SENESCO TECHNOLOGIES INC
Form 10-Q
February 14, 2007

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

| | |
|---|---|
| **x** | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the quarterly period ended December 31, 2006** |
| | **OR** |
| **o** | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the transition period from to** |

**Commission File No. 001-31326**

# SENESCO TECHNOLOGIES, INC.

(exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **84-1368850** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**303 George Street, Suite 420**
**New Brunswick, New Jersey 08901**
(Address of principal executive offices)

**(732) 296-8400**

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: x No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

| | | |
|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

| | |
|---|---|
| Yes: o | No: x |

As of January 31, 2007, 17,473,694 shares of the issuer s common stock, par value $0.01 per share, were outstanding.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

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## PART I. FINANCIAL INFORMATION.

### Item 1. Financial Statements.

Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. However, Senesco Technologies, Inc., a Delaware corporation, and its wholly owned subsidiary, Senesco, Inc., a New Jersey corporation (collectively, Senesco or the Company ), believe that the disclosures are adequate to assure that the information presented is not misleading in any material respect.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 31, 2006 (unaudited) | June 30, 2006 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 379,588 | $ 318,473 |
| Short-term investments | 1,600,000 | 850,000 |
| Accounts receivable | 75,000 | |
| Prepaid expenses and other current assets | 64,819 | 139,584 |
| Total Current Assets | 2,119,407 | 1,308,057 |
| | | |
| Property and equipment, net | 9,352 | 10,318 |
| Intangibles, net | 2,478,586 | 2,209,796 |
| Security deposit | 7,187 | 7,187 |
| TOTAL ASSETS | $ 4,614,532 | $ 3,535,358 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 130,577 | $ 77,695 |
| Accrued expenses | 241,281 | 329,884 |
| Deferred revenue | 29,167 | 41,667 |
| Total Current Liabilities | 401,025 | 449,246 |
| | | |
| Grant payable | 99,728 | 99,728 |
| Other liability | 31,807 | 34,418 |
| TOTAL LIABILITIES | 532,560 | 583,392 |
| | | |
| STOCKHOLDERS EQUITY: | | |
| | | |
| Preferred stock, $0.01 par value; authorized 5,000,000 shares, no shares issued | | |
| Common stock, $0.01 par value; authorized 60,000,000 shares, issued and outstanding 17,473,694 and 15,477,388 | 174,737 | 154,774 |
| Capital in excess of par | 28,013,180 | 25,167,035 |
| Deficit accumulated during the development stage | (24,105,945) | (22,369,843) |
| TOTAL STOCKHOLDERS EQUITY | 4,081,972 | 2,951,966 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | $ 4,614,532 | $ 3,535,358 |

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

| | For the Three Months Ended December 31, 2006 | For the Three Months Ended December 31, 2005 | For the Six Months Ended December 31, 2006 | For the Six Months Ended December 31, 2005 | From Inception on July 1, 1998 through December 31, 2006 |
|---|---|---|---|---|---|
| Revenue | $ 181,250 | $ 12,500 | $ 262,500 | $ 25,000 | $ 680,833 |
| | | | | | |
| Operating Expenses: | | | | | |
| General and administrative | 1,103,594 | 548,742 | 1,486,879 | 1,071,191 | 18,508,393 |
| Research and development | 239,395 | 405,439 | 548,743 | 824,980 | 7,533,591 |
| Total Operating Expenses | 1,342,989 | 954,181 | 2,035,622 | 1,896,171 | 26,041,984 |
| | | | | | |
| Loss From Operations | (1,161,739) | (941,681) | (1,773,122) | (1,871,171) | (25,361,151) |
| | | | | | |
| Sale of state income tax loss, net | | | | | 586,442 |
| Other noncash income | | | | | 321,259 |
| Interest income, net | 26,102 | 27,672 | 37,020 | 60,040 | 347,505 |
| Net Loss | $ (1,135,637) | $ (914,009) | $ (1,736,102) | $ (1,811,131) | $ (24,105,945) |
| | | | | | |
| Basic and Diluted Net Loss Per Common Share | $ (0.07) | $ (0.06) | $ (0.11) | $ (0.12) | |
| | | | | | |
| Basic and Diluted Weighted Average Number of Common Shares Outstanding | 17,257,791 | 15,467,388 | 16,369,220 | 15,467,388 | |

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FROM INCEPTION ON JULY 1, 1998 THROUGH DECEMBER 31, 2006

(unaudited)

| | Common Stock Shares | Amount | Capital in Excess of Par Value | Deficit Accumulated During the Development Stage | Total |
|---|---|---|---|---|---|
| Common stock outstanding | 2,000,462 | $ 20,005 | $ (20,005) | | |
| Contribution of capital | | | 85,179 | | $ 85,179 |
| Issuance of common stock in reverse merger on January 22, 1999 at $0.01 per share | 3,400,000 | 34,000 | (34,000) | | |
| Issuance of common stock for cash on May 21, 1999 at $2.63437 per share | 759,194 | 7,592 | 1,988,390 | | 1,995,982 |
| Issuance of common stock for placement fees on May 21, 1999 at $0.01 per share | 53,144 | 531 | (531) | | |
| Issuance of common stock for cash on January 26, 2000 at $2.867647 per share | 17,436 | 174 | 49,826 | | 50,000 |
| Issuance of common stock for cash on January 31, 2000 at $2.87875 per share | 34,737 | 347 | 99,653 | | 100,000 |
| Issuance of common stock for cash on February 4, 2000 at $2.934582 per share | 85,191 | 852 | 249,148 | | 250,000 |
| Issuance of common stock for cash on March 15, 2000 at $2.527875 per share | 51,428 | 514 | 129,486 | | 130,000 |
| Issuance of common stock for cash on June 22, 2000 at $1.50 per share | 1,471,700 | 14,718 | 2,192,833 | | 2,207,551 |

(continued)

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FROM INCEPTION ON JULY 1, 1998 THROUGH DECEMBER 31, 2006

(unaudited)

| | **Common Stock Shares** | **Amount** | **Capital in Excess of Par Value** | **Deficit Accumulated During the Development Stage** | **Total** |
|---|---|---|---|---|---|
| Commissions, legal and bank fees associated with issuances for the year ended June 30, 2000 | | | $ (260,595) | | $ (260,595) |
| Stock based compensation for the year ended June 30, 2000 | | | 1,475,927 | | 1,475,927 |
| Stock based compensation for the year ended June 30, 2001 | | | 308,619 | | 308,619 |
| Issuance of common stock and warrants for cash from November 30, 2001 through April 17, 2002 at $1.75 per unit | 3,701,430 | $ 37,014 | 6,440,486 | | 6,477,500 |
| Issuance of common stock and warrants associated with bridge loan conversion on December 3, 2001 | 305,323 | 3,053 | 531,263 | | 534,316 |
| Commissions, legal and bank fees associated with issuances for the year ended June 30, 2002 | | | (846,444) | | (846,444) |
| Stock based compensation for the year ended June 30, 2002 | | | 1,848,726 | | 1,848,726 |
| Stock based compensation for the year ended June 30, 2003 | | | 848,842 | | 848,842 |

(continued)

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FROM INCEPTION ON JULY 1, 1998 THROUGH DECEMBER 31, 2006

(unaudited)

| | **Common Stock Shares** | **Amount** | **Capital in Excess of Par Value** | **Deficit Accumulated During the Development Stage** | **Total** |
|---|---|---|---|---|---|
| Issuance of common stock and warrants for cash from January 15, 2004 through February 12, 2004 at $2.37 per unit | 1,536,922 | $ 15,369 | $ 3,627,131 | | $ 3,642,500 |
| Allocation of proceeds to warrants | | | (2,099,090) | | (2,099,090) |
| Reclassification of warrants | | | 1,913,463 | | 1,913,463 |
| Commissions, legal and bank fees associated with issuances for the year ended June 30, 2004 | | | (378,624) | | (378,624) |
| Stock based compensation for the year ended June 30, 2004 | | | 1,826,469 | | 1,826,469 |
| Options and warrants exercised during the year ended June 30, 2004 at exercise prices ranging from $1.00 - $3.25 | 370,283 | 3,704 | 692,945 | | 696,649 |
| Issuance of common stock and warrants for cash on May 9, 2005 at $2.11 per unit | 1,595,651 | 15,957 | 3,350,872 | | 3,366,829 |
| Allocation of proceeds to warrants | | | (1,715,347) | | (1,715,347) |
| Reclassification of warrants | | | 1,579,715 | | 1,579,715 |
| Commissions, legal and bank fees associated with issuance on May 9, 2005 | | | (428,863) | | (428,863) |

(continued)

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FROM INCEPTION ON JULY 1, 1998 THROUGH DECEMBER 31, 2006

(unaudited)

| | Common Stock Shares | Amount | Capital in Excess of Par Value | Deficit Accumulated During the Development Stage | Total |
|---|---|---|---|---|---|
| Options and warrants exercised during the year ended June 30, 2005 at exercise prices ranging from $1.50 to $3.25 | 84,487 | $ 844 | $ 60,281 | | $ 61,125 |
| Stock based compensation the year ended June 30, 2005 | | | 974,235 | | 974,235 |
| Fair market value of options and warrants granted and vested during the year ended June 30, 2006. | | | 677,000 | | 677,000 |
| Warrants exercised during the year ended June 30, 2006 at an exercise price of $0.01 | 10,000 | 100 | | | 100 |
| Issuance of common stock and warrants for cash on October 11, 2006 at $1.135 per unit | 1,986,306 | 19,863 | 2,229,628 | | 2,249,491 |
| Commissions, legal and bank fees associated with issuance on October 11,2006 | | | (230,483 ) | | (230,483 ) |
| Stock based compensation for the six months ended December 31, 2006 | | | 847,000 | | 847,000 |
| Warrants exercised during the six months ended December 31, 2006 at an exercise price of $0.01 | 10,000 | 100 | | | 100 |
| Net loss | | | | $ (24,105,945 ) | (24,105,945 ) |
| Balance at December 31, 2006 | 17,473,694 | $ 174,737 | $ 28,013,180 | $ (24,105,945 ) | $ 4,081,972 |

See Notes to Condensed Consolidated Financial Statements.

