

BLACKROCK DEBT STRATEGIES FUND, INC.  
Form N-CSR  
November 05, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-08603

Name of Fund: BlackRock Debt Strategies Fund, Inc. (DSU)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

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

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 02/28/2009

Date of reporting period: 03/01/2008 - 08/31/2008

Item 1 Report to Stockholders

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EQUITIES FIXED INCOME REAL ESTATE LIQUIDITY ALTERNATIVES BLACKROCK SOLUTIONS

# BlackRock Debt Strategies Fund, Inc. (DSU)

SEMI-ANNUAL REPORT  
AUGUST 31, 2008 | (UNAUDITED)

NOT FDIC INSURED  
MAY LOSE VALUE  
NO BANK GUARANTEE

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A Letter to Shareholders

Dear Shareholder

It has been a tumultuous year for investors, marked by almost daily headlines related to the beleaguered housing market, rising food and energy prices, and the escalating credit crisis. The news took an extraordinarily heavy tone shortly after the close of this reporting period as the credit crisis boiled over and triggered unprecedented failures and consolidation in the financial sector, stoking fears of a market and economic collapse and prompting the largest government rescue plan since the Great Depression.

Through it all, the Federal Reserve Board (the Fed) has been aggressive in its attempts to restore order in financial markets. Key moves included slashing the target federal funds rate 325 basis points (3.25%) between September 2007 and April 2008 and providing numerous cash injections and lending programs. As the credit crisis took an extreme turn for the worse in September, the Fed, in concert with five other global central banks, cut interest rates by 50 basis points in a rare move intended to stave off worldwide economic damage from the intensifying financial market turmoil. The U.S. economy managed to grow at a slow-but-positive pace through the second quarter of the year, though the recent events almost certainly portend a global economic recession.

Against this backdrop, U.S. stocks experienced intense volatility (steep declines and quick recoveries), generally posting losses for the current reporting period. Small-cap stocks fared significantly better than their larger counterparts. Non-U.S. markets followed the U.S. on the way down and, notably, decelerated at a faster pace than domestic equities—a stark reversal of recent years' trends, when international stocks generally outpaced U.S. stocks.

Treasury securities also traded in a volatile fashion, but rallied overall (yields fell and prices correspondingly rose), as the broader flight-to-quality theme persisted. The yield on 10-year Treasury issues, which fell to 3.34% in March, climbed to the 4.20% range in mid-June as investors temporarily shifted out of Treasury issues in favor of riskier assets (such as stocks and other high-quality fixed income sectors), then declined again to 3.83% by period-end when credit fears resurfaced. Tax-exempt issues posted positive returns, but problems among municipal bond insurers and the collapse in the market for auction rate securities pressured the group throughout the course of the past year. Economic and financial market distress also dampened the performance of high yield issues, which were very volatile due to the macro factors noted above.

Overall, severe market instability resulted in mixed results for the major benchmark indexes:

Total returns as of August 31, 2008	6-month	12-month
U.S. equities (S&P 500 Index)	(2.57)%	(11.14)%
Small cap U.S. equities (Russell 2000 Index)	8.53	(5.48)
International equities (MSCI Europe, Australasia, Far East Index)	(10.18)	(14.41)
Fixed income (Lehman Brothers U.S. Aggregate Index)	0.18	5.86
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	5.12	4.48
High yield bonds (Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index)	0.74	(0.66)

Past performance is no guarantee of future results. Index performance shown for illustrative purposes only. You cannot invest directly in an index.

Through periods of market turbulence, as ever, BlackRock's full resources are dedicated to the management of our clients' assets. For our most current views on the economy and financial markets, we invite you to visit [www.blackrock.com/funds](http://www.blackrock.com/funds). As always, we thank you for entrusting BlackRock with your investments, and we look forward to continuing to serve you in the months and years ahead.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

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THIS PAGE NOT PART OF YOUR FUND REPORT

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Fund Summary as of August 31, 2008

**Investment Objective**

**BlackRock Debt Strategies Fund, Inc. (DSU) (the Fund)** 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 (Ba or lower by Moody's Investors Service, Inc. or BB or lower by Standard & Poor's) or unrated debt instruments of comparable quality.

