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PREFERRED INCOME STRATEGIES FUND INC  
Form N-CSRS  
July 05, 2006

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 811-21286

Name of Fund: Preferred Income 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, Preferred Income 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: 10/31/06

Date of reporting period: 11/01/05 - 04/30/06

Item 1 - Report to Stockholders

Semi-Annual Reports  
April 30, 2006

Preferred and Corporate Income  
Strategies Fund, Inc.

Preferred Income Strategies Fund, Inc.

Preferred and Corporate Income Strategies Fund, Inc.  
Preferred Income Strategies Fund, Inc.

Announcement to Shareholders

On February 15, 2006, BlackRock, Inc. ("BlackRock") and Merrill Lynch & Co., Inc. ("Merrill Lynch") entered into an agreement to contribute Merrill Lynch's investment management business, Merrill Lynch Investment Managers, L.P. and certain affiliates (including Fund Asset Management, L.P. and Merrill Lynch Investment Managers International Limited), to BlackRock to create a new independent company that will be one of the world's largest asset management firms with over \$1 trillion in assets under management (based on combined assets under management as of March 31, 2006). The transaction is expected to close in the third quarter of 2006, at which time the new company will operate under the BlackRock name. The Funds' Board of Directors has approved a new investment advisory agreement with BlackRock Advisors, Inc. or its successor ("BlackRock Advisors") on substantially the same terms and for the same advisory fee as the

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current investment advisory agreement with the Investment Adviser. If the new agreement is approved by the Funds' shareholders, BlackRock Advisors is expected to become the Funds' investment adviser upon the closing of the transaction between Merrill Lynch and BlackRock.

### The Benefits and Risks of Leveraging

The Funds utilize leverage through the issuance 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 or dividend rates on the Preferred Stock, which normally will be lower than the income earned by each Fund on its longer-term portfolio investments. To the extent that the total assets of each Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, each Fund's Common Stock shareholders will be the beneficiaries of 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 the dividend rates on any 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, each 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, each 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 April 30, 2006

| Preferred and Corporate Income<br>Strategies Fund, Inc.'s Asset Mix | Percent of<br>Total<br>Investments |
|---|------------------------------------|
| Capital Trusts .....  | 40.9%                              |
| Preferred Stocks .....  | 18.1                               |
| Corporate Bonds .....   | 18.1                               |
| Real Estate Investment Trusts .....                                 | 13.3                               |
| Trust Preferred .....   | 6.8                                |
| Foreign Government Obligations .....                                | 2.0                                |
| Other* .....  | 0.8                                |

| Preferred Income Strategies Fund, Inc.'s<br>Asset Mix | Percent of<br>Total<br>Investments |
|---|------------------------------------|
| Capital Trusts .....                                  | 36.0%                              |
| Preferred Stocks .....                                | 22.8                               |
| Corporate Bonds .....                                 | 17.1                               |
| Real Estate Investment Trusts .....                   | 13.6                               |
| Trust Preferred .....                                 | 7.9                                |
| Other* .....  | 2.6                                |

\* Includes portfolio holdings in short-term investments.

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Dear Shareholder

You may be aware that changes are on the horizon at Merrill Lynch Investment Managers ("MLIM"). On February 15, 2006, Merrill Lynch announced plans to combine the firm's investment advisory business, including MLIM, with another highly regarded investment manager -- BlackRock, Inc. ("BlackRock").

We believe this merger of asset management strength will benefit our investors. MLIM is a leading investment management organization with over \$576 billion in assets under management globally and 2,757 employees in 17 countries. It offers over 100 investment strategies in vehicles ranging from mutual funds to institutional portfolios. BlackRock is one of the largest publicly traded investment management firms in the United States with \$463.1 billion in assets under management and 1,839 employees. It manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products.

At the completion of the transaction, which is expected in the third quarter of this year, the resultant firm will be a top-10 investment manager worldwide with over \$1 trillion in assets under management.\* The combined company will provide a wider selection of high-quality investment solutions across a range of asset classes and investment styles. MLIM and BlackRock possess complementary capabilities that together create a well-rounded organization uniting some of the finest money managers in the industry. At the same time, the firms share similar values and beliefs -- they are focused on delivering excellence on behalf of clients, and both make investment performance their single most important mission. In short, the merger only reinforces our commitment to shareholders.

Most of MLIM's investment products -- including mutual funds, separately managed accounts, annuities and variable insurance funds -- eventually will carry the "BlackRock" name. As a shareholder in one or more MLIM-advised mutual funds, you will receive a proxy package in the coming weeks in connection with this transaction. After you receive this information, should you have any questions or concerns, do not hesitate to contact your financial advisor.

As always, we thank you for entrusting us with your investment assets, and we look forward to continuing to serve your investment needs with even greater strength and scale as the new BlackRock.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.  
President and Chief Investment Officer  
Merrill Lynch Investment Managers

\* \$1.039 trillion in assets under management as of March 31, 2006.

Data, including assets under management, are as of March 31, 2006.

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### A Discussion With Your Funds' Portfolio Managers

The Funds outperformed their benchmark for the six-month period, benefiting from their relatively long spread durations and our use of hedging strategies, which we employed in an effort to reduce the negative effects of

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rising interest rates.

Describe the market and economic environment during the period.

The yield curve did not change significantly during the past six months, remaining relatively flat. The spread between two-year and 10-year U.S. Treasury notes was 20 basis points (.20%) at April 30, 2006, just three basis points more than six months ago. The yield on the two-year note rose from 4.40% at October 31, 2005, to 4.87% at period-end, while the yield on the 10-year note rose from 4.57% to 5.07% over the same period. The Federal Reserve Board (the Fed) increased short-term interest rates in four increments of .25% during the period, pushing the target federal funds rate to 4.75% at April 30, 2006. Shortly after the end of the period, the Fed increased short-term interest rates by another .25%, bringing the target rate to 5%.

Record-high oil prices and strong gross domestic product (GDP) growth continued to stoke fears of increased inflation. GDP expanded at an estimated annualized rate of 4.8% in the first quarter of 2006, up significantly from the 1.7% and 3.5% annualized growth rates in the fourth quarter and full year 2005, respectively. Although core inflation remained moderate during the period, energy prices were volatile, falling sharply in the fourth quarter of 2005, then climbing significantly during the first quarter of 2006.

How did the Funds perform during the period?

For the six-month period ended April 30, 2006, the Common Stock of Merrill Lynch Preferred Income Strategies Fund, Inc. had net annualized yields of 7.62% and 8.68%, based on a period-end per share net asset value of \$21.67 and a per share market price of \$19.02, respectively, and \$.819 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +1.57%, based on a change in per share net asset value from \$22.26 to \$21.67, and assuming reinvestment of all distributions.

The Common Stock of Merrill Lynch Preferred and Corporate Income Strategies Fund, Inc. had net annualized yields of 7.87% and 8.64% during the past six months, based on a period-end per share net asset value of \$21.87 and a per share market price of \$19.91, respectively, and \$.853 per share income dividends. The total investment return on the Fund's Common Stock was +2.11% for the six-month period, based on a change in per share net asset value from \$22.36 to \$21.87, and assuming reinvestment of all distributions.

For the same period, the Funds' benchmark, the Merrill Lynch Preferred Stock Fixed Rate Index, returned +.86%, while the broader-market Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch U.S. Treasury/Agency Master Index returned +.04% and +.15%, respectively.

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

What factors most influenced the Funds' performance?

The credit markets were strong during the period as yield spreads tightened versus Treasury issues. In addition, long-duration corporate bonds outperformed their short-duration counterparts. Therefore, the Funds' overweight positions in longer-duration credits helped to drive their outperformance of the benchmark.

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The Funds' long spread durations relative to the benchmark also had a positive effect on performance. Spread duration is a measurement of the effect of a 100 basis point increase or reduction in the yield spread of a fixed income security versus U.S. Treasury issues of comparable maturities.

In addition, the Funds' performance for the period benefited considerably from our use of net asset value hedges to shorten the portfolios' durations in an effort to reduce the risk of loss in value associated with rising interest rates. We maintained our view that the Fed would continue to raise short-term interest rates gradually, forcing long-term rates higher.

The portfolios' underweight positions in short-term callable trust-preferred securities (TruPS), which performed well during the period, detracted somewhat from performance. TruPS are fixed income securities that have characteristics

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of both stocks and bonds. They have early redemption features, make quarterly fixed interest payments and mature at face value. A company creates TruPS by establishing a trust and issuing debt to the new entity. The company may realize significant federal income tax benefits because the interest paid to the trust is tax deductible.

What changes were made to the portfolios during the period?

We reduced the portfolios' durations -- which already were shorter than that of their benchmark -- by approximately five years. However, we maintained the Funds' relatively long spread durations. We also continued to trim the Funds' exposure to the banking sector as the yield curve remained relatively flat. Banks earn profits on the spreads between the interest rates they pay to depositors and the rates they charge for loans. Therefore, a flat or narrow yield curve squeezes their profit margins.

In addition, we trimmed our holdings in dividends received deduction (DRD) preferred securities, which pay dividends that qualify for the lower maximum federal income tax rate of 15%. (Dividends earned from other types of preferred securities are taxed at an investor's marginal income tax rate, which can be as high as 33%.) Under the DRD provision of the federal tax code, eligible U.S. corporations that receive qualified dividends from other U.S. corporations may deduct 70% of the total U.S. corporate dividends received from their federal taxable income. DRDs offer lower nominal yields than taxable securities of comparable maturities because of their tax advantages. Consequently, we reduced our exposure to these issues in an effort to increase the gross yields of the Funds.