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SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | For the Six Months Ended December 31, 2006 | 2005 | From Inception on July 1, 1998 through December 31, 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (1,736,102) | $ (1,811,131) | $ (24,105,945) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Noncash capital contribution | | | 85,179 |
| Noncash conversion of accrued expenses into equity | | | 131,250 |
| Noncash income related to change in fair value of warrant liability | | | (321,259) |
| Issuance of common stock and warrants for interest | | | 9,316 |
| Stock based compensation | 847,000 | 484,000 | 8,675,614 |
| Depreciation and amortization | 15,595 | 19,722 | 213,264 |
| (Increase) decrease in operating assets: | | | |
| Accounts receivable | (75,000) | | (75,000) |
| Prepaid expense and other current assets | 74,765 | 81,352 | (64,819) |
| Security deposit | | | (7,187) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | 52,882 | (117,235) | 130,577 |
| Accrued expenses | (88,603) | 216,522 | 241,281 |
| Deferred revenue | (12,500) | (25,000) | 29,167 |
| Other liability | (2,611) | 16,041 | 31,807 |
| Net cash used in operating activities | (924,574) | (1,135,729) | (15,026,755) |
| | | | |
| Cash flows from investing activities: | | | |
| Patent costs | (281,937) | (325,620) | (2,531,792) |
| Redemption (purchase) of investments, net | (750,000) | 1,249,302 | (1,600,000) |
| Purchase of property and equipment | (1,482) | | (169,410) |
| Net cash provided by (used in) investing activities | (1,033,419) | 923,682 | (4,301,202) |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from grant | | | 99,728 |
| Proceeds from issuance of bridge notes | | | 525,000 |
| Proceeds from issuance and exercises of common stock and warrants | 2,019,108 | | 19,082,817 |
| Net cash provided by financing activities | 2,019,108 | | 19,707,545 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 61,115 | (212,047) | 379,588 |
| | | | |
| Cash and cash equivalents at beginning of period | 318,473 | 291,858 | |
| | | | |
| Cash and cash equivalents at end of period | $ 379,588 | $ 79,811 | $ 379,588 |
| | | | |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest | $ | $ | $ 22,317 |
| | | | |
| Supplemental schedule of noncash financing activity: | | | |
| Conversion of bridge notes into stock | $ | $ | $ 534,316 |

See Notes to Condensed Consolidated Financial Statements.

SENESCO TECHNOLOGIES, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

**Note 1 - Basis of Presentation:**

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

In the opinion of the Company s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary to present fairly its financial position as of December 31, 2006, the results of its operations for the three-month and six-month periods ended December 31, 2006 and 2005, cash flows for six-month periods ended December 31, 2006 and 2005, and the results of its operations and cash flows for the period from inception on July 1, 1998 through December 31, 2006.

Interim results are not necessarily indicative of results for the full fiscal year.

**Note 2 - Loss Per Share:**

Net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. As of December 31, 2006, shares to be issued upon the exercise of options and warrants aggregating 9,100,877 at an average exercise price of $2.62 and as of December 31, 2005, shares to be issued upon the exercise of options and warrants aggregating 8,306,591 at an average price of $2.88 are not included in the computation of diluted loss per share as the effect is anti-dilutive.

**Note 3 Share-Based Transactions:**

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based conditions.

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The fair value of each stock option granted has been determined using the Black-Scholes model. The material factors incorporated in the Black-Scholes model in estimating the value of the options reflected in the above table include the following:

| | Three Months Ended December 31, 2006 | 2005 | Six Months Ended December 31, 2006 | 2005 |
|---|---|---|---|---|
| Estimated life in years | 6-10 | 6-10 | 6-10 | 6-10 |
| Risk-free interest rate (1) | 4.2%-4.7% | 4.2%-4.5% | 4.2%-4.7% | 4.2%-4.5% |
| Volatility | 70%-148% | 70%-148% | 70%-148% | 70%-148% |
| Dividend paid | None | None | None | None |

(1) represents the interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option term.

The ultimate values of the options will depend on the future price of the Company s Common Stock, which cannot be forecast with reasonable accuracy.

A summary of changes in the stock option plan for the six month period ended December 31, 2006 is as follows:

| | Number of Options . | Weighted-Average Exercise Price . |
|---|---|---|
| Outstanding at July 1, 2006 | 2,426,500 | $ 2.56 |
| Granted | 328,000 | 1.08 |
| Exercised | | |
| Canceled | (90,000 ) | 3.78 |
| | | |
| Outstanding at December 31, 2006 | 2,664,500 | $ 2.34 |
| | | |
| Exercisable at December 31, 2006 | 2,414,834 | $ 2.45 |

A summary of changes to the non-vested stock options for the six month period ended December 31, 2006 is as follows:

| | Weighted-Average Number of Options . | Grant-Date Fair Value . |
|---|---|---|
| Non-vested stock options at July 1, 2006 | 245,163 | $ 1.47 |
| Granted | 193,667 | .85 |
| Vested | (189,164 ) | 1.63 |
| Forfeited | | |
| | | |
| Non-vested stock options at December 31, 2006 | 249,666 | $ .87 |

As of December 31, 2006, the aggregate intrinsic value of stock options outstanding was $6,560, with a weighted-average remaining term of 6.2 years. The aggregate intrinsic value of stock options exercisable at that same date was $2,687, with a weighted-average remaining term of 5.8 years. As of December 31, 2006, the Company has 3,245,500 shares available for future stock option grants.

As of December 31, 2006, total compensation expense not yet recognized related to stock option grants amounted to approximately $305,000**,** which will be recognized over the next 24 months.

**Note 4** **Revenue Recognition:**

The Company receives certain nonrefundable upfront fees in exchange for the transfer of its technology to licensees. Upon delivery of the technology, the Company has no further obligations to the licensee with respect to the basic technology transferred and, accordingly, recognizes revenue at that time. The Company may, however, receive additional payments from its licensees in the event such licensees achieve certain development or commercialization milestones in their particular field of use. Other nonrefundable upfront fees and milestone payments, where the milestone payments are a function of time as opposed to achievement of specific achievement-based milestones, are deferred and amortized ratably over the estimated research period of the license.

**Note 5** **Stockholders Equity:**

On October 11, 2006, the Company completed a private placement to certain members of the Company s board of directors, institutional and accredited investors (the Private Placement ) for an aggregate amount of 1,986,306shares of common stock, $0.01 par value (the Common Stock ) and warrants to purchase 993,153 shares of Common Stock for the aggregate cash consideration of $2,249,491. The Private Placement offered units of one share of Common Stock and a five-year warrant to purchase 0.50 shares of Common Stock, at a price equal to $1.1325 per unit. The warrants were issued at an exercise price equal to $1.18 per share, with such warrants vesting on the date of grant, but not exercisable for a six-month period from the date of closing. The costs associated with the Private Placement totaled $230,483. In addition, the Company entered into a Registration Rights Agreement with these purchasers. The Registration Rights Agreement requires the Company to file a registration statement for the shares within 30 days of the closing date (the Filing Date ), and to have such registration statement declared effective within 120 days of the closing date (the Effective Date ). If the Company fails to file a registration statement on or before the Filing Date, it is required to pay to each purchaser in the Private Placement 1.0% of the aggregate purchase price for each 30 day period that such registration statement has not been filed. If the registration statement is not declared effective on or before the Effective Date, the Company is required to pay to each purchaser in the Private Placement 2.0% of the aggregate purchase price paid by such purchaser for the first thirty day period following the Effective Date and 1.0% for each thirty day period thereafter, with all payments subject to a maximum of 10.0% of the purchase price. The Company filed such registration statement for the shares and such registration statement was declared effective on November 27, 2006.

H.C. Wainwright and Co., Inc. ( Wainwright ) acted as the placement agent for the Private Placement. As consideration for their services to the Company, Wainwright was issued a five-year warrant to purchase 139,041 shares of Common Stock, at a strike price equal to $1.07. Such warrant is immediately exercisable.

On October 11, 2006, the Company entered into a three-year non-exclusive financial advisory agreement with Stanford Group Company ( Stanford ). As compensation under the agreement, previously issued warrants that were purchased by Stanford and its affiliates in a private placement were amended. The original exercise prices of the 1,500,000 shares of

Common Stock underlying the warrants, 750,000 of which had an exercise price of $3.25 and 750,000 of which had an exercise price of $2.00, were reduced to $2.00 and $1.50, respectively. Additionally, the original expiration dates of December 2006 and January 2007 were each extended for a three-year period through December 2009 and January 2010, respectively. Stock-based compensation in the amount of $683,000 related to the amendment of such warrants was recorded during the period ended December 31, 2006. The agreement may be terminated by either party upon sixty days written notice. Stanford was also granted piggyback registration rights in connection with the shares underlying the warrants.