**Performance**

For the six months ended August 31, 2008, the Fund returned (0.35)% based on market price and (1.33)% based on net asset value (NAV). For the same period, the closed-end Lipper High Current Yield Funds (Leveraged) category posted an average return of (6.14)% on a NAV basis. All returns reflect reinvestment of dividends. During the period, high yield loans which made up about 44% of the Fund's portfolio as of August 31, 2008 outperformed high yield bonds, which aided relative performance as most of the other funds in the Lipper category invest primarily in high yield bonds. As of August 31, 2008, the Fund was more modestly leveraged (27% of managed assets) than many of its counterparts, which also helped relative performance in a very challenging market. The Fund's discount to NAV, which narrowed modestly during the six months, accounts for the difference between performance based on price and performance based on NAV.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on New York Stock Exchange	DSU
Initial Offering Date	March 27, 1998
Yield on Closing Market Price as of August 31, 2008 (\$5.10) <sup>1</sup>	12.47%
Current Monthly Distribution per share of Common Stock <sup>2</sup>	\$0.053
Current Annualized Distribution per share of Common Stock <sup>2</sup>	\$0.636
Leverage as of August 31, 2008 <sup>3</sup>	27%

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

<sup>2</sup> The distribution is not constant and is subject to change.

<sup>3</sup> As a percentage of managed assets, which is the total assets of the Fund (including any assets attributable to any borrowing that may be outstanding) minus the sum of accrued liabilities (other than debt representing financial leverage).

The table below summarizes the changes in the Fund's market price and net asset value:

	8/31/08	2/29/08	Change	High	Low
Market Price	\$ 5.10	\$ 5.43	(6.08)%	\$ 5.88	\$ 4.61

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Net Asset Value \$ 5.18 \$ 5.57 (7.00)% \$ 5.69 \$ 5.18

The following charts show the Fund's portfolio composition of the Fund's long-term investments and credit quality allocations of the Fund's corporate bond investments:

**Portfolio Composition**

Asset Mix	8/31/08	2/29/08
Corporate Bonds	51%	57%
Floating Rate Loan Interests	44	39
Common Stocks	5	3
Preferred Stocks		1

**Credit Quality Allocations<sup>4</sup>**

Credit Rating	8/31/08	2/29/08
AA/Aa	2%	
BBB/Baa	1	1%
BB/Ba	8	14
B/B	59	51
CCC/Caa	20	20
CC/Ca	3	3
D		1
Not Rated	7	10

<sup>4</sup> Using the higher of Standard & Poor's or Moody's Investors Service ratings.

**The Benefits and Risks of Leveraging**

The Fund may utilize leverage through borrowings or issuance of short-term debt securities. 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 shareholders will benefit from the incremental yield.

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

**Under the Investment Company Act of 1940, the Fund is permitted to borrow through a credit facility and the issuance of short-term debt securities up to 33 1/3% of total managed assets.** As of August 31, 2008, the Fund had outstanding leverage from credit facility borrowings as a percentage of total managed assets as follows:

	Percent of Leverage
BlackRock Debt Strategies Fund, Inc.	27%

**Swap Agreements**

The Fund may invest in swap agreements, which are over-the-counter contracts in which one party agrees to make periodic payments based on the change in market value of a specified bond, basket of bonds or index in return for periodic payments based on a fixed or variable interest rate or the change in market value of a different bond, basket of bonds or index. Swap agreements may be used to obtain exposure to a bond or market without owning or taking physical custody of securities. Swap agreements involve the risk that the party with whom the Fund has entered into the swap will default on its obligation to pay the Fund and the risk that the Fund will not be able to meet its obligations to pay the other party to the agreement.