How would you characterize the Funds' positioning at the close of the period?

We continued to position the Funds in an effort to mitigate the decline in their net asset values resulting from the negative effects of rising interest rates. The preferred stock market has significant exposure to securities issued by financial companies. Therefore, we retained the Funds' sizeable allocations to the financial sector, although the portfolios are underweight relative to the benchmark in these securities. Our largest absolute weightings at the end of the period were in banking and insurance issues, which comprised approximately 47% and 39% of the net assets of Preferred Income Strategies Fund and Preferred and Corporate Income Strategies Fund, respectively. The portfolios are well diversified among issuers, and we intend to maintain this diversification.

At April 30, 2006, Preferred Income Strategies Fund and Preferred and Corporate

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Income Strategies Fund each had a leveraged position of approximately 37%. (For a more complete explanation of the benefits and risks of leveraging, see page 2 of this report to shareholders.) Also at period-end, each Fund carried an average credit rating of Baal from Moody's Investors Service, unchanged from the rating at October 31, 2005.

John Burger  
Vice President and Portfolio Manager

Thomas Musmanno  
Vice President and Portfolio Manager

May 10, 2006

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### Schedule of Investments

Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

=====

#### Preferred Securities

-----

| Face<br>Amount                       | Capital Trusts   | Value        |
|--------------------------------------|--|--------------|
| =====                                |  |              |
| Commercial Banks--13.1%              |  |              |
| \$ 2,000,000                         | Cullen/Frost Capital Trust I, 6.37% due 3/01/2034 (a)                  | \$ 2,036,080 |
| 8,000,000                            | Dresdner Funding Trust I, 8.151% due 6/30/2031 (c)                     | 9,132,528    |
| 5,000,000                            | First Chicago NBD Institutional Capital I, 5.699% due<br>2/01/2027 (a) | 4,754,150    |
| 910,000                              | First Empire Capital Trust II, 8.277% due 6/01/2027                    | 967,238      |
| 450,000                              | First Security Capital I, 8.41% due 12/15/2026                         | 474,995      |
| 1,400,000                            | Firststar Capital Trust I Series B, 8.32% due 12/15/2026               | 1,479,667    |
| 3,000,000                            | Hubco Capital Trust I Series B, 8.98% due 2/01/2027                    | 3,194,736    |
| 1,500,000                            | Hubco Capital Trust II Series B, 7.65% due 6/15/2028                   | 1,575,000    |
| 3,500,000                            | Mizuho JGB Investment LLC, 9.87% (a) (b) (c)                           | 3,786,143    |
| 2,000,000                            | SB Treasury Co. LLC, 9.40% (a) (b) (c)                                 | 2,144,712    |
|                                      |  | -----        |
|                                      |  | 29,545,249   |
| =====                                |  |              |
| Consumer Finance--0.4%               |  |              |
| 910,000                              | MBNA Capital A, 8.278% due 12/01/2026                                  | 958,552      |
| =====                                |  |              |
| Diversified Financial Services--3.0% |  |              |
| 3,000,000                            | Farm Credit Bank of Texas Series 1, 7.561% (a) (b)                     | 3,146,340    |
| 3,335,000                            | Sun Life Canada US Capital Trust, 8.526% (b) (c)                       | 3,550,741    |
|                                      |  | -----        |
|                                      |  | 6,697,081    |
| =====                                |  |              |
| Electric Utilities--1.6%             |  |              |
| 4,060,000                            | Comed Financing III, 6.35% due 3/15/2033                               | 3,601,675    |
| =====                                |  |              |
| Gas Utilities--4.2%                  |  |              |
| 9,000,000                            | AGL Capital Trust I Series B, 8.17% due 6/01/2037                      | 9,536,949    |
| =====                                |  |              |
| Insurance--27.6%                     |  |              |
| 6,990,000                            | AON Corp., 8.205% due 1/01/2027  | 7,734,295    |

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|                                      |   |             |
|--------------------------------------|---|-------------|
| 9,000,000                            | AXA, 8.60% due 12/15/2030                                     | 11,117,016  |
| 8,510,000                            | Ace Capital Trust II, 9.70% due 4/01/2030                     | 10,948,694  |
| 9,110,000                            | Farmers Exchange Capital, 7.05% due 7/15/2028 (c)             | 8,849,919   |
| 6,000,000                            | Mangrove Bay Pass-Through Trust, 6.102% due 7/15/2033 (a) (c) | 5,754,060   |
| 10,000,000                           | Markel Capital Trust I Series B, 8.71% due 1/01/2046          | 10,407,230  |
| 915,000                              | Oil Casualty Insurance Ltd., 8% due 9/15/2034 (c)             | 868,437     |
| 5,000,000                            | QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a) (c)        | 4,772,395   |
| 1,400,000                            | Zurich Capital Trust I, 8.376% due 6/01/2037 (c)              | 1,494,430   |
|                                      |   | -----       |
|                                      |   | 61,946,476  |
| =====                                |   |             |
| Multi-Utilities--0.6%                |   |             |
| 1,200,000                            | Dominion Resources Capital Trust I, 7.83% due 12/01/2027      | 1,268,796   |
| =====                                |   |             |
| Oil, Gas & Consumable Fuels--5.6%    |   |             |
| 2,000,000                            | KN Capital Trust III, 7.63% due 4/15/2028                     | 2,079,380   |
| 8,000,000                            | Pemex Project Funding Master Trust, 7.375% due 12/15/2014     | 8,480,000   |
| 2,000,000                            | Phillips 66 Capital Trust II, 8% due 1/15/2037                | 2,106,024   |
|                                      |   | -----       |
|                                      |   | 12,665,404  |
| =====                                |   |             |
| Thrifts & Mortgage Finance--8.5%     |   |             |
| 1,465,000                            | Dime Capital Trust I Series A, 9.33% due 5/06/2027            | 1,579,750   |
| 6,735,000                            | Greenpoint Capital Trust I, 9.10% due 6/01/2027               | 7,246,766   |
| 760,000                              | ML Capital Trust I, 9.875% due 3/01/2027                      | 810,719     |
| 5,900,000                            | Sovereign Capital Trust, 9% due 4/01/2027                     | 6,283,889   |
| 3,000,000                            | Webster Capital Trust I, 9.36% due 1/29/2027 (c)              | 3,198,000   |
|                                      |   | -----       |
|                                      |   | 19,119,124  |
| -----                                |   |             |
|                                      | Total Capital Trusts (Cost--\$143,948,738)--64.6%             | 145,339,306 |
| =====                                |   |             |
| Shares                               |   |             |
| Held Preferred Stocks                |   |             |
| =====                                |   |             |
| Capital Markets--3.4%                |   |             |
| 24,000                               | Goldman Sachs Group, Inc. Series A, 3.91% (a)                 | 614,160     |
| 280,000                              | Lehman Brothers Holdings, Inc., 6.50%                         | 7,112,000   |
|                                      |   | -----       |
|                                      |   | 7,726,160   |
| =====                                |   |             |
| Commercial Banks--1.2%               |   |             |
| 1,176                                | First Tennessee Bank NA, 3.90% (a) (c)                        | 1,194,375   |
| 42,000                               | Provident Financial Group, Inc., 7.75%                        | 1,089,375   |
| 12,000                               | Sovereign Bancorp, Inc. Series C, 7.30% (d)                   | 300,000     |
|                                      |   | -----       |
|                                      |   | 2,583,750   |
| =====                                |   |             |
| Diversified Financial Services--3.2% |   |             |
| 135,000                              | CIT Group, Inc. Series A, 6.35%                               | 3,389,850   |
| 80,000                               | CoBank ACB, 7% (c)  | 3,718,480   |
|                                      |   | -----       |
|                                      |   | 7,108,330   |
| =====                                |   |             |
| Electric Utilities--2.6%             |   |             |
| 20,000                               | Duquesne Light Co., 6.50%                                     | 1,023,000   |
| 28,800                               | Entergy Arkansas, Inc., 6.45%                                 | 722,701     |
| 22,650                               | Entergy Louisiana LLC, 6.95% (c)                              | 2,290,481   |
| 76,000                               | PPL Electric Utilities Corp., 6.25%                           | 1,900,000   |

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|   |  |            |
|---|--|------------|
|   |  | 5,936,182  |
| =====                                     |  |            |
| Gas Utilities--3.1%                       |  |            |
| 270,000                                   | Southern Union Co., 7.55%                          | 6,966,000  |
| =====                                     |  |            |
| Insurance--5.7%                           |  |            |
| 120,000                                   | ACE Ltd. Series C, 7.80%                           | 3,102,000  |
| 35,000                                    | Axis Capital Holdings Ltd. Series A, 7.25%         | 863,450    |
| 35,200                                    | Endurance Specialty Holdings Ltd., 7.75%           | 830,720    |
| 318,000                                   | MetLife, Inc. Series B, 6.50%                      | 7,981,800  |
|   |  | -----      |
|   |  | 12,777,970 |
| =====                                     |  |            |
| Real Estate--0.5%                         |  |            |
| 40,000                                    | Public Storage, Inc. Series I, 7.25% (d)           | 1,003,752  |
| =====                                     |  |            |
| Thrifts & Mortgage Finance--7.5%          |  |            |
| 305,000                                   | Fannie Mae, 7% (a)                                 | 16,641,563 |
| 6,000                                     | Fannie Mae Series L, 5.125%                        | 251,700    |
|   |  | -----      |
|   |  | 16,893,263 |
| =====                                     |  |            |
| Wireless Telecommunication Services--1.4% |  |            |
| 2,720                                     | Centaur Funding Corp., 9.08% (c)                   | 3,226,600  |
| -----                                     |  |            |
|   | Total Preferred Stocks (Cost--\$62,745,831)--28.6% | 64,222,007 |
| =====                                     |  |            |