**Note 6 Significant Events:**

On November 8, 2006, we entered into a license agreement with Bayer CropScience GmbH for the development and commercialization of Canola. Under the terms of the license agreement, we received an upfront payment, will receive milestone payments upon the achievement of certain development milestones, and will receivecommercialization fees based upon specified benchmarks.

On December 21, 2006, we converted our development agreement with ArborGen, LLC into a commercial license agreement for the development and commercialization of certain species of trees. Under the terms of the license agreement, we will receive certain annual payments over the next two years and, additionally, upon commercialization, a royalty on incremental net sales.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included in the Quarterly Report on Form 10-Q. The discussion and analysis may contain forward-looking statements that are based upon current expectations and entail various risks and uncertainties. Our actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of various factors, including those set forth under Factors That May Affect Our Business, Future Operating Results and Financial Condition and elsewhere in this report.

**Overview**

*Our Business*

We are a development stage biotechnology company whose mission is to utilize our patented and patent-pending genes, primarily eucartyotic translation initiation Factor 5A, or Factor 5A, and deoxyhypusine synthase, or DHS, in human health applications, to:

- develop novel approaches to treat inflammatory and / or programmed cell death, referred to as apoptosis, related diseases in humans;
- develop novel approaches to treat cancer, a group of diseases in which apoptosis does not occur normally; and

Factor 5A, DHS and Lipase in agricultural applications to enhance the quality and productivity of fruits, flowers, vegetables and agronomic crops through the control of cell death, referred to as senescence, and growth in plants.

*Human Health Applications*

We believe that our gene technology could have broad applicability in the human health field, by either inhibiting or accelerating apoptosis. Inhibiting apoptosis may be useful in preventing or treating a wide range of inflammatory and ischemic diseases attributed to premature apoptosis. Accelerating apoptosis may be useful in treating certain forms of cancer.

Certain human health results to date include:

- increasing the median survival by approximately 250% in a tumor model of mice injected with melanoma cancer cells;
- inducing apoptosis in both human cancer cell lines derived from tumors and in lung tumors in mice;
- reducing the amounts of p24 and IL-8 by approximately 50 percent in a HIV-1 infected human cell line;
- increasing the survival of mouse pancreatic islet cells isolated for transplantation;
- inducing apoptosis of cancer cells in a human multiple myeloma cell line;
- demonstrating that the efficacy of our technology is comparable to that of existing approved anti-inflammatory prescription drugs in reducing certain inflammatory cytokines in mice;
- measuring VEGF reduction in mouse lung tumors as a result of treatment with our genes;

- increasing the survival rate of mice in a sepsis model. Additionally, a broad spectrum of pro-inflammatory cytokines were down-regulated;

- determining the expression of our genes in both ischemic and non-ischemic heart tissue, and correlating this expression to certain cytokines known to be involved in apoptosis; and

- reducing cytokine induced apoptosis in human optic nerve cell lines and in human epithelial cell lines of the intestine.

Inhibiting Apoptosis

Our research conducted to date reveals that the DHS and Factor 5A genes may regulate apoptosis in human cells. We believe that our Factor 5A technology may have potential application as a means for controlling a broad range of apoptotic diseases, both inflammatory / ischemic diseases and cancers. We have commenced preclinical *in-vivo* and *in-vitro* research to determine the ability of Factor 5A to regulate key execution genes, inflammatory cytokines, receptors, and transcription factors, which are implicated in numerous apoptotic diseases.

We believe that down-regulation of our proprietary Factor 5A gene may have potential application as a means for controlling a broad range of diseases that are attributable to premature apoptosis, ischemia, or inflammation. Apoptotic diseases include glaucoma, heart disease, and certain inflammatory diseases such as Crohn s disease, sepsis and rheumatoid arthritis, among others. We are engaged in preclinical research on a variety of these diseases. Using small inhibitory RNA s, or siRNA s, against the apoptosis isoform of Factor 5A to inhibit its expression, we have reduced pro-inflammatory cytokine formation and formation of receptors for liposolysaccharide, or LPS, interferon-gamma and TNF-alpha. *In-vitro* experiments have shown that siRNA s against Factor 5A protected human lamina cribrosa (optic nerve) and colon epithelial cells from TNF alpha induced apoptosis. We have also determined that inhibiting the apoptosis isoform of Factor 5A down-regulates MAPK, NFkB and JAK1 and decreases the inflammatory cytokines formed through these pathways. Additionally, we have shown in a mouse study that our siRNA is comparable to a steroid and to a prescription anti-TNF drug in its ability to reduce cytokine response to LPS. *In-vivo* mouse studies have shown that the siRNA against Factor 5A (i) protects thymocyte cells from apoptosis and decreases formation of myeloperoxidase, or MPO, TNF, MIP-1alpha, and IL-1 in the lungs of mice challenged with LPS; and (ii) increases the survival rate in which sepsis was induced by a lethal injection of LPS and reduced blood serum levels of inflammatory proteins, such as IL-1, IL-2, IL-6, IL-12, TNFa, IFNg and MIP-1a. The siRNA s against Factor 5A are currently being tested in several preclinical *in-vivo* inflammatory disease models. Other experiments utilizing siRNA to Factor 5A include inhibition of cell death, or apoptosis, during the processing of mouse pancreatic beta islet cells for transplantation, and the inhibition of viral replication in a human cell line infected with HIV-1.

Proteins required for cell death include p53, interleukins and other cytokines, caspases, and TNF-a. Expression of these cell death proteins is required for the execution of apoptosis. We have found that downregulating Factor 5A by treatment with siRNA, inhibits the expression of p53, a major cell death transcription factor that in turn controls the formation of a suite of other cell death proteins. In addition, down-regulation of Factor 5A up-regulates Bcl-2, a major suppressor of apoptosis.

Accelerating Apoptosis

In pre-clinical studies, we have also established that up-regulation of Factor 5A induces cell death in cancer cells through both the p53 (intrinsic) and cell death receptor (extrinsic) apoptotic pathways. Tumors arise when cells that have been targeted by the immune system to undergo apoptosis are unable to do so because of an inability to activate the apoptotic pathways. Just as the Factor 5A gene appears to facilitate expression of the entire suite of genes required for programmed cell death in plants, the Factor 5A gene appears to regulate expression of a suite of genes required for programmed cell death in human cells. Because the Factor 5A gene appears to function at the initiation point of the apoptotic pathways, both intrinsic and extrinsic, we believe that our gene technology has potential application as a means of combating a broad range of cancers. Through in-vitro studies, we have found that up-regulating Factor 5A results in: the up-regulation of p53, an important tumor suppressor gene that promotes apoptosis in cells with damaged DNA; inflammatory cytokine production; increased cell death receptor formation; and caspase activity. These features, coupled with a simultaneous down-regulation Bcl-2, a suppressor of apoptosis, and telomerase, result in apoptosis of cancer cells. In addition, in-vitro studies have shown that up-regulation of Factor 5A also down-regulates VEGF, a growth factor which allows tumors to develop additional vascularization needed for growth beyond a small mass of cells.

*Human Health Research Program*

Our human health research program, which has consisted of pre-clinical in-vitro and in-vivo experiments designed to assess the role and method of action of the Factor 5A genes in human diseases, is performed by third party researchers at our direction.

Our planned future pre-clinical research and development initiatives for human health include:

- Pancreatic Islets isolated for transplantation. Future studies will be focused on methods of improving the transfection efficiency on pancreatic islet cells treated with the siRNA to Factor 5A prior to harvesting for processing. Improving transfection efficiency may further increase the number of islet cells surviving the processing procedure and may allow for a greater yield of islet cells per donor.

- HIV-1. We will continue in-vitro studies utilizing different siRNA delivery systems in order to increase the transfection efficiency of the siRNA to Factor 5A to determine further decreases in HIV replication and may seek animal models to test.

- Lung Cancer. Lung cancer experiments will continue to focus on the reduction of tumor load and longevity of the treated mice. Delivery systems that might target the tumor cell and deliver Factor 5A directly to the cancer cells may by explored. Other lung cancers may also be explored to determine Factor 5A s efficacy in different forms of lung cancer.

- Multiple Myeloma. The next set of multiple myeloma experiments will involve a mouse model system and may include optimizing the delivery of Factor 5A.

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- Inflammatory Bowel Disease. Routes of administration of the siRNA to Factor 5A will be explored to optimize cell protection against pro-inflammatory cytokines.

- Lung Inflammation. Optimization of the delivery and dose of the siRNA to Factor 5A to the lungs is the direction of our planned future experiments. Mouse model systems may be used to illustrate the siRNA to Factor 5A s ability to reduce morbidity and mortality in lung inflammation, caused by the up-regulation of pro-inflammatory cytokines induced by pathogens and other stresses to the lungs.

- Other. We will continue to look at other disease states in order to determine the role of Factor 5A.

In order to pursue the above research initiatives, as well as other research initiatives that may arise, including toxicity studies and clinical trials, it will be necessary for us to raise a significant amount of working capital. If we are unable to raise the necessary funds, we may be required to significantly curtail the above research initiative and we will be unable to pursue other possible research initiatives.