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Schedule of Investments August 31, 2008 (Unaudited)

(Percentages shown are based on Net Assets)

Corporate Bonds	Par (000)	Value
<b>Aerospace &amp; Defense 1.3%</b>		
Alliant Techsystems, Inc., 3%, 8/15/24 (a)(b)	USD 5,000	\$ 7,318,750
<b>Auto Components 0.6%</b>		
Allison Transmission, Inc. (b):		
11%, 11/01/15	170	156,400
11.25%, 11/01/15 (c)	1,560	1,372,800
The Goodyear Tire & Rubber Co., 8.625%, 12/01/11	2	2,060
Lear Corp., 8.75%, 12/01/16	700	526,750
Metaldyne Corp., 11%, 6/15/12	9,350	1,449,250
Venture Holdings Co. LLC (d)(e):		
12%, 6/01/09	4,450	
Series B, 9.50%, 7/01/05 (f)(i)	1,800	180
		3,507,440
<b>Building Products 2.0%</b>		
CPG International I, Inc.:		
9.904%, 7/01/12 (g)	7,500	5,700,000
10.50%, 7/01/13	1,300	1,001,000
Momentive Performance Materials, Inc. Series WI, 9.75%, 12/01/14	1,050	947,625
Ply Gem Industries, Inc., 11.75%, 6/15/13 (b)	4,055	3,690,050
		11,338,675
<b>Capital Markets 1.9%</b>		
E*Trade Financial Corp., 12.50%, 11/2017 (b)	10,000	10,700,000
<b>Chemicals 6.2%</b>		
American Pacific Corp., 9%, 2/01/15	1,490	1,445,300
ArCo Chemical Co., 9.80%, 2/01/20	3,550	2,573,750
GEO Specialty Chemicals Corp. (a):		
7.50%, 3/31/15 (b)(c)(e)	3,844	2,877,894
11.283%, 12/31/09	6,415	4,803,231
Hanna (M.A.) Co., 6.89%, 9/22/08	2,500	2,500,000
Hexion U.S. Finance Corp., 7.304%, 11/15/14 (g)	5,100	3,888,750
MacDermid, Inc., 9.50%, 4/15/17 (b)	6,360	5,819,400
NOVA Chemicals Corp., 5.953%, 11/15/13 (g)	12,305	10,582,300
		34,490,625
<b>Commercial Banks 0.3%</b>		
Investcorp SA, 7.54%, 10/21/08	1,500	1,500,206
<b>Commercial Services &amp; Supplies 1.0%</b>		
US Investigations Services, Inc., 10.50%, 11/01/15 (b)	3,400	3,026,000
West Corp., 11%, 10/15/16	3,270	2,558,775

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		5,584,775
<b>Construction Materials 1.8%</b>		
Nortek Holdings, Inc., 10%, 12/01/13 (b)	6,830	6,386,050
Nortek, Inc., 8.50%, 9/01/14	5,850	3,568,500
		9,954,550

<b>Containers &amp; Packaging 4.8%</b>		
Berry Plastics Holding Corp.:		
6.651%, 9/15/14 (g)	375	281,250
8.875%, 9/15/14	390	323,700
Graphic Packaging International Corp., 9.50%, 8/15/13	705	662,700
Packaging Dynamics Finance Corp., 10%, 5/01/16 (b)	6,215	4,195,125

Corporate Bonds		Par (000)	Value
<b>Containers &amp; Packaging (concluded)</b>			
Smurfit Kappa Funding Plc, 7.75%, 4/01/15	USD	13,625	\$ 11,990,000
Smurfit-Stone Container Enterprises, Inc.:			
8.375%, 7/01/12		1,600	1,404,000
8%, 3/15/17		2,600	2,080,000
Wise Metals Group LLC, 10.25%, 5/15/12		6,325	5,581,812
			26,518,587

<b>Diversified Consumer Services 0.6%</b>		
NBC Acquisition Corp., 11%, 3/15/13 (h)	3,875	3,119,375

<b>Diversified Financial Services 2.6%</b>		
Archimedes Funding III Ltd., 5.50%, 11/29/11 (b)	5,744	2,871,845
FCE Bank Plc, 7.125%, 1/16/12	EUR 7,800	9,544,120
Ford Motor Credit Co. LLC, 5.538%, 1/13/12 (g)	USD 2,680	1,978,657
		14,394,622

<b>Diversified Telecommunication Services 0.4%</b>		
Qwest Corp., 6.026%, 6/15/13 (g)	2,675	2,474,375