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Schedule of Investments (continued)

Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (concluded)

| Shares             |  |    |            |
|--------------------|--|----|------------|
| Held               | Real Estate Investment Trusts                          |    | Value      |
| =====              |  |    |            |
| Real Estate--21.1% |  |    |            |
| 63,800             | Alexandria Real Estate Equities, Inc. Series C, 8.375% | \$ | 1,652,420  |
| 400,000            | CBL & Associates Properties, Inc. Series C, 7.75%      |    | 10,144,000 |
| 400,000            | CarrAmerica Realty Corp. Series E, 7.50%               |    | 10,120,000 |
| 610                | First Industrial Realty Trust, Inc., 6.236% (a)        |    | 609,619    |
|                    | HRPT Properties Trust:                                 |    |            |
| 425,000            | Series B, 8.75%  |    | 10,867,250 |
| 125,000            | Series C, 7.125%                                       |    | 3,054,687  |
| 192,000            | Health Care Property Investors, Inc. Series F, 7.10%   |    | 4,790,400  |
| 44,000             | Health Care REIT, Inc. Series F, 7.625%                |    | 1,116,500  |
| 120,000            | iStar Financial, Inc. Series I, 7.50%                  |    | 2,976,000  |
|                    | PS Business Parks, Inc.:                               |    |            |
| 18,400             | Series K, 7.95%  |    | 467,544    |
| 16,000             | Series M, 7.20%  |    | 387,520    |
| 14,800             | Regency Centers Corp., 7.25%                           |    | 370,925    |
| 36,800             | Vornado Realty Trust Series E, 7%                      |    | 902,752    |

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|  |   |             |
|--|---|-------------|
| -----  |   |             |
|  | Total Real Estate Investment Trusts (Cost--\$47,764,750)--21.1% | 47,459,617  |
| =====  |   |             |
|  | Face  |             |
| Amount   | Trust Preferred   |             |
| =====  |   |             |
| Aerospace & Defense--0.9%                                |   |             |
| \$ 2,050,000   | RC Trust I, 7% due 5/15/2006                                    | 2,051,283   |
| =====  |   |             |
| Gas Utilities--4.7%                                      |   |             |
| 10,000,000   | Southwest Gas Capital II, 7.70% due 9/15/2043                   | 10,505,905  |
| =====  |   |             |
| Insurance--2.8%  |   |             |
| 4,000,000  | ABN AMRO North America Capital Funding Trust II, 4.965%         |             |
|  | (a) (b) (c)   | 4,053,660   |
| 2,250,000  | Lincoln National Capital VI Series F, 6.75% due 9/11/2052       | 2,205,622   |
|  |   | -----       |
|  |   | 6,259,282   |
| =====  |   |             |
| Thrifts & Mortgage Finance--2.3%                         |   |             |
| 5,500,000  | Countrywide Financial Corp., 1.50% due 4/01/2033                | 5,260,540   |
| -----  |   |             |
| Total Trust Preferred (Cost--\$23,589,404)--10.7%        |   | 24,077,010  |
| =====  |   |             |
| Total Preferred Securities (Cost--\$278,048,723)--125.0% |   | 281,097,940 |
| =====  |   |             |
| Corporate Bonds  |   |             |
| =====  |   |             |
| Automobiles--4.6%  |   |             |
| 9,000,000  | DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031           | 10,433,079  |
| =====  |   |             |
| Commercial Banks--0.6%                                   |   |             |
| 1,200,000  | Royal Bank of Scotland Group Plc, 9.118% (b)                    | 1,337,708   |
| =====  |   |             |
| Containers & Packaging--2.2%                             |   |             |
| 5,000,000  | Sealed Air Corp., 6.875% due 7/15/2033 (c)                      | 4,911,820   |
| =====  |   |             |
| Diversified Financial Services--3.0%                     |   |             |
| 2,000,000  | Ford Motor Credit Co., 7% due 10/01/2013                        | 1,759,756   |
| 5,000,000  | Sigma Finance Corp., 7.249% due 8/15/2011 (e)                   | 5,000,000   |
|  |   | -----       |
|  |   | 6,759,756   |
| =====  |   |             |
| Diversified Telecommunication Services--2.2%             |   |             |
| 4,000,000  | France Telecom SA, 8.50% due 3/01/2031                          | 4,929,776   |
| =====  |   |             |
| Electric Utilities--2.2%                                 |   |             |
| 5,000,000  | Energy East Corp., 6.75% due 9/15/2033                          | 5,021,240   |
| =====  |   |             |
| Media--8.2%  |   |             |
| 3,000,000  | Comcast Corp., 7.05% due 3/15/2033                              | 3,067,311   |
| 8,000,000  | Liberty Media Corp., 8.25% due 2/01/2030                        | 7,666,224   |
| 2,000,000  | TCI Communications, Inc., 8.75% due 8/01/2015                   | 2,321,526   |
| 5,000,000  | Time Warner, Inc., 7.625% due 4/15/2031                         | 5,412,660   |
|  |   | -----       |
|  |   | 18,467,721  |

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|   |   |                |
|---|---|----------------|
| =====   |   |                |
| Wireless Telecommunication Services--5.6%     |   |                |
| 5,000,000                                     | AT&T Wireless Services, Inc., 8.75% due 3/01/2031                         | 6,285,010      |
| 5,000,000                                     | Sprint Capital Corp., 8.75% due 3/15/2032                                 | 6,203,935      |
|   |   | -----          |
|   |   | 12,488,945     |
| -----   |   |                |
|   | Total Corporate Bonds (Cost--\$64,718,596)--28.6%                         | 64,350,045     |
| =====   |   |                |
| Foreign Government Obligations                |   |                |
| =====   |   |                |
| 7,032,000                                     | Mexico Government International Bond, 5.875% due 1/15/2014                | 6,954,648      |
| -----   |   |                |
|   | Total Foreign Government Obligations (Cost--\$6,961,680)--3.1%            | 6,954,648      |
| =====   |   |                |
| Beneficial                                    |   |                |
| Interest Short-Term Securities                |   |                |
| =====   |   |                |
| \$ 3,035,755                                  | Merrill Lynch Liquidity Series, LLC Cash Sweep<br>Series I, 4.75% (f) (g) | 3,035,755      |
| -----   |   |                |
|   | Total Short-Term Securities (Cost--\$3,035,755)--1.4%                     | 3,035,755      |
| =====   |   |                |
|   | Total Investments (Cost--\$352,764,754*)--158.1%                          | 355,438,388    |
| Other Assets Less Liabilities--2.7%           |   |                |
|   |   | 6,005,708      |
| Preferred Stock, at Redemption Value--(60.8%) |   |                |
|   |   | (136,595,737)  |
| -----   |   |                |
|   | Net Assets Applicable to Common Stock--100.0%                             | \$ 224,848,359 |
| =====   |   |                |

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Schedule of Investments (concluded)

Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2006, as computed for federal income tax purposes, were as follows:

|                                     |                |
|-------------------------------------|----------------|
| Aggregate cost .....                | \$ 351,585,085 |
|                                     | =====          |
| Gross unrealized appreciation ..... | \$ 9,088,780   |
| Gross unrealized depreciation ..... | (5,235,477)    |
|                                     | -----          |
| Net unrealized appreciation .....   | \$ 3,853,303   |
|                                     | =====          |

- (a) Floating rate security.
- (b) The security is a perpetual bond and has no definite maturity date.
- (c) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.

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- (d) Depository receipts.  
 (e) Restricted security as to resale, representing approximately 2.2% of net assets, was as follows:

| Issue  | Acquisition Date | Cost        | Value       |
|--|------------------|-------------|-------------|
| Sigma Finance Corp., 7.249%<br>due 8/15/2011 | 2/13/2004        | \$5,000,000 | \$5,000,000 |

- (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:

| Affiliate  | Net Activity | Interest Income |
|--|--------------|-----------------|
| Merrill Lynch Liquidity Series, LLC<br>Cash Sweep Series I | \$3,035,755  | \$29,389        |

- (g) Represents the current yield as of 4/30/2006.  
 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 Financial futures contracts sold as of April 30, 2006 were as follows:

| Number of Contracts | Issue                          | Expiration Date | Face Value   | Unrealized Appreciation |
|---------------------|--------------------------------|-----------------|--------------|-------------------------|
| 813                 | 10-Year U.S.<br>Treasury Notes | June 2006       | \$87,504,076 | \$1,669,060             |

- o Swaps outstanding as of April 30, 2006 were as follows:

|  | Notional Amount | Unrealized Appreciation |
|--|-----------------|-------------------------|
| Sold credit default protection on a basket of preferred securities and receive 2.03% |                 |                         |
| Broker, Lehman Brothers Special Finance<br>Expires September 2007                    | \$ 9,000,000    | \$ 118,557              |
| Pay a fixed rate of 5.2687% and receive a floating rate based on 3-month LIBOR       |                 |                         |
| Broker, HSBC Bank USA<br>Expires March 2016  | \$20,000,000    | 448,774                 |
| Pay a fixed rate of 5.117% and receive a floating rate based on 3-month LIBOR        |                 |                         |

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|   |              |              |
|---|--------------|--------------|
| Broker, Lehman Brothers Special Finance |              |              |
| Expires March 2036                      | \$18,000,000 | 1,549,317    |
| -----                                   |              |              |
| Total                                   |              | \$ 2,116,648 |
| =====                                   |              |              |

See Notes to Financial Statements.