*Agricultural Applications*

Our research focuses on the discovery and development of certain gene technologies, which are designed to confer positive traits on fruits, flowers, vegetables, forestry species and agronomic crops. Factor 5A, DHS and lipase are already present in all plant cells. Our technology may be incorporated into crops by using either conventional breeding methods (non-genetically modified) or biotechnology gene suppression techniques.

Certain agricultural results to date include:

- longer shelf life of perishable produce;

- increased biomass and seed yield;

- greater tolerance to environmental stresses, such as drought and soil salinity;

- greater tolerance to certain fungal and bacterial pathogens;

- more efficient use of fertilizer; and

- advancement to field trials in banana, lettuce, trees, and bedding plants.

Together with our commercial partners, we are currently working with lettuce, turfgrass, tomato, canola, *Arabidopsis* (a model plant that is similar to canola), banana, alfalfa, and certain species of trees and bedding plants, and we have obtained proof of concept for enhanced shelf life, seed yield, biomass, and resistance to disease in several of these plants. We have ongoing field trials of certain trees, lettuce and bananas with our respective partners. The first round of lettuce field trials showed that our technology reduced browning in cut lettuce. The first and second round of banana field trials have shown that our technology extends the shelf life of banana fruit by 100%. In addition to the shelf life benefits, field trials conducted during the winter of 2004-2005 generated encouraging disease tolerance data, specific to Black Sigatoka (Black Leaf Streak Disease), for banana plants. Additional field trials for banana plants are planned for Black Sigatoka. Commercialization by our partners may require a combination of traits in a crop, such as both shelf life and disease resistance, or other traits. Our near-term research and development initiatives include modulating the expression of DHS and Factor 5A genes in these plants and propagation and phenotype testing of such plants.

Our ongoing research and development initiatives for agriculture include:

- further developing and implementing the DHS and Factor 5A gene technology in lettuce, banana, oil seed crops, turfgrass, bedding plants, tomato, alfalfa, corn, soybean and trees; and

- testing the resultant crops for new beneficial traits such as increased yield, increased tolerance to environmental stress, disease resistance and more efficient use of fertilizer.

*Commercialization Strategy*

In order to address the complexities associated with marketing and distribution in the worldwide market, we have adopted a multi-faceted commercialization strategy, in which we have entered into and plan to enter into additional licensing agreements or other strategic relationships with a variety of companies or other entities on a crop-by-crop basis. We anticipate revenues from these relationships in the form of licensing fees and royalties from our partners, usage fees in the case of the agreement with the Broin Company, or sharing gross profits in the case of the joint venture with Rahan Meristem. In addition, we anticipate payments from our partners upon our achievement of certain research and development benchmarks. This commercialization strategy allows us to generate revenue at various stages of product development, while ensuring that our technology is incorporated into a wide variety of crops. Our optimal partners combine the technological expertise to incorporate our technology into their product line along with the ability to successfully market the enhanced final product, thereby eliminating the need for us to develop and maintain a sales force.

On November 8, 2006, we entered into a license agreement with Bayer CropScience GmbH for the development and commercialization of Canola. Under the terms of the license agreement, we received an upfront payment, will receive milestone payments upon the achievement of certain development milestones, and will receive commercialization fees based upon specified benchmarks.

On December 21, 2006, we converted our development agreement with ArborGen, LLC into a commercial license agreement for the development and commercialization of certain species of trees. Under the terms of the license agreement, we will receive certain annual payments over the next two years and, additionally, upon commercialization, a royalty on incremental net sales.

Through December 31, 2006, we have entered into six license agreements and one joint venture with established agricultural biotechnology companies or, in the case of Broin, an established ethanol company.

Because the agricultural market is dominated by privately held companies or subsidiaries of foreign owned companies, market size and market share data for the crops under our license and development agreements is not readily available. Additionally, because we have entered into confidentiality agreements with our license and development partners, we are unable to report the specific financial terms of the agreements as well as any market size and market share data that our partners may have disclosed to us regarding their companies.

Generally, projects with our license and joint venture partners begin by our partners transforming seed or germplasm to incorporate our technology. Those seeds or germplasm are then grown in our partners greenhouse. After successful greenhouse trials, our partners will transfer the plants to the field for field trials. After completion of successful field trials, our partners may have to apply for and receive regulatory approval prior to initiation of any commercialization activities.

Generally, the approximate time to complete each development step is as follows:

| | |
|---|---|
| Seed Transformation | approximately 1 to 2 years |
| Greenhouse | approximately 1 to 2 years |
| Field Trials | approximately 2 to 5 years |

The actual amount of time spent on each development phase depends on the crop, its growth cycle and the success of the transformation achieving the desired results. As such, the amount of time for each phase of development could vary, or the time frames may change.

The development of our technology with The Broin Company is different than our other licenses in that we are modifying certain production inputs for ethanol. That process involves modifying the inputs, testing such inputs in Broin s production process and if successful, implementing such inputs in Broin s production process on a plant by plant basis.

The status of each of our projects with our partners is as follows:

| Project | **Partner** | **Status** |
|---|---|---|
| Banana | Rahan Meristem | |
| Shelf Life | | Field Trials |
| Disease | | Field Trials |
| Lettuce | Harris Moran | |
| Browning | | Field Trials |
| Disease | | Field Trials |
| Trees | ArborGen | |
| Growth | | Field Trials |
| Alfalfa | Cal / West | Greenhouse |
| Turfgrass | The Scotts Company | Greenhouse |
| Bedding Plants | The Scotts Company | Greenhouse |
| Canola | Bayer CropScience | Just Initiated |
| Ethanol | The Broin Company | Modify Inputs |

Commercialization by our partners may require a combination of traits in a crop, such as both shelf life and disease resistance, or other traits.

Based upon our commercialization strategy, we anticipate that there may be a significant period of time before plants enhanced using our technology reach consumers. Thus, we have not begun to actively market our technology directly to consumers, but rather, we have sought to establish ourselves within the industry through presentations at industry conferences, our website and direct communication with prospective licensees.

We plan to employ the same partnering strategy in both the human health and agricultural target markets. Our preclinical research has yielded data that we have presented to various biopharmaceutical companies that may be prospective licensees for the development and marketing of potential applications of our technology. Consistent with our commercialization strategy, we intend to attract other companies interested in strategic partnerships or licensing our technology, which may result in additional license fees, revenues from contract research and other related revenues. Additionally, we may select some human health indications to bring into clinical trials on our own. Successful future operations will depend on our ability to transform our research and development activities into commercially feasible technology.

*Patent and Patent Applications*

To date, we have been granted twelve patents by the United States Patent and Trademark Office, or PTO, and nine patents from foreign countries, twenty of which are for use of our technology in agricultural applications and one of which relates to human health applications.

In addition to our twenty-one patents, we have a wide variety of patent applications, including divisional applications and continuations-in-part, in process with the PTO and internationally. We intend to continue our strategy of enhancing these new patent applications through the addition of data as it is collected.

**Liquidity and Capital Resources**

*Overview*

As of December 31, 2006, our cash balance and investments totaled $1,979,588**,** and we had working capital of $1,718,382. As of December 31, 2006, we had a federal tax loss carryforward of approximately $15,217,000 and a state tax loss carry-forward of approximately $7,747,000 to offset future taxable income. We cannot assure you that we will be able to take advantage of any or all of such tax loss carryforwards, if at all, in future fiscal years.

*Contractual Obligations*

The following table lists our cash contractual obligations as of December 31, 2006:

| | **Payments Due by Period** | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1 - 3 years** | **4 - 5 years** | **More than 5 years** |
| Research and Development Agreements (1) | $ 356,000 | $ 356,000 | $ | $ | $ |
| Facility, Rent and Operating Leases (2) | $ 347,472 | $ 77,140 | $ 157,016 | $ 113,316 | $ |
| Employment, Consulting and Scientific Advisory Board Agreements (3) | $ 477,646 | $ 472,580 | $ 5,067 | $ | $ |
| Total Contractual Cash Obligations | $ 1,181,118 | $ 905,720 | $ 162,083 | $ 113,316 | $ |

(1) Certain of our research and development agreements disclosed herein provide that payment is to be made in Canadian dollars and, therefore, the contractual obligations are subject to fluctuations in the exchange rate.

(2) The lease for our office space in New Brunswick, New Jersey is subject to certain escalations for our proportionate share of increases in the building s operating costs.

(3) Certain of our employment and consulting agreements provide for automatic renewal, which is not reflected in the table, unless terminated earlier by the parties to the respective agreements.

We expect our capital requirements to increase significantly over the next several years as we commence new research and development efforts, increase our business and administrative infrastructure and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to, the levels and costs of our research and development initiatives and the cost and timing of the expansion of our business development and administrative staff.

Effective September 1, 2006, we extended our research and development agreement with the University of Waterloo for an additional one-year period through August 31, 2007, in the amount of CDN $631,050 or approximately U.S. $566,000. Research and development expenses under this agreement for the three months ended December 31, 2006 aggregated U.S. $129,439 and research and development expenses for the three months ended December 31, 2005 aggregated U.S. $162,000. Research and development expenses under this agreement for the six months ended December 31, 2006 aggregated U.S. $295,939 and research and development expenses under this agreement for the six months ended December 31, 2005 aggregated U.S. $324,896 and U.S. $3,623,774 for the cumulative period through December 31, 2006.

*Capital Resources*

Since inception, we have generated revenues of $680,833 in connection with the initial fees and milestone payments received under our license and development agreements. We have not been profitable since inception, we will continue to incur additional operating losses in the future, and we will require additional financing to continue the development and subsequent commercialization of our technology. While we do not expect to generate significant revenues from the licensing of our technology for the next one to three years, we may enter into additional licensing or other agreements with marketing and distribution partners that may result in additional license fees, receive revenues from contract research, or other related revenue.

