: July 21, 2006