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## Schedule of Investments

Preferred Income Strategies Fund, Inc. (in U.S. dollars)

### Preferred Securities

| Face Amount                          | Capital Trusts   | Value         |
|--------------------------------------|--|---------------|
| -----                                |  |               |
| Commercial Banks--20.3%              |  |               |
| \$12,035,000                         | ABN AMRO North America Holding Preferred Capital Repackaging Trust I, 6.523% (a) (b) (c) | \$ 12,318,472 |
| 2,000,000                            | Bank One Capital III, 8.75% due 9/01/2030  | 2,504,078     |
| 1,000,000                            | Chase Capital I Series A, 7.67% due 12/01/2026   | 1,047,250     |
| 16,455,000                           | Chase Capital II Series B, 5.649% due 2/01/2027 (b)                                      | 15,661,244    |
| 34,000,000                           | Dresdner Funding Trust I, 8.151% due 6/30/2031 (a)                                       | 38,813,244    |
| 3,630,000                            | First Empire Capital Trust II, 8.277% due 6/01/2027                                      | 3,858,323     |
| 1,820,000                            | First Security Capital I, 8.41% due 12/15/2026   | 1,921,092     |
| 5,600,000                            | Firststar Capital Trust I Series B, 8.32% due 12/15/2026                                 | 5,918,668     |
| 2,000,000                            | HSBC America Capital Trust I, 7.808% due 12/15/2026 (a)                                  | 2,100,998     |
| 15,835,000                           | HSBC Capital Funding LP/Jersey Channel Islands, 10.176% (a) (b) (c)                      | 22,240,495    |
| 7,300,000                            | HSBC Finance Capital Trust IX, 5.911% due 11/30/2035 (b)                                 | 7,052,493     |
| 12,275,000                           | Hubco Capital Trust II Series B, 7.65% due 6/15/2028                                     | 12,888,750    |
| 2,000,000                            | Lloyds TSB Bank Plc, 6.90% (c)   | 1,970,000     |
| 13,500,000                           | Mizuho JGB Investment LLC, 9.87% (a) (b) (c)   | 14,603,693    |
| 18,470,000                           | NationsBank Capital Trust III, 5.618% due 1/15/2027 (b)                                  | 17,791,394    |
| 2,000,000                            | Republic New York Corp., 7.53% due 12/04/2026  | 2,090,968     |
| 10,000,000                           | SB Treasury Co. LLC, 9.40% (a) (b) (c)   | 10,723,560    |
| 4,500,000                            | ST George Funding Co. LLC, 8.485% (a) (c)  | 4,647,532     |
|                                      |  | -----         |
|                                      |  | 178,152,254   |
| -----                                |  |               |
| Consumer Finance--0.6%               |  |               |
| 4,630,000                            | MBNA Capital A, 8.278% due 12/01/2026  | 4,877,029     |
| -----                                |  |               |
| Diversified Financial Services--5.4% |  |               |
| 15,000,000                           | AgFirst Farm Credit Bank, 8.393% due 12/15/2016 (b)                                      | 16,236,945    |
| 10,000,000                           | CIT Capital Trust I, 7.70% due 2/15/2027   | 10,476,110    |
| 9,000,000                            | Farm Credit Bank of Texas Series 1, 7.561% (b) (c)                                       | 9,439,020     |
| 998,000                              | JPM Capital Trust I, 7.54% due 1/15/2027   | 1,044,406     |
| 10,000,000                           | Sun Life Canada US Capital Trust, 8.526% (a) (c)   | 10,646,900    |
|                                      |  | -----         |
|                                      |  | 47,843,381    |
| -----                                |  |               |
| Electric Utilities--2.3%             |  |               |
| 14,950,000                           | HL&P Capital Trust II Series B, 8.257% due 2/01/2037                                     | 15,697,500    |

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|                                   |   |             |
|-----------------------------------|---|-------------|
| 5,000,000                         | SWEPCO Capital I, 5.25% due 10/01/2043 (b)                | 4,924,150   |
|                                   |   | -----       |
|                                   |   | 20,621,650  |
| =====                             |   |             |
| Gas Utilities--0.6%               |   |             |
| 5,000,000                         | AGL Capital Trust I Series B, 8.17% due 6/01/2037         | 5,298,305   |
| =====                             |   |             |
| Insurance--18.8%                  |   |             |
| 24,175,000                        | AON Corp., 8.205% due 1/01/2027                           | 26,749,154  |
| 21,300,000                        | Ace Capital Trust II, 9.70% due 4/01/2030                 | 27,403,898  |
| 23,725,000                        | Axa, 8.60% due 12/15/2030                                 | 29,305,689  |
| 15,000,000                        | Farmers Exchange Capital, 7.05% due 7/15/2028 (a)         | 14,571,765  |
| 10,000,000                        | GE Global Insurance Holding Corp., 7.75% due 6/15/2030    | 11,573,040  |
| 1,000,000                         | GenAmerica Capital I, 8.525% due 6/30/2027 (a)            | 1,068,123   |
| 6,066,000                         | ING Capital Funding Trust III, 8.439% (b)(c)              | 6,704,841   |
| 1,000,000                         | Markel Capital Trust I Series B, 8.71% due 1/01/2046      | 1,040,723   |
| 3,605,000                         | Oil Casualty Insurance Ltd., 8% due 9/15/2034 (a)         | 3,421,549   |
| 6,325,000                         | Principal Life Insurance Co., 8% due 03/01/2044           | 6,504,605   |
| 14,000,000                        | QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a)(b)     | 13,362,706  |
| 6,225,000                         | Transamerica Capital III, 7.625% due 11/15/2037           | 6,687,810   |
| 15,600,000                        | Zurich Capital Trust I, 8.376% due 6/01/2037 (a)          | 16,652,220  |
|                                   |   | -----       |
|                                   |   | 165,046,123 |
| =====                             |   |             |
| Multi-Utilities--3.1%             |   |             |
| 10,000,000                        | Dominion Resources Capital Trust I, 7.83% due 12/01/2027  | 10,573,300  |
| 15,000,000                        | Dominion Resources Capital Trust III, 8.40% due 1/15/2031 | 16,789,080  |
|                                   |   | -----       |
|                                   |   | 27,362,380  |
| =====                             |   |             |
| Oil, Gas & Consumable Fuels--2.0% |   |             |
| 5,000,000                         | KN Capital Trust I Series B, 8.56% due 4/15/2027          | 5,295,510   |
| 1,750,000                         | KN Capital Trust III, 7.63% due 4/15/2028                 | 1,819,458   |
| 9,850,000                         | Phillips 66 Capital Trust II, 8% due 1/15/2037            | 10,372,168  |
|                                   |   | -----       |
|                                   |   | 17,487,136  |
| =====                             |   |             |
| Thrifts & Mortgage Finance--4.6%  |   |             |
|                                   | Astoria Capital Trust I:                                  |             |
| 1,000,000                         | 9.75% due 11/01/2029 (a)                                  | 1,143,000   |
| 5,000,000                         | Series B, 9.75% due 11/01/2029                            | 5,765,000   |
| 5,760,000                         | Dime Capital Trust I Series A, 9.33% due 5/06/2027        | 6,211,169   |
| 12,765,000                        | GreenPoint Capital Trust I, 9.10% due 6/01/2027           | 13,734,961  |
| 3,005,000                         | ML Capital Trust I, 9.875% due 3/01/2027                  | 3,205,542   |
| 9,775,000                         | Webster Capital Trust I, 9.36% due 1/29/2027 (a)          | 10,420,150  |
|                                   |   | -----       |
|                                   |   | 40,479,822  |
| -----                             |   |             |
|                                   | Total Capital Trusts (Cost--\$501,398,952)--57.7%         | 507,168,080 |
| =====                             |   |             |
| Shares                            |   |             |
| Held Preferred Stocks             |   |             |
| =====                             |   |             |
| Capital Markets--2.0%             |   |             |
| 96,000                            | Goldman Sachs Group, Inc. Series A, 3.91% (b)             | 2,456,640   |
| 600,000                           | Lehman Brothers Holdings, Inc., 6.50%                     | 15,240,000  |
|                                   |   | -----       |
|                                   |   | 17,696,640  |
| =====                             |   |             |