On October 11, 2006, we completed a private placement to certain members of our board of directors, institutional and accredited investors for an aggregate amount of 1,986,306 shares of common stock and warrants to purchase 993,153 shares of Common Stock for the aggregate net cash consideration of $2,019,008. The private placement offered units of one share of common stock and a five-year warrant to purchase 0.50 shares of common stock at a price equal to $1.1325 per unit. The warrant was offered with an exercise price equal to $1.18 per share, with such warrant becoming exercisable six months from the date of closing. The costs associated with the private placement totaled $230,483**.**

On November 8, 2006, we entered into a license agreement with Bayer CropScience GmbH for the development and commercialization of Canola. Under the terms of the license agreement, we received an upfront payment, will receive milestone payments upon the achievement of certain development milestones, and will receive commercialization fees based upon specified benchmarks.

On December 21, 2006, we converted our development agreement with ArborGen, LLC into a commercial license agreement for the development and commercialization of certain species of trees. Under the terms of the license agreement, we will receive certain annual payments over the next two years and, additionally, upon commercialization, a royalty on incremental net sales.

We anticipate that, based upon our current cash and investments, we will be able to fund our operations for the next seven months. Over the next twelve months, we plan to fund our research and development and commercialization activities by (i) utilizing our current cash balance and investments, (ii) achieving some of the milestones set forth in our current licensing agreements, (iii) through the execution of additional licensing agreements for our technology, and (iv) through a sale of our securities. We cannot assure that we will be able to raise money through any of the foregoing transactions, or on favorable terms, if at all.

**Changes to Critical Accounting Policies and Estimates**

Our critical accounting policies and estimates are set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006. There have been no changes to such critical accounting policies and estimates.

**Results of Operations**

Three Months Ended December 31, 2006 and Three Months Ended December 31, 2005

The net loss for the three-month periods ended December 31, 2006 was $1,135,637 and the net loss for the three-month period ended December 31, 2005 was $914,009, an increase of $221,628, or 24.2%. This increase was primarily the result of an increase in general and administrative expenses, which was partially offset by a decrease in research and development expenses and an increase in revenue.

*Revenue*

Total revenues consisted of initial payments and the amortized portion of previous milestone payments on our agricultural development and license agreements. During the three-month period ended December 31, 2006, revenue of $181,250 consisted of initial payments and the amortized portion of previous milestone payments received in connection with certain development and license agreements. During the three-month period ended December 31, 2005, revenue of $12,500 consisted of the amortized portion of previous milestone payments received in connection with a certain development and license agreement..

We anticipate that we will continue to receive milestone payments in connection with our current agricultural development and license agreements while we continue to pursue our goal of attracting other companies to license our technologies in various other crops. Additionally, we anticipate that we will receive royalty payments from our license agreements if our partners commercialize their crops containing our technology. However, it is difficult for us to determine our future revenue expectations because we are a development stage biotechnology company. As such, the timing and outcome of our experiments, the timing of signing new partners and the timing of our partners moving through the development process into commercialization is difficult to accurately predict.

*Operating Expenses*

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2006 | 2005 | Change | % |
| | (in thousands, except % values) | | | |
| General and administrative | $ 1,104 | $ 549 | $ 555 | 101.1 % |
| Research and development | 239 | 405 | (166 ) | (41.0 )% |
| Total operating expenses | $ 1,343 | $ 954 | $ 389 | 40.8 % |

We expect operating expenses to increase over the next twelve months as we anticipate that research and development expenses will increase as we continue to expand our research and development activities.

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*General and Administrative Expenses*

| | Three Months Ended December 31, 2006 | 2005 | Change | % |
|---|---|---|---|---|
| | (in thousands, except % values) | | | |
| Stock-based compensation | $ 744 | $ 146 | $ 598 | 409.6 % |
| Payroll and benefits | 150 | 146 | 4 | 2.7 % |
| Investor relations | 110 | 130 | (20) | (15.4)% |
| Professional fees | 40 | 59 | (19) | (32.2)% |
| Other general and administrative | 60 | 68 | (8) | (11.8)% |
| Total general and administrative | $ 1,104 | $ 549 | $ 555 | 101.1 % |

- Stock-based compensation consists primarily of the Black-Scholes value of warrants extended and repriced in connection with a financial advisory agreement entered into on October 11, 2006 and the amortized portion of Black-Scholes value of options and warrants granted to directors, employees and consultants. During the three-month periods ended December 31, 2006 and 2005 there were 240,000 and 235,000 options granted to such directors, employees and consultants and 2,500 and 5,000 warrants granted to a consultant.

- Payroll and benefits increased primarily as a result of salary and health insurance rate increases.

- Investor relations decreased primarily as a result of a decrease in the amount of consulting fees in connection with a consultant.

- Professional fees decreased primarily as a result of a decrease in legal fees which was partially offset by an increase in accounting fees.

We expect general and administrative expenses to modestly increase over the next twelve months primarily due to an increase in legal and accounting fees related to the increased regulatory environment.

*Research and Development Expenses*

| | Three Months Ended December 31, 2006 | 2005 | Change | % |
|---|---|---|---|---|
| | (in thousands, except % values) | | | |
| Stock-based compensation | $ 16 | $ 98 | $ (82) | (83.7)% |
| Other research and development | 223 | 307 | (84) | (27.4)% |
| Total research and development | $ 239 | $ 405 | $ (166) | (41.0)% |

- Stock-based compensation consists primarily of the amortized portion of Black-Scholes value of options and warrants granted to research and development consultants and employees. During the three-month periods ended December 31, 2006 and 2005 there were 88,000 and 83,000 options granted to such consultants and employees. The decrease is due to a decrease in the Black-Scholes value related to the options granted on December 14, 2006 and December 14, 2005, which, due to market conditions, were at a lower market price than the options granted on December 16, 2004.

- Other research and development costs decreased primarily as a result of a decrease in the costs related to our human health and agricultural research programs.

The breakdown of our research and development expenses between our agricultural and human health research programs is as follows:

| | **Three Months Ended December 31,** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | | **%** | | **2005** | | **%** | |
| | **(in thousands, except % values)** | | | | | | | |
| Agricultural | $ | 158 | 66 | % | $ | 217 | 54 | % |
| Human health | 81 | | 34 | % | 188 | | 46 | % |
| Total research and development | $ | 239 | 100 | % | $ | 405 | 100 | % |

Our agricultural research expenses decreased during the three-month period ended December 31, 2006 primarily as a result of a decrease in the budget with respect to our research agreement at the University of Waterloo and a decrease in stock-based compensation.

Our human health expenses decreased during the three-month period ended December 31, 2006 as we have (i) concluded certain phases of our research projects but have not yet begun the next phase of those projects; and (ii) as a result of a decrease in stock-based compensation. We expect the percentage of human health research programs to increase as a percentage of the total research and development expenses as we continue our current research projects and begin new human health initiatives.

*Interest Income*

Interest income slightly decreased during the three-month period ended December 31, 2006 primarily as a result of a lower cash balance and short-term investments, which was mostly offset by higher interest rates.

Six Months Ended December 31, 2006 and Six Months Ended December 31, 2005

The net loss for the six-month period ended December 31, 2006 was $1,736,102. The net loss for the six-month period ended December 31, 2005 was $1,811,131. This is a decrease of $75,029**,** or 4.1%. This decrease was primarily the result of an increase in revenue and a decrease in research and development expenses, which was partially offset by an increase in general and administrative expenses.

*Revenue*

Total revenues consisted of initial payments and the amortized portion of previous milestone payments on our agricultural development and license agreements. During the six-month period ended December 31, 2006, revenue of $262,500 consisted of initial and milestone payments and the amortized portion of previous milestone payments received in connection with certain development and license agreements.  During the six-month period ended December 31, 2005, revenue of $25,000 consisted of the amortized portion of previous milestone payments received in connection with a certain development and license agreement.

We anticipate that we will continue to receive milestone payments in connection with our current agricultural development and license agreements while we continue to pursue our goal of attracting other companies to license our technologies in various other crops.  Additionally, we anticipate that we will receive royalty payments from our license agreements if our partners commercialize their crops containing our technology.  However, it is difficult for us to determine our future revenue expectations because we are a development stage biotechnology company.  As such, the timing and outcome of our experiments, the timing of signing new partners and the timing of our partners moving through the development process into commercialization is difficult to accurately predict.

*Operating Expenses*

| | Six Months Ended December 31, | | | |
|---|---|---|---|---|
| | **2006** | **2005** | **Change** | **%** |
| | **(in thousands, except % values)** | | | |
| General and administrative | $ 1,487 | $ 1,071 | $ 416 | 38.8 % |
| Research and development | 549 | 825 | (276 ) | (33.5 )% |
| Total operating expenses | $ 2,036 | $ 1,896 | $ 140 | 7.4 % |

We expect operating expenses to increase over the next twelve months as we anticipate that research and development expenses will increase as we continue to expand our research and development activities.

*General and Administrative Expenses*

| | Six Months Ended December 31, | | | |
|---|---|---|---|---|
| | **2006** | **2005** | **Change** | **%** |
| | **(in thousands, except % values)** | | | |
| Stock-based compensation | $ 813 | $ 326 | $ 487 | 149.4 % |
| Payroll and benefits | 304 | 295 | 9 | 3.1 % |
| Investor relations | 161 | 198 | (37 ) | (18.7 )% |
| Professional fees | 90 | 120 | (30 ) | (25.0 )% |
| Other general and administrative | 119 | 132 | (13 ) | (9.8 )% |
| Total general and administrative | $ 1,487 | $ 1,071 | $ 416 | 38.8 % |

- Stock-based compensation consists primarily of the Black-Scholes value of warrants extended and repriced in connection with a financial advisory agreement entered into on October 11, 2006 and the amortized portion of Black-Scholes value of options and warrants granted to directors, employees and consultants. During the six-month periods ended December 31, 2006 and 2005 there were 240,000 and 235,000 options granted to such directors, employees and consultants and 2,500 and 5,000 warrants granted to a consultant.

- Payroll and benefits increased primarily as a result of salary and health insurance rate increases.

- Investor relations decreased primarily as a result of a decrease in the amount of consulting fees in connection with a consultant.

- Professional fees decreased primarily as a result of a decrease in legal fees which was partially offset by an increase in accounting fees.

We expect general and administrative expenses to modestly increase over the next twelve months primarily due to an increase in legal and accounting fees related to the increased regulatory environment.

*Research and Development Expenses*

| | Six Months Ended December 31, 2006 | 2005 | Change | % |
|---|---|---|---|---|
| | (in thousands, except % values) | | | |
| Stock-based compensation | $ 34 | $ 158 | $ (124) | (78.5)% |
| Other research and development | 515 | 667 | (152) | (22.8)% |
| Total research and development | $ 549 | $ 825 | $ (276) | (33.5)% |

- Stock-based compensation consists primarily of the amortized portion of Black-Scholes value of options and warrants granted to research and development consultants and employees. During the six-month period ended December 31, 2006, there were 88,000 options granted to such consultants and employees and during the six-month period ended December 31, 2005, there were 83,000 options granted to such consultants and employees. The decrease is due to a decrease in the Black-Scholes value related to the options granted on December 14, 2006 and December 14, 2005, which, due to market conditions, were at a lower market price than the options granted on December 16, 2004.

- Other research and development costs decreased primarily as a result of a decrease in the costs related to our human health and agricultural research programs.

The breakdown of our research and development expenses between our agricultural and human health research programs is as follows:

| | Six Months Ended December 31, 2006 | % | 2005 | % |
|---|---|---|---|---|
| | (in thousands, except % values) | | | |
| Agricultural | $ 341 | 62 % | $ 418 | 51 % |
| Human health | 208 | 38 % | 407 | 49 % |
| Total research and development | $ 549 | 100 % | $ 825 | 100 % |

Our agricultural research expenses decreased during the six-month period ended December 31, 2006 primarily as a result of a decrease in the budget in connection with our research agreement at the University of Waterloo and a decrease in stock-based compensation.

Our human health expenses decreased during the six-month period ended December 31, 2006 as we have concluded certain phases of our research projects but have not yet begun the next phase of those projects as well as a decrease in stock-based compensation. We expect the percentage of human health research programs to increase as a percentage of the total research and development expenses as we continue our current research projects and begin new human health initiatives.

*Interest Income*

Interest income slightly decreased during the six-month period ended December 31, 2006 primarily as a result of a lower cash balance and short-term invesments.

<u>Period From Inception on July 1, 1998 through September 30, 2006</u>

From inception of operations on July 1, 1998 through December 31, 2006, we had revenues of $680,833, which consisted of the initial license fees and milestone payments in connection with our various development and license agreements. We do not expect to generate significant revenues for approximately the next one to three years, during which time we will continue to engage in significant research and development efforts.

We have incurred losses each year since inception and have an accumulated deficit of $24,105,945 at December 31, 2006. We expect to continue to incur losses as a result of expenditures on research and development and administrative activities.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk.

*Foreign Currency Risk*

Our financial statements are denominated in United States dollars and, except for our agreement with the University of Waterloo, which is denominated in Canadian dollars, all of our contracts are denominated in United States dollars. Therefore, we believe that fluctuations in foreign currency exchange rates will not result in any material adverse effect on our financial condition or results of operations. In the event we derive a greater portion of our revenues from international operations or in the event a greater portion of our expenses are incurred internationally and denominated in a foreign currency, then changes in foreign currency exchange rates could effect our results of operations and financial condition.

*Interest Rate Risk*

We invest in high-quality financial instruments, primarily money market funds, federal agency notes, corporate debt securities and United States treasury notes, with an effective duration of the portfolio of less than nine months, and no security with an effective duration in excess of one year, which we believe are subject to limited credit risk. We currently do not hedge our interest rate exposure. Due to the short-term nature of our investments, which we plan to hold until maturity, we do not believe that we have any material exposure to interest rate risk arising from our investments.

**Item 4. Controls and Procedures.**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2006. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of December 31, 2006, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the six-month ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION.

**Item 1A. Risk Factors.**

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer.

***We have a limited operating history and have incurred substantial losses and expect future losses*.**

We are a development stage biotechnology company with a limited operating history and limited assets and capital. We have incurred losses each year since inception and have an accumulated deficit of $24,105,945 at December 31, 2006. We have generated minimal revenues by licensing our technology for certain crops to companies willing to share in our development costs. However, our technology may not be ready for widespread commercialization for several years. We expect to continue to incur losses for the next several years because we anticipate that our expenditures on research and development, commercialization and administrative activities will significantly exceed our revenues during that period. We cannot predict when, if ever, we will become profitable.

***We depend on a single principal technology and, if our technology is not commercially successful, we will have no alternative source of revenue*.**

Our primary business is the development and commercial exploitation of technology to identify, isolate, characterize and silence genes which control the death of cells in humans and plants. Our future revenue and profitability critically depend upon our ability to successfully develop apoptosis and senescence gene technology and later license or market such technology. We have conducted experiments on certain crops with favorable results and have conducted certain preliminary cell-line and animal experiments, which have provided us with data upon which we have designed additional research programs. However, we cannot give any assurance that our technology will be commercially successful or economically viable for any crops or human health applications.

In addition, no assurance can be given that adverse consequences might not result from the use of our technology such as the development of negative effects on humans or plants or reduced benefits in terms of crop yield or protection. Our failure to obtain market acceptance of our technology or to successfully commercialize such technology or develop a commercially viable product would have a material adverse effect on our business.

***We outsource all of our research and development activities and, if we are unsuccessful in maintaining our alliances with these third parties, our research and development efforts may be delayed or curtailed.***

We rely on third parties to perform all of our research and development activities. Our primary research and development efforts take place at the University of Waterloo in Ontario, Canada, where our technology was discovered, the University of Colorado, Mayo Clinic, the

University of Virginia, and with our commercial partners. At this time, we do not have the internal capabilities to perform our research and development activities. Accordingly, the failure of third-party research partners, such as the University of Waterloo, to perform under agreements entered into with us, or our failure to renew important research agreements with these third parties, may delay or curtail our research and development efforts.

***We have significant future capital needs and may be unable to raise capital when needed, which could force us to delay or reduce our research and development efforts.***

As of December 31, 2006, we had cash and highly-liquid investments valued at $1,979,588 and working capital of $1,718,382. Using our available reserves as of December 31, 2006, we believe that we can operate according to our current business plan for the next seven months. To date, we have generated minimal revenues and anticipate that our operating costs will exceed any revenues generated over the next several years. Therefore, we will be required to raise additional capital in the future in order to operate according to our current business plan, and this funding may not be available on favorable terms, if at all. If we are unable to raise additional funds, we will need to do one or more of the following:

- delay, scale back or eliminate some or all of our research and development programs;
- license third parties to develop and commercialize our technology that we would otherwise seek to develop and commercialize ourselves;
- seek strategic alliances or business combinations, or attempt to sell our company; or
- cease operations.

In addition, in connection with any funding, if we need to issue more equity securities than our certificate of incorporation currently authorizes, or more than 20% of the shares of our common stock outstanding, we may need stockholder approval. If stockholder approval is not obtained or if adequate funds are not available, we may be required to curtail operations significantly or to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies, product candidates, products or potential markets. Investors may experience dilution in their investment from future offerings of our common stock. For example, if we raise additional capital by issuing equity securities, such an issuance would reduce the percentage ownership of existing stockholders. In addition, assuming the exercise of all options and warrants outstanding, as of December 31, 2006, we had 33,425,429 shares of common stock authorized but unissued, which may be issued from time to time by our board of directors without stockholder approval. Furthermore, we may need to issue securities that have rights, preferences and privileges senior to our common stock. Failure to obtain financing on acceptable terms would have a material adverse effect on our liquidity.

Since our inception, we have financed all of our operations through private equity financings. Our future capital requirements depend on numerous factors, including:

- the scope of our research and development;
- our ability to attract business partners willing to share in our development costs;
- our ability to successfully commercialize our technology;
- competing technological and market developments;
- our ability to enter into collaborative arrangements for the development, regulatory approval and commercialization of other products; and

- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights.

***Our business depends upon our patents and proprietary rights and the enforcement of these rights. Our failure to obtain and maintain patent protection may increase competition and reduce demand for our technology.***

As a result of the substantial length of time and expense associated with developing products and bringing them to the marketplace in the biotechnology and agricultural industries, obtaining and maintaining patent and trade secret protection for technologies, products and processes is of vital importance. Our success will depend in part on several factors, including, without limitation:

- our ability to obtain patent protection for our technologies and processes;

- our ability to preserve our trade secrets; and

- our ability to operate without infringing the proprietary rights of other parties both in the United States and in foreign countries.