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### Commercial Banks--7.3%

|         |  |            |
|---------|--|------------|
| 435,200 | Banco Santander Central Hispano SA, 6.41%        | 10,575,360 |
| 137,579 | First Republic Bank, 6.25%                       | 3,413,679  |
| 4,650   | First Tennessee Bank NA, 3.90% (a) (b)           | 4,722,656  |
| 166,800 | Provident Financial Group, Inc., 7.75%           | 4,326,375  |
| 750,000 | Royal Bank of Scotland Group Plc Series L, 5.75% | 16,530,000 |
| 23,000  | SG Preferred Capital II, 6.302% (b)              | 23,558,900 |
| 48,000  | Sovereign Bancorp, Inc. Series C, 7.30% (d)      | 1,200,000  |
|         |  | 64,326,970 |

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### Schedule of Investments (continued)

Preferred Income Strategies Fund, Inc. (in U.S. dollars)

### Preferred Securities (continued)

| Shares<br>Held                              | Preferred Stocks                              | Value         |
|---|---|---------------|
| <b>Diversified Financial Services--4.1%</b> |   |               |
| 855,000                                     | CIT Group, Inc. Series A, 6.35%               | \$ 21,469,050 |
| 320,000                                     | CoBank ACB, 7% (a)                            | 14,873,920    |
|   |   | 36,342,970    |
| <b>Electric Utilities--3.0%</b>             |   |               |
| 14,000                                      | Alabama Power Co., 5.83%                      | 330,400       |
| 80,000                                      | Duquesne Light Co., 6.50%                     | 4,092,000     |
| 114,400                                     | Entergy Arkansas, Inc., 6.45%                 | 2,870,731     |
| 89,850                                      | Entergy Louisiana LLC, 6.95% (a)              | 9,086,081     |
| 80,000                                      | Interstate Power & Light Co. Series B, 8.375% | 2,544,000     |
| 304,000                                     | PPL Electric Utilities Corp., 6.25%           | 7,600,000     |
|   |   | 26,523,212    |
| <b>Gas Utilities--1.6%</b>                  |   |               |
| 556,000                                     | Southern Union Co., 7.55%                     | 14,344,800    |
| <b>Insurance--8.5%</b>                      |   |               |
| 880,000                                     | ACE Ltd. Series C, 7.80%                      | 22,748,000    |
| 140,000                                     | Axis Capital Holdings Ltd. Series A, 7.25%    | 3,453,800     |
| 139,200                                     | Endurance Specialty Holdings Ltd., 7.75%      | 3,285,120     |
| 1,260,000                                   | MetLife, Inc. Series B, 6.50%                 | 31,626,000    |
| 140,000                                     | Prudential Plc, 6.50%                         | 3,374,000     |
| 9,800                                       | Zurich RegCaPS Funding Trust, 6.58% (a) (b)   | 10,143,000    |
|   |   | 74,629,920    |
| <b>Multi-Utilities--0.4%</b>                |   |               |
| 140,000                                     | Pacific Gas & Electric Co. Series A, 6%       | 3,535,000     |
| <b>Real Estate--0.5%</b>                    |   |               |

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|   |  |             |
|---|--|-------------|
|   | 160,000 Public Storage, Inc. Series I, 7.25% (d) | 4,015,008   |
| =====   |  |             |
| Thrifts & Mortgage Finance--8.8%                    |  |             |
|   | 1,210,000 Fannie Mae, 7% (b)                     | 66,020,625  |
|   | 264,650 Fannie Mae Series L, 5.125%              | 11,102,067  |
|   |  | -----       |
|   |  | 77,122,692  |
| =====   |  |             |
| Wireless Telecommunication Services--0.3%           |  |             |
|   | 2,423 Centaur Funding Corp., 9.08% (a)           | 2,874,284   |
|   |  | -----       |
| Total Preferred Stocks (Cost--\$320,540,869)--36.5% |  | 321,411,496 |
| =====   |  |             |

### Real Estate Investment Trusts

|                                     |  |             |
|-------------------------------------|--|-------------|
| =====                               |  |             |
| Real Estate--21.8%                  |  |             |
|                                     | 251,400 Alexandria Real Estate Equities, Inc. Series C, 8.375% | 6,511,260   |
|                                     | 400,000 CBL & Associates Properties, Inc. Series C, 7.75%      | 10,144,000  |
|                                     | 600,000 CarrAmerica Realty Corp. Series E, 7.50%               | 15,180,000  |
|                                     | 680,000 Developers Diversified Realty Corp., 8%                | 17,408,000  |
|                                     | 80,000 Duke Realty Corp. Series K, 6.50%                       | 1,878,400   |
|                                     | 2,390 First Industrial Realty Trust, Inc., 6.236% (b)          | 2,388,506   |
|                                     | 4,000 Firststar Realty LLC, 8.875% (a)                         | 4,955,000   |
|                                     | 768,000 Health Care Property Investors, Inc. Series F, 7.10%   | 19,161,600  |
|                                     | 172,800 Health Care REIT, Inc. Series F, 7.625%                | 4,384,800   |
|                                     | 684,700 Kimco Realty Corp. Series F, 6.65%                     | 16,562,893  |
|                                     | 1,600,000 New Plan Excel Realty Trust Series E, 7.625%         | 40,576,000  |
|                                     | PS Business Parks, Inc.:                                       |             |
|                                     | 72,000 Series K, 7.95%   | 1,829,520   |
|                                     | 64,000 Series M, 7.20%   | 1,550,080   |
|                                     | 320,000 Public Storage, Inc. Series X, 6.45%                   | 7,164,800   |
|                                     | 58,000 Regency Centers Corp., 7.25%                            | 1,453,625   |
|                                     | 607,550 Regency Centers Corp., 7.45%                           | 15,383,166  |
|                                     | 11,857 Sovereign Real Estate Investment Corp., 12% (a)         | 16,006,950  |
|                                     | 145,000 Vornado Realty Trust Series E, 7%                      | 3,557,038   |
|                                     | 130,000 Wachovia Preferred Funding Corp. Series A, 7.25%       | 3,484,000   |
|                                     | 96,000 Weingarten Realty Investors Series D, 6.75%             | 2,370,240   |
|                                     |  | -----       |
| Total Real Estate Investment Trusts |  |             |
| (Cost--\$192,765,535)--21.8%        |  | 191,949,878 |
| =====                               |  |             |

|       |        |                 |
|-------|--------|-----------------|
|       | Face   |                 |
|       | Amount | Trust Preferred |
| ===== |        |                 |

|                                |  |            |
|--------------------------------|--|------------|
| Aerospace & Defense--3.1%      |  |            |
|                                | \$27,450,000 RC Trust I, 7% due 5/15/2006  | 27,467,184 |
| =====                          |  |            |
| Capital Markets--0.1%          |  |            |
|                                | 875,000 Lehman Brothers Holdings Capital Trust III Series K, 1.558%<br>due 3/15/2052 | 817,981    |
| =====                          |  |            |
| Communications Equipment--0.2% |  |            |
|                                | 2,000,000 Corporate-Backed Trust Certificates, 8.375% due 11/15/2028                 | 2,027,997  |
| =====                          |  |            |
| Electric Utilities--1.5%       |  |            |
|                                | 4,750,000 Georgia Power Co. Series O, 1.475% due 4/15/2033                           | 4,278,726  |

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|                       |  |            |
|-----------------------|--|------------|
| 3,000,000             | HECO Capital Trust III, 6.50% due 3/18/2034                                | 3,001,258  |
| 5,000,000             | National Rural Utilities Cooperative Finance Corp., 6.75%<br>due 2/15/2043 | 4,907,063  |
| 950,000               | Virginia Power Capital Trust II, 1.844% due 7/30/2042                      | 952,264    |
|                       |  | -----      |
|                       |  | 13,139,311 |
| =====                 |  |            |
| Gas Utilities--0.7%   |  |            |
| 500,000               | Dominion CNG Capital Trust I, 1.95% due 10/31/2041                         | 500,765    |
| 5,750,000             | Southwest Gas Capital II, 7.70% due 9/15/2043                              | 6,040,895  |
|                       |  | -----      |
|                       |  | 6,541,660  |
| =====                 |  |            |
| Insurance--3.3%       |  |            |
| 16,000,000            | ABN AMRO North America Capital Funding Trust II, 4.965%<br>(a) (b) (c)     | 16,214,638 |
| 7,375,000             | Berkley W R Capital Trust, 6.75% due 7/26/2045                             | 6,894,502  |
| 1,000,000             | Everest Re Capital Trust, 1.963% due 11/15/2032                            | 1,005,118  |
| 5,000,000             | Lincoln National Capital VI Series F, 6.75% due 9/11/2052                  | 4,901,382  |
|                       |  | -----      |
|                       |  | 29,015,640 |
| =====                 |  |            |
| Multi-Utilities--0.1% |  |            |
| 397,425               | PSEG Funding Trust II, 8.75% due 12/31/2032                                | 412,870    |
| =====                 |  |            |

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Schedule of Investments (continued)  
Preferred Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (concluded)

| Face                             |  | Value         |
|----------------------------------|--|---------------|
| Amount                           | Trust Preferred  |               |
| =====                            |  |               |
| Thriffs & Mortgage Finance--3.6% |  |               |
| \$27,000,000                     | Countrywide Financial Corp., 1.50% due 4/01/2033           | \$ 25,824,469 |
| 6,000,000                        | Dime Community Capital I, 7% due 4/14/2034                 | 5,850,000     |
|                                  |  | -----         |
|                                  |  | 31,674,469    |
| -----                            |  |               |
|                                  | Total Trust Preferred (Cost--\$112,462,744)--12.6%         | 111,097,112   |
| =====                            |  |               |
|                                  | Total Preferred Securities (Cost--\$1,127,168,100)--128.6% | 1,131,626,566 |
| =====                            |  |               |