We have been issued twelve patents by the U.S. Patent and Trademark Office, or PTO, and nine patents from foreign countries. We have also filed numerous patent applications for our technology in the United States and in several foreign countries, which technology is vital to our primary business, as well as several Continuations in Part on these patent applications. Our success depends in part upon the grant of patents from our pending patent applications.

Although we believe that our technology is unique and will not violate or infringe upon the proprietary rights of any third party, we cannot assure you that these claims will not be made or if made, could be successfully defended against. If we do not obtain and maintain patent protection, we may face increased competition in the United States and internationally, which would have a material adverse effect on our business.

Since patent applications in the United States are maintained in secrecy until patents are issued, and since publication of discoveries in the scientific and patent literature tend to lag behind actual discoveries by several months, we cannot be certain that we were the first creator of the inventions covered by our pending patent applications or that we were the first to file patent applications for these inventions.

In addition, among other things, we cannot assure you that:

- our patent applications will result in the issuance of patents;

- any patents issued or licensed to us will be free from challenge and that if challenged, would be held to be valid;

- any patents issued or licensed to us will provide commercially significant protection for our technology, products and processes;

- other companies will not independently develop substantially equivalent proprietary information which is not covered by our patent rights;

- other companies will not obtain access to our know-how;

- other companies will not be granted patents that may prevent the commercialization of our technology; or

- we will not require licensing and the payment of significant fees or royalties to third parties for the use of their intellectual property in order to enable us to conduct our business.

***Our competitors may allege that we are infringing upon their intellectual property rights, forcing us to incur substantial costs and expenses in resulting litigation, the outcome of which would be uncertain.***

Patent law is still evolving relative to the scope and enforceability of claims in the fields in which we operate. We are like most biotechnology companies in that our patent protection is highly uncertain and involves complex legal and technical questions for which legal principles are not yet firmly established. In addition, if issued, our patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage.

The PTO and the courts have not established a consistent policy regarding the breadth of claims allowed in biotechnology patents. The allowance of broader claims may increase the incidence and cost of patent interference proceedings and the risk of infringement litigation. On the other hand, the allowance of narrower claims may limit the value of our proprietary rights.

The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems and costs in protecting their proprietary rights in these foreign countries.

We could become involved in infringement actions to enforce and/or protect our patents. Regardless of the outcome, patent litigation is expensive and time consuming and would distract our management from other activities. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we could because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of any patent litigation could limit our ability to continue our operations.

***If our technology infringes the intellectual property of our competitors or other third parties, we may be required to pay license fees or damages.***

If any relevant claims of third-party patents that are adverse to us are upheld as valid and enforceable, we could be prevented from commercializing our technology or could be required to obtain licenses from the owners of such patents. We cannot assure you that such licenses would be available or, if available, would be on acceptable terms. Some licenses may be non-exclusive and, therefore, our competitors may have access to the same technology licensed to us. In addition, if any parties successfully claim that the creation or use of our technology infringes upon their intellectual property rights, we may be forced to pay damages, including treble damages.

***Our security measures may not adequately protect our unpatented technology and, if we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology may be adversely affected.***

Our success depends upon know-how, unpatentable trade secrets, and the skills, knowledge and experience of our scientific and technical personnel. As a result, we require all employees to agree to a confidentiality provision that prohibits the disclosure of confidential information to anyone outside of our company, during the term of employment and thereafter. We also require all employees to disclose and assign to us the rights to their ideas, developments, discoveries and inventions.  We also attempt to enter into similar agreements with our consultants, advisors and research collaborators.  We cannot assure you that adequate protection for our trade secrets, know-how or other proprietary information against unauthorized use or disclosure will be available.

We occasionally provide information to research collaborators in academic institutions and request the collaborators to conduct certain tests.  We cannot assure you that the academic institutions will not assert intellectual property rights in the results of the tests conducted by the research collaborators, or that the academic institutions will grant licenses under such intellectual property rights to us on acceptable terms, if at all.  If the assertion of intellectual property rights by an academic institution is substantiated, and the academic institution does not grant intellectual property rights to us, these events could limit our ability to commercialize our technology.

***As we evolve from a company primarily involved in the research and development of our technology into one that is also involved in the commercialization of our technology, we may have difficulty managing our growth and expanding our operations.***

As our business grows, we may need to add employees and enhance our management, systems and procedures.  We will need to successfully integrate our internal operations with the operations of our marketing partners, manufacturers, distributors and suppliers to produce and market commercially viable products.  We may also need to manage additional relationships with various collaborative partners, suppliers and other organizations.  Although we do not presently conduct research and development activities in-house, we may undertake those activities in the future.  Expanding our business will place a significant burden on our management and operations.  We may not be able to implement improvements to our management information and control systems in an efficient and timely manner and we may discover deficiencies in our existing systems and controls.  Our failure to effectively respond to changes may make it difficult for us to manage our growth and expand our operations.

***We have no marketing or sales history and depend on third-party marketing partners.  Any failure of these parties to perform would delay or limit our commercialization efforts.***

We have no history of marketing, distributing or selling biotechnology products and we are relying on our ability to successfully establish marketing partners or other arrangements with third parties to market, distribute and sell a commercially viable product both here and abroad.  Our business plan also envisions creating strategic alliances to access needed commercialization and marketing expertise.  We may not be able to attract qualified sub-licensees, distributors or marketing partners, and even if qualified, these marketing partners may not be able to successfully market agricultural products or human health applications developed with our technology.  If we fail to successfully establish distribution channels, or if our marketing partners fail to provide adequate levels of sales, our commercialization efforts will be delayed or limited and we will not be able to generate revenue.

***We will depend on joint ventures and strategic alliances to develop and market our technology and, if these arrangements are not successful, our technology may not be developed and the expenses to commercialize our technology will increase.***

In its current state of development, our technology is not ready to be marketed to consumers.  We intend to follow a multi-faceted commercialization strategy that involves the licensing of our technology to business partners for the purpose of further technological development, marketing and distribution.  We are seeking business partners who will share the burden of our development costs while our technology is still being developed, and who will pay us royalties when they market and distribute products incorporating our technology upon commercialization.  The establishment of joint ventures and strategic alliances may create future competitors, especially in certain regions abroad where we do not pursue patent protection.  If we fail to establish beneficial business partners and strategic alliances, our growth will suffer and the continued development of our technology may be harmed.

***Competition in the human health and agricultural biotechnology industries is intense and technology is changing rapidly.  If our competitors market their technology faster than we do, we may not be able to generate revenues from the commercialization of our technology.***

Many human health and agricultural biotechnology companies are engaged in research and development activities relating to senescence and apoptosis.  The market for plant protection and yield enhancement products is intensely competitive, rapidly changing and undergoing consolidation.  We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for products containing our technology.  Our competitors in the field of plant senescence gene technology are companies that develop and produce transgenic plants and include major international agricultural companies, specialized biotechnology companies, research and academic institutions and, potentially, our joint venture and strategic alliance partners. These companies include: Icoria (formerly Paradigm Genetics); Bayer CropScience; Mendel Biotechnology; Renessen LLC; Exelixis Plant Sciences, Inc.; Syngenta International AG; and Eden Bioscience, among others.  Some of our competitors that are involved in apoptosis research include:  Amgen; Centocor; Genzyme; OSI Pharmaceuticals, Inc.; Idun Pharmaceuticals; Novartis; Introgen Therapeutics, Inc.; Genta, Inc.; and Vertex Pharmaceuticals, Inc.  Many of these competitors have substantially greater financial, marketing, sales, distribution and technical resources than us and have more experience in research and development, clinical trials, regulatory matters, manufacturing and marketing.  We anticipate increased competition in the future as new companies enter the market and new technologies become available.  Our technology may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by one or more of our competitors, which will prevent or limit our ability to generate revenues from the commercialization of our technology.

***Our business is subject to various government regulations and, if we are unable to obtain regulatory approval, we may not be able to continue our operations.***

At present, the U.S. federal government regulation of biotechnology is divided among three agencies:

- the USDA regulates the import, field testing and interstate movement of specific types of genetic engineering that may be used in the creation of transgenic plants;

- the EPA regulates activity related to the invention of plant pesticides and herbicides, which may include certain kinds of transgenic plants; and

- the FDA regulates foods derived from new plant varieties.

The FDA requires that transgenic plants meet the same standards for safety that are required for all other plants and foods in general. Except in the case of additives that significantly alter a food s structure, the FDA does not require any additional standards or specific approval for genetically engineered foods, but expects transgenic plant developers to consult the FDA before introducing a new food into the marketplace.

Use of our technology, if developed for human health applications, will also be subject to FDA regulation. The FDA must approve any drug or biologic product before it can be marketed in the United States. In addition, prior to being sold outside of the U.S., any products resulting from the application of our human health technology must be approved by the regulatory agencies of foreign governments. Prior to filing a new drug application or biologics license application with the FDA, we would have to perform extensive clinical trials, and prior to beginning any clinical trial, we need to perform extensive preclinical testing which could take several years and may require substantial expenditures.