Corporate Bonds

|                   |   |            |
|-------------------|---|------------|
| Automobiles--3.4% |   |            |
| 22,500,000        | DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031 | 26,082,698 |
| 5,000,000         | Ford Motor Co., 7.45% due 7/16/2031                   | 3,650,000  |
|                   |   | -----      |

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|  |   |               |
|--|---|---------------|
|  |   | 29,732,698    |
| =====  |   |               |
| Commercial Banks--3.5%                             |   |               |
| 5,000,000  | HBOS Plc, 5.92% (a) (b) (c)   | 4,755,010     |
| 20,000,000   | Resona Preferred Global Securities Ltd., 7.191% (a) (b) (c)               | 20,561,840    |
| 4,800,000  | Royal Bank of Scotland Group Plc, 9.118% (c)                              | 5,350,829     |
|  |   | -----         |
|  |   | 30,667,679    |
| =====  |   |               |
| Diversified Financial Services--2.5%               |   |               |
| 8,000,000  | Ford Motor Credit Co., 7% due 10/01/2013                                  | 7,039,024     |
| 15,000,000   | Sigma Finance Corp., 7.249% due 8/15/2011 (e)                             | 15,000,000    |
|  |   | -----         |
|  |   | 22,039,024    |
| =====  |   |               |
| Diversified Telecommunication Services--3.6%       |   |               |
| 25,500,000   | France Telecom SA, 8.50% due 3/01/2031                                    | 31,427,322    |
| =====  |   |               |
| Electric Utilities--1.2%                           |   |               |
| 10,000,000   | FirstEnergy Corp. Series B, 6.45% due 11/15/2011                          | 10,312,230    |
| =====  |   |               |
| Independent Power Producers & Energy Traders--2.2% |   |               |
| 16,575,000   | Duke Energy Field Services LLC, 8.125% due 8/16/2030                      | 19,667,746    |
| =====  |   |               |
| Media--3.4%  |   |               |
| 5,000,000  | Comcast Corp., 7.05% due 3/15/2033  | 5,112,185     |
|  | Time Warner, Inc.:  |               |
| 5,000,000  | 7.625% due 4/15/2031  | 5,412,660     |
| 18,000,000   | 7.70% due 5/01/2032   | 19,671,066    |
|  |   | -----         |
|  |   | 30,195,911    |
| =====  |   |               |
| Road & Rail--0.4%                                  |   |               |
| 3,750,000  | BNSF Funding Trust I, 6.613% due 12/15/2055 (b)                           | 3,603,698     |
| =====  |   |               |
| Thrifths & Mortgage Finance--0.9%                  |   |               |
| 8,000,000  | Roslyn Real Estate Asset Corp. Series D, 8.629% (b) (c)                   | 8,000,000     |
| =====  |   |               |
| Wireless Telecommunication Services--6.2%          |   |               |
| 18,000,000   | AT&T Wireless Services, Inc., 8.75% due 3/01/2031                         | 22,626,036    |
|  | Sprint Capital Corp.:   |               |
| 2,000,000  | 6.90% due 5/01/2019   | 2,116,514     |
| 24,000,000   | 8.75% due 3/15/2032   | 29,778,888    |
|  |   | -----         |
|  |   | 54,521,438    |
| -----  |   |               |
|  | Total Corporate Bonds (Cost--\$236,767,908)--27.3%                        | 240,167,746   |
| =====  |   |               |
| Beneficial   |   |               |
| Interest Short-Term Securities                     |   |               |
| =====  |   |               |
| \$35,886,321                                       | Merrill Lynch Liquidity Series, LLC Cash Sweep<br>Series I, 4.75% (f) (g) | 35,886,321    |
| -----  |   |               |
|  | Total Short-Term Securities (Cost--\$35,886,321)--4.1%                    | 35,886,321    |
| =====  |   |               |
| Total Investments (Cost--\$1,399,822,329*)--160.0% |   | 1,407,680,633 |
| -----  |   |               |
| Other Assets Less Liabilities--2.6%                |   | 22,756,021    |

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|   |                |
|---|----------------|
| Preferred Stock, at Redemption Value--(62.6%) | (550,500,938)  |
| Net Assets Applicable to Common Stock--100.0% | \$ 879,935,716 |

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Schedule of Investments (concluded)  
Preferred Income Strategies Fund, Inc. (in U.S. dollars)

\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2006, as computed for federal income tax purposes, were as follows:

|                                     |                  |
|-------------------------------------|------------------|
| Aggregate cost .....                | \$ 1,393,592,544 |
| Gross unrealized appreciation ..... | \$ 42,464,910    |
| Gross unrealized depreciation ..... | (28,376,821)     |
| Net unrealized appreciation .....   | \$ 14,088,089    |

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate security.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) Depositary receipts.
- (e) Restricted security as to resale, representing approximately 1.7% of net assets, was as follows:

| Issue  | Acquisition Date | Cost         | Value        |
|--|------------------|--------------|--------------|
| Sigma Finance Corp., 7.249%<br>due 8/15/2011 | 2/13/2004        | \$15,000,000 | \$15,000,000 |

- (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:

| Affiliate  | Net Activity | Interest Income |
|--|--------------|-----------------|
| Merrill Lynch Liquidity Series, LLC<br>Cash Sweep Series I | \$35,886,321 | \$368,202       |

- (g) Represents the current yield as of 4/30/2006.
- 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.

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- o Financial futures contracts sold as of April 30, 2006 were as follows:

| Number of Contracts | Issue                       | Expiration Date | Face Value    | Unrealized Appreciation |
|---------------------|-----------------------------|-----------------|---------------|-------------------------|
| 2,885               | 10-Year U.S. Treasury Notes | June 2006       | \$310,505,140 | \$5,912,250             |

- o Swaps outstanding as of April 30, 2006 were as follows:

|  | Notional Amount | Unrealized Appreciation |
|--|-----------------|-------------------------|
| Sold credit default protection on a basket of preferred securities and receive 2.03% |                 |                         |
| Broker, Lehman Brothers Special Finance<br>Expires September 2007                    | \$36,000,000    | \$ 474,228              |
| Pay a fixed rate of 5.2687% and receive a floating rate based on 3-month LIBOR       |                 |                         |
| Broker, HSBC Bank USA<br>Expires March 2016  | \$80,000,000    | 1,781,946               |
| Pay a fixed rate of 5.117% and receive a floating rate based on 3-month LIBOR        |                 |                         |
| Broker, Lehman Brothers Special Finance<br>Expires March 2036                        | \$72,000,000    | 6,196,642               |
| Total  |                 | \$ 8,452,816<br>=====   |

See Notes to Financial Statements.

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Statements of Net Assets

As of April 30, 2006

Assets

|   |       |
|---|-------|
| Investments in unaffiliated securities, at value* | ..... |
| Investments in affiliated securities, at value**  | ..... |
| Cash on deposit for financial futures contracts   | ..... |
| Unrealized appreciation on swaps                  | ..... |
| Interest receivable                               | ..... |
| Dividends receivable                              | ..... |
| Receivable for swaps                              | ..... |

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Prepaid expenses .....  
 Total assets .....

=====

Liabilities

-----

Payable for securities purchased .....  
 Dividends payable to Common Stock shareholders .....  
 Payable for variation margin .....  
 Payable for swaps .....  
 Payable to investment adviser .....  
 Payable for other affiliates .....  
 Accrued expenses and other liabilities .....  
 Total liabilities .....

=====

Preferred Stock

-----

Preferred Stock, at redemption value, par value \$.10 per share+ of AMPS@ at \$25,000  
 per share liquidation preference .....

=====

Net Assets Applicable to Common Stock

-----

Net assets applicable to Common Stock .....

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Statements of Net Assets (concluded)

As of April 30, 2006

=====

Analysis of Net Assets Applicable to Common Stock

-----

Undistributed (accumulated distributions in excess of) investment income--net .....  
 Accumulated realized capital losses--net .....  
 Unrealized appreciation--net .....  
 Total accumulated losses--net .....  
 Common Stock, par value \$.10 per share++ .....  
 Paid-in capital in excess of par .....  
 Net Assets .....  
 Net asset value per share of Common Stock .....  
 Market price .....  
 \* Identified cost on unaffiliated securities .....

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\*\* Identified cost on affiliated securities .....

+ Preferred Stock authorized, issued and outstanding:

    Series M7 Shares .....

    Series T7 Shares .....

    Series W7 Shares .....

    Series TH7 Shares .....

    Series F7 Shares .....

    Series W28 Shares .....

    Series TH28 Shares .....

++ Common Stock issued and outstanding .....

@ Auction Market Preferred Stock

See Notes to Financial Statements.

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APRIL 30, 2006

Statements of Operations

For the Six Months Ended April 30, 2006

Investment Income

Interest\* .....

Dividends .....

Total income .....

Expenses

Investment advisory fees .....

Commission fees .....

Accounting services .....

Transfer agent fees .....

Professional fees .....

Custodian fees .....

Printing and shareholder reports .....

Directors' fees and expenses .....

Pricing fees .....

Listing fees .....

Other .....

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Total expenses .....  
Investment income--net .....

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

Realized gain (loss) on:  
    Investments--net .....  
    Futures contracts and swaps--net .....  
  
Total realized loss--net .....  
  
Change in unrealized appreciation/depreciation on:  
    Investments--net .....  
    Futures contracts and swaps--net .....  
  
Total change in unrealized appreciation/depreciation--net .....  
  
Total realized and unrealized loss--net .....

=====  
Dividends to Preferred Stock Shareholders  
-----

Investment income--net .....  
  
Net Increase in Net Assets Resulting from Operations .....  
  
\* Interest from affiliates .....

See Notes to Financial Statements.

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Statements of Changes in Net Assets  
Preferred and Corporate Income Strategies Fund, Inc.

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

Operations  
-----

Investment income--net .....  
Realized loss--net .....  
Change in unrealized appreciation/depreciation--net .....  
Dividends to Preferred Stock shareholders .....  
  
Net increase in net assets resulting from operations .....

=====  
Dividends to Common Stock Shareholders  
-----

Investment income--net .....

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Net decrease in net assets resulting from dividends to Common Stock shareholders .....

---

Net Assets Applicable to Common Stock

---

Total decrease in net assets applicable to Common Stock .....

Beginning of period .....

End of period\* .....

\* Undistributed investment income--net .....

See Notes to Financial Statements.

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Statements of Changes in Net Assets Preferred Income Strategies Fund, Inc.

Increase (Decrease) in Net Assets:

Operations

---

Investment income--net .....

Realized loss--net .....

Change in unrealized appreciation/depreciation--net .....

Dividends to Preferred Stock shareholders .....

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

Dividends to Common Stock Shareholders

---

Investment income--net .....

Net decrease in net assets resulting from dividends to Common Stock shareholders .....

Common Stock Transactions

---

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

Net increase in net assets derived from Common Stock transactions .....

Net Assets Applicable to Common Stock

---

Total decrease in net assets applicable to Common Stock .....

Beginning of period .....

End of period\* .....

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\* Undistributed (accumulated distributions in excess of) investment income--net .....

See Notes to Financial Statements.

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APRIL 30, 2006

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Financial Highlights Preferred and Corporate Income Strategies Fund, Inc.

The following per share data and ratios have been derived from information provided in the financial statements. For the Six Months Ended April 30, 2006

Per Share Operating Performance

|  |          |    |
|--|----------|----|
| Net asset value, beginning of period .....   | \$ 22.36 | \$ |
| Investment income--net .....   | 1.0300   |    |
| Realized and unrealized gain (loss)--net .....                                       | (.34)    |    |
| Dividends to Preferred Stock shareholders from investment income--net ...            | (.29)    |    |
| Total from investment operations .....   | .40      |    |
| Less dividends to Common Stock shareholders from investment income--net .            | (.89)    |    |
| Offering costs resulting from the issuance of Common Stock .....                     | --       |    |
| Offering and underwriting costs resulting from the issuance of Preferred Stock ..... | --       |    |
| Net asset value, end of period .....   | \$ 21.87 | \$ |
| Market price per share, end of period .....  | \$ 19.91 | \$ |

Total Investment Return\*\*

|  |          |
|--|----------|
| Based on net asset value per share ..... | 2.11%0   |
| Based on market price per share .....    | (1.17%)0 |

Ratios Based on Average Net Assets of Common Stock

|  |        |
|--|--------|
| Total expenses, net of waiver*** .....                     | 1.28%* |
| Total expenses*** .....                                    | 1.28%* |
| Total investment income--net*** .....                      | 9.34%* |
| Amount of dividends to Preferred Stock shareholders .....  | 2.59%* |
| Investment income--net, to Common Stock shareholders ..... | 6.75%* |

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Ratios Based on Average Net Assets of Preferred Stock

|   |        |  |
|---|--------|--|
| Dividends to Preferred Stock shareholders ..... | 4.34%* |  |
|   | =====  |  |

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Financial Highlights (concluded)  
 Preferred and Corporate Income Strategies Fund, Inc.

|  |  |          |
|--|--|----------|
| The following per share data and ratios have been derived from information provided in the financial statements. | For the Six<br>Months Ended<br>April 30,<br>2006 | ---<br>2 |
|--|--|----------|

Supplemental Data

|   |           |      |
|---|-----------|------|
| Net assets applicable to Common Stock, end of period (in thousands) ..... | \$224,848 | \$22 |
| Preferred Stock outstanding, end of period (in thousands) .....           | 136,500   | \$13 |
| Portfolio turnover .....  | 4.10%     |      |
|   | =====     |      |

Leverage

|                                  |          |    |
|----------------------------------|----------|----|
| Asset coverage per \$1,000 ..... | \$ 2,647 | \$ |
|                                  | =====    |    |

Dividends Per Share on Preferred Stock Outstanding++

|   |        |    |
|---|--------|----|
| Series M7--Investment income--net ..... | \$ 539 | \$ |
| Series T7--Investment income--net ..... | \$ 537 | \$ |
|   | =====  |    |

- \* 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.
- \*\*\* Do not reflect the effect of dividends to Preferred Stock shareholders.
- + Commencement of operations.
- ++ The Fund's Preferred Stock was issued on August 26, 2003.
- @ Aggregate total investment return.
- @@ Based on average shares outstanding.

See Notes to Financial Statements.

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Financial Highlights Preferred Income Strategies Fund, Inc.

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The following per share data and ratios have been derived from information provided in the financial statements.

For the Six Months Ended  
April 30,  
2006

Per Share Operating Performance

|  |          |    |
|--|----------|----|
| Net asset value, beginning of period .....   | \$ 22.26 | \$ |
| Investment income--net .....   | .95@     |    |
| Realized and unrealized gain (loss)--net .....                                       | (.39)    |    |
| Dividends and distributions to Preferred Stock shareholders:                         |          |    |
| Investment income--net .....   | (.29)    |    |
| Realized gain--net .....   | --       |    |
| Total from investment operations .....   | .27      |    |
| Less dividends and distributions to Common Stock shareholders:                       |          |    |
| Investment income--net .....   | (.86)    |    |
| Realized gain--net .....   | --       |    |
| Total dividends and distributions to Common Stock shareholders .....                 | (.86)    |    |
| Offering costs resulting from the issuance of Common Stock .....                     | --       |    |
| Offering and underwriting costs resulting from the issuance of Preferred Stock ..... | --       |    |
| Net asset value, end of period .....   | \$ 21.67 | \$ |
| Market price per share, end of period .....  | \$ 19.02 | \$ |

Total Investment Return\*\*

|  |          |
|--|----------|
| Based on net asset value per share ..... | 1.57%@   |
| Based on market price per share .....    | (6.39%)@ |

Ratios Based on Average Net Assets of Common Stock

|  |        |
|--|--------|
| Total expenses, net of waiver*** .....                     | 1.23%* |
| Total expenses*** .....                                    | 1.23%* |
| Total investment income--net*** .....                      | 8.63%* |
| Amount of dividends to Preferred Stock shareholders .....  | 2.74%* |
| Investment income--net, to Common Stock shareholders ..... | 5.89%* |

Ratios Based on Average Net Assets of Preferred Stock

|   |        |
|---|--------|
| Dividends to Preferred Stock shareholders ..... | 4.49%* |
|---|--------|

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Financial Highlights (concluded)

Preferred Income Strategies Fund, Inc.

The following per share data and ratios have been derived from information provided in the financial statements.

|  | For the Six<br>Months Ended<br>April 30,<br>2006 | Fo<br>---<br>2 |
|--|--|----------------|
|--|--|----------------|

Supplemental Data

|   |           |      |
|---|-----------|------|
| Net assets applicable to Common Stock, end of period (in thousands) ..... | \$879,936 | \$90 |
| Preferred Stock outstanding, end of period (in thousands) .....           | \$550,000 | \$55 |
| Portfolio turnover .....  | 4.71%     |      |

Leverage

|                                  |          |    |
|----------------------------------|----------|----|
| Asset coverage per \$1,000 ..... | \$ 2,600 | \$ |
|----------------------------------|----------|----|

Dividends Per Share on Preferred Stock Outstanding++

|   |        |    |
|---|--------|----|
| Series M7--Investment income--net .....   | \$ 540 | \$ |
| Series T7--Investment income--net .....   | \$ 535 | \$ |
| Series W7--Investment income--net .....   | \$ 548 | \$ |
| Series TH7--Investment income--net .....  | \$ 544 | \$ |
| Series F7--Investment income--net .....   | \$ 541 | \$ |
| Series W28--Investment income--net .....  | \$ 563 | \$ |
| Series TH28--Investment income--net ..... | \$ 599 | \$ |

\* 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.

\*\*\* Do not reflect the effect of dividends to Preferred Stock shareholders.

+ Commencement of operations.

++ The Fund's Preferred Stock was issued on May 16, 2003.

@ Aggregate total investment return.

@@ Based on average shares outstanding.

See Notes to Financial Statements.

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### Notes to Financial Statements

#### 1. Significant Accounting Policies:

Preferred and Corporate Income Strategies Fund, Inc. and Preferred Income Strategies Fund, Inc. (the "Funds" or individually as the "Fund") are registered under the Investment Company Act of 1940, as amended, as diversified, closed-end management investment companies. The Funds' 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 Funds' Common Stock shares are listed on the New York Stock Exchange ("NYSE") under the symbol PSW for Preferred and Corporate Income Strategies Fund, Inc. and PSY for Preferred Income Strategies Fund, Inc. The following is a summary of significant accounting policies followed by the Funds.

(a) Valuation of investments -- Debt securities are traded primarily in the over-the-counter ("OTC") markets and are valued at the last available bid price in the OTC market or on the basis of values obtained by a pricing service. Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Funds under the general direction of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Funds. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sales price in the case of exchange-traded options. In the case of options traded in the OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued based upon quoted fair valuations received daily by each Fund from a pricing service or counterparty. Short-term investments with a remaining maturity of 60 days or less are valued at amortized cost, which approximates market value, under which method the investment is valued at cost and any premium or discount is amortized on a straight line basis to maturity. Valuation of other short-term investment vehicles is generally based on the net asset value of the underlying investment vehicle or amortized cost. Repurchase agreements are valued at cost plus accrued interest. Investments in open-end investment companies are valued at their net asset value each business day. Securities and other 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 Funds.

Equity securities that are held by the Funds, which are traded on stock exchanges or the Nasdaq National Market, are valued at the last sale price or official close price on the exchange, 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 equity 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 Funds. Long positions traded in the OTC market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price obtained from one or more dealers or pricing services approved by the Board of Directors of the Funds. Short positions 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.

Generally, trading in foreign securities is substantially completed each day at various times prior to the close of business on the NYSE. The values of such

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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 the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation in each 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 Fund's Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Fund's Board of Directors.

(b) Derivative financial instruments -- Each Fund may engage in various portfolio investment strategies both to increase the return of each 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.

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### Notes to Financial Statements (continued)

- o Options -- Each Fund may write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

- o Financial futures contracts -- Each 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 Swaps -- Each 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 predetermined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security. These periodic payments received or made by the Fund are

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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.

(c) Income taxes -- It is each 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 federal income tax provision is required.

(d) 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 Funds amortize all premiums and discounts on debt securities.

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

(f) Securities lending -- Each 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.

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Notes to Financial Statements (continued)

### 2. Investment Advisory Agreement and Transactions with Affiliates:

Each 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 each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, each Fund pays a monthly fee

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at an annual rate of .60% of the Fund's average daily (for Preferred and Corporate Income Strategies Fund, Inc.) and weekly (for Preferred Income Strategies Fund, Inc.) net assets (including proceeds from the issuance of Preferred Stock) plus the proceeds of any outstanding borrowings used for leverage.

The Funds have received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), 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 Merrill Lynch Investment Managers, L.P. ("MLIM"), an affiliate of FAM.

For the six months ended April 30, 2006, each Fund reimbursed FAM for certain accounting services. The reimbursements were as follows:

|   | Reimbursement |
|---|---------------|
| Preferred and Corporate Income Strategies Fund, Inc. .... | \$ 3,801      |
| Preferred Income Strategies Fund, Inc. ....               | \$15,761      |

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

In February 2006, ML & Co. and BlackRock, Inc. entered into an agreement to contribute ML & Co.'s investment management business, including FAM, to the investment management business of BlackRock, Inc. The transaction is expected to close in the third quarter of 2006.

### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended April 30, 2006 were as follows:

|                       | Preferred and<br>Corporate Income<br>Strategies<br>Fund, Inc. | Preferred<br>Income<br>Strategies<br>Fund, Inc. |
|-----------------------|---|---|
| Total Purchases ..... | \$14,653,235  | \$67,314,115                                    |
| Total Sales .....     | \$20,588,477  | \$94,905,969                                    |

### 4. Stock Transactions:

Each Fund is authorized to issue 200,000,000 shares of stock, including Preferred Stock, par value \$.10 per share, all of which were initially classified as Common Stock. The Board of Directors is authorized, however, to reclassify any unissued shares of stock without approval of holders of Common Stock.

Preferred & Corporate Income Strategies Fund, Inc.

Shares issued and outstanding for the six months ended April 30, 2006 and the year ended October 31, 2005 remained constant.

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Preferred Income Strategies Fund, Inc.

Shares issued and outstanding for the six months ended April 30, 2006 increased by 13,470 as a result of dividend reinvestment. Shares issued and outstanding for the year ended October 31, 2005 remained constant.

### Preferred Stock

Auction Market Preferred Stock are redeemable shares of Preferred Stock of the Funds, with a par value of \$.10 per share and liquidation preference of \$25,000 per share, plus accrued and unpaid dividends, that entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods. The yields in effect at April 30, 2006 were as follows:

|                   | Preferred and<br>Corporate Income<br>Strategies<br>Fund, Inc. | Preferred<br>Income<br>Strategies<br>Fund, Inc. |
|-------------------|---|---|
| Series M7 .....   | 4.60%   | 4.65%   |
| Series T7 .....   | 4.72%   | 4.70%   |
| Series W7 .....   | --  | 4.65%   |
| Series TH7 .....  | --  | 4.75%   |
| Series F7 .....   | --  | 4.65%   |
| Series W28 .....  | --  | 4.79%   |
| Series TH28 ..... | --  | 4.85%   |

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### Notes to Financial Statements (concluded)

Each Fund pays commissions to certain broker-dealers at the end of each auction at an annual rate ranging from .25% to .375%, calculated on the proceeds of each auction. For the six months ended April 30, 2006, MLPF&S earned commissions as follows:

|   | Commissions |
|---|-------------|
| Preferred and Corporate Income Strategies Fund, Inc. .... | \$136,378   |
| Preferred Income Strategies Fund, Inc. ....               | \$256,231   |

### 5. Capital Loss Carryforward:

Preferred & Corporate Income Strategies Fund, Inc.

At October 31, 2005, the Fund had a net capital loss carryforward of \$16,578,662, of which \$1,276,621 expires in 2011, \$10,243,141 expires in 2012, and \$5,058,900 expires in 2013. These amounts will be available to offset like amounts of any future taxable gains.

Preferred Income Strategies Fund, Inc.

At October 31, 2005, the Fund had a net capital loss carryforward of \$80,644,979, of which \$62,733,648 expires in 2012 and \$17,911,331 expires in 2013. These amounts will be available to offset like amounts of any future

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taxable gains.

6. Subsequent Event:

Each Fund paid an ordinary income dividend to holders of Common Stock on May 31, 2006 to shareholders of record on May 15, 2006. The amount of the ordinary income dividend per share was as follows:

|   | Per Share<br>Amount |
|---|---------------------|
| Preferred and Corporate Income Strategies Fund, Inc. .... | \$.133333           |
| Preferred Income Strategies Fund, Inc. ....               | \$.127083           |

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Officers and Directors

Robert C. Doll, Jr., President and Director  
 David O. Beim, Director  
 James T. Flynn, Director  
 W. Carl Kester, Director  
 Karen P. Robards, Director  
 Donald C. Burke, Vice President and Treasurer  
 John Burger, Vice President  
 Thomas Musmanno, Vice President  
 Jeffrey Hiller, Chief Compliance Officer  
 Alice A. Pellegrino, Secretary

Custodian

State Street Bank and Trust Company  
 P.O. Box 351  
 Boston, MA 02101

Transfer Agent

Common Stock:  
 Computershare Trust Company, N.A.  
 P.O. Box 43010  
 Providence, RI 02940-3010  
 1-800-426-5523

Preferred Stock:  
 The Bank of New York  
 101 Barclay Street -- 7 West  
 New York, NY 10286

Investment Objectives

NYSE Symbol PSW Preferred and Corporate Income Strategies Fund, Inc. seeks to provide shareholders with high current income. The secondary objective of the Fund is to seek to provide shareholders with capital appreciation. The Fund seeks to achieve its objectives by investing primarily in a portfolio of preferred securities and debt securities, including convertible securities that may be converted into common stock or other securities of the same or a different issuer.

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NYSE Symbol Preferred Income Strategies Fund, Inc. seeks to provide  
PSY shareholders with high current income. The secondary objective  
of the Fund is to seek to provide shareholders with capital  
appreciation. The Fund seeks to achieve its objectives by  
investing primarily in a portfolio of preferred securities,  
including convertible preferred securities that may be  
converted into common stock or other securities of the same or  
a different issuer.

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### Availability of Quarterly Schedules of Investments

The Funds file their complete schedules 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 Funds' Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Funds' 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 Funds offer electronic delivery of communications to their 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.

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[LOGO] Merrill Lynch Investment Managers

[www.mlim.ml.com](http://www.mlim.ml.com)

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### Mercury Advisors

A Division of Merrill Lynch Investment Managers

[www.mercury.ml.com](http://www.mercury.ml.com)

These reports, including the financial information herein, are transmitted to shareholders of Preferred and Corporate Income Strategies Fund, Inc. and Preferred Income Strategies Fund, Inc. for their information. This is not a prospectus. The Funds leverage their Common Stock to provide Common Stock shareholders with potentially higher rates 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. Past performance results shown in these reports should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

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

Preferred and Corporate Income Strategies Fund, Inc.  
Preferred Income Strategies Fund, Inc.  
Box 9011  
Princeton, NJ 08543-9011

#PCPIS -- 4/06

- 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 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.

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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.

Preferred Income Strategies Fund, Inc.

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

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

Date: June 22, 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 of  
Preferred Income Strategies Fund, Inc.

Date: June 22, 2006

By: /s/ Donald C. Burke

-----  
Donald C. Burke,  
Chief Financial Officer of  
Preferred Income Strategies Fund, Inc.

Date: June 22, 2006