We believe that our current activities, which to date have been confined to research and development efforts, do not require licensing or approval by any governmental regulatory agency. However, federal, state and foreign regulations relating to crop protection products and human health applications developed through biotechnology are subject to public concerns and political circumstances, and, as a result, regulations have changed and may change substantially in the future. Accordingly, we may become subject to governmental regulations or approvals or become subject to licensing requirements in connection with our research and development efforts. We may also be required to obtain such licensing or approval from the governmental regulatory agencies described above, or from state agencies, prior to the commercialization of our genetically transformed plants and human health technology. In addition, our marketing partners who utilize our technology or sell products grown with our technology may be subject to government regulations. If unfavorable governmental regulations are imposed on our technology or if we fail to obtain licenses or approvals in a timely manner, we may not be able to continue our operations.

***Preclinical studies and clinical trials of our human health applications may be unsuccessful, which could delay or prevent regulatory approval.***

Preclinical studies may reveal that our human health technology is ineffective or harmful, and/or clinical trials may be unsuccessful in demonstrating efficacy and safety of our human health technology, which would significantly limit the possibility of obtaining regulatory approval for any drug or biologic product manufactured with our technology. The FDA requires submission of extensive preclinical, clinical and manufacturing data to assess the efficacy and safety of potential products. Furthermore, the success of preliminary studies does not ensure commercial success, and later-stage clinical trials may fail to confirm the results of the preliminary studies.

***Even if we receive regulatory approval, consumers may not accept products containing our technology, which will prevent us from being profitable since we have no other source of revenue.***

We cannot guarantee that consumers will accept products containing our technology. Recently, there has been consumer concern and consumer advocate activism with respect to genetically engineered consumer products. The adverse consequences from heightened consumer concern in this regard could affect the markets for products developed with our technology and could also result in increased government regulation in response to that concern. If the public or potential customers perceive our technology to be genetic modification or genetic engineering, agricultural products grown with our technology may not gain market acceptance.

***We depend on our key personnel and, if we are not able to attract and retain qualified scientific and business personnel, we may not be able to grow our business or develop and commercialize our technology.***

We are highly dependent on our scientific advisors, consultants and third-party research partners. Our success will also depend in part on the continued service of our key employees and our ability to identify, hire and retain additional qualified personnel in an intensely competitive market. Although we have employment agreements with all of our key employees and a research agreement with Dr. Thompson, these agreements may be terminated upon short or no notice. We do not maintain key person life insurance on any member of management. The failure to attract and retain key personnel could limit our growth and hinder our research and development efforts.

***Certain provisions of our charter, by-laws and Delaware law could make a takeover difficult.***

Certain provisions of our certificate of incorporation and by-laws could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. Our certificate of incorporation authorizes our board of directors to issue, without stockholder approval, except as may be required by the rules of the American Stock Exchange, 5,000,000 shares of preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of our common stock. Similarly, our by-laws do not restrict our board of directors from issuing preferred stock without stockholder approval.

In addition, we are subject to the Business Combination Act of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation s outstanding voting stock for a period of three years from the date such stockholder becomes a 15% owner. These provisions may have the effect of delaying or preventing a change of control of us without action by our stockholders and, therefore, could adversely affect the value of our common stock.

Furthermore, in the event of our merger or consolidation with or into another corporation, or the sale of all or substantially all of our assets in which the successor corporation does not assume outstanding options or issue equivalent options, our board of directors is required to provide accelerated vesting of outstanding options.

***Increasing political and social turmoil, such as terrorist and military actions, increase the difficulty for us and our strategic partners to forecast accurately and plan future business activities.***

Recent political and social turmoil, including the conflict in Iraq and the current crisis in the Middle East, can be expected to put further pressure on economic conditions in the United States and worldwide. These political, social and economic conditions may make it difficult for us to plan future business activities. Specifically, if the current situation in Israel continues to escalate, our joint venture with Rahan Meristem Ltd. could be adversely affected.

**Risks Related to Our Common Stock**

***Our management and other affiliates have significant control of our common stock and could significantly influence our actions in a manner that conflicts with our interests and the interests of other stockholders.***

As of December 31, 2006, our executive officers, directors and affiliated entities together beneficially own approximately 38.8% of the outstanding shares of our common stock, assuming the exercise of options and warrants which are currently exercisable or will become exercisable within 60 days of December 31, 2006, held by these stockholders. As a result, these stockholders, acting together, will be able to exercise significant influence over matters requiring approval by our stockholders, including the election of directors, and may not always act in the best interests of other stockholders. Such a concentration of ownership may have the effect of delaying or preventing a change in control of us, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices.

***Our stockholders may experience substantial dilution as a result of the exercise of outstanding options and warrants to purchase our common stock.***

As of December 31, 2006, we have granted options outside of our stock option plan to purchase 10,000 shares of our common stock and outstanding warrants to purchase 6,426,377 shares of our common stock. In addition, as of December 31, 2006, we have reserved 6,000,000 shares of our common stock for issuance upon the exercise of options granted pursuant to our stock option plan, 2,754,500 of which have been granted, 90,000 of which have been exercised since inception, 2,664,500 of which are outstanding, and 3,245,500 of which may be granted in the future. The exercise of these options and warrants will result in dilution to our existing stockholders and could have a material adverse effect on our stock price.

***A significant portion of our total outstanding shares of common stock may be sold in the market in the near future, which could cause the market price of our common stock to drop significantly.***

As of December 31, 2006, we had 17,473,694 shares of our common stock issued and outstanding, of which approximately 1,595,651 shares and 1,986,306 shares are registered pursuant to registration statements on Form S-3, which were declared effective on June 17, 2005 and November 27, 2006, respectively, and the remainder of which are either eligible to be sold under SEC Rule 144 or are in the public float. In addition, we have registered 965,380 shares and 2,701,715 shares of our Common Stock underlying warrants previously issued on the Form S-3 registration statements that was declared effective on June 17, 2005 and November 27, 2006, respectively, and we registered 6,000,000 shares of our common stock underlying options granted or to be granted under our stock option plan. Consequently, sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, may have a material adverse effect on our stock price.

***Our common stock has a limited trading market, which could limit your ability to resell your shares of common stock at or above your purchase price.***

Our common stock is quoted on the American Stock Exchange and currently has a limited trading market. The American Stock Exchange requires us to meet minimum financial requirements in order to maintain our listing. Currently, we believe that we meet the continued listing requirements of the American Stock Exchange. We cannot assure you that an active trading market will develop or, if developed, will be maintained. As a result, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

***The market price of our common stock may fluctuate and may drop below the price you paid.***

We cannot assure you that you will be able to resell the shares of our common stock at or above your purchase price. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- quarterly variations in operating results;
- the progress or perceived progress of our research and development efforts;
- changes in accounting treatments or principles;
- announcements by us or our competitors of new technology, product and service offerings, significant contracts, acquisitions or strategic relationships;
- additions or departures of key personnel;
- future offerings or resales of our common stock or other securities;
- stock market price and volume fluctuations of publicly-traded companies in general and development companies in particular; and
- general political, economic and market conditions.

***If our common stock is delisted from the American Stock Exchange, we may not be able to list on any other stock exchange, and our common stock may be subject to the penny stock regulations which may affect the ability of our stockholders to sell their shares.***

The American Stock Exchange requires us to meet minimum financial requirements in order to maintain our listing. Currently, we believe we meet the continued listing requirements of the American Stock Exchange. If we do not continue to meet the continued listing requirements, we could be delisted. If we are delisted from the American Stock Exchange, our common stock likely will become a penny stock. In general, regulations of the SEC define a penny stock to be an equity security that is not listed on a national securities exchange or the NASDAQ Stock Market and that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. If our common stock becomes a penny stock, additional sales practice requirements would be imposed on broker-dealers that sell such securities to persons other than certain qualified investors. For transactions involving a penny stock, unless exempt, a broker-dealer must make a special suitability determination for the purchaser and receive the purchaser s written consent to the transaction prior to the sale.  In addition, the rules on penny stocks require delivery, prior to and after any penny stock transaction, of disclosures required by the SEC.

If our common stock were subject to the rules on penny stocks, the market liquidity for our common stock could be severely and adversely affected.  Accordingly, the ability of holders of our common stock to sell their shares in the secondary market may also be adversely affected.

***Because we do not intend to pay, and have not paid, any cash dividends on our shares of common stock, our stockholders will not be able to receive a return on their shares unless the value of our common stock appreciates and they sell their shares.***

We have never paid or declared any cash dividends on our common stock and we intend to retain any future earnings to finance the development and expansion of our business.  We do not anticipate paying any cash dividends on our common stock in the foreseeable future.  Therefore, our stockholders will not be able to receive a return on their investment unless the value of our common stock appreciates and they sell their shares.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On October 11, 2006, we completed a private placement to certain members of our board of directors, institutional and accredited investors for an aggregate amount of 1,986,306 shares of common stock and warrants to purchase 993,153 shares of Common Stock for the aggregate net cash consideration of $2,019,008. The private placement offered units of one share of common stock and a five-year warrant to purchase 0.50 shares of common stock at a price equal to $1.1325 per unit. The warrant was offered with an exercise price equal to $1.18 per share, with such warrant becoming exercisable six months from the date of closing. The costs associated with the private placement totaled $230,483**.**

On December 14, 2006, our Board of Directors unanimously approved and we subsequently granted a warrant to purchase 2,500 shares of common stock to Forbes, Inc. at an exercise price equal to $1.08 per share, with one-third of such warrant exercisable on the date of grant and one-third of such warrant becoming exercisable on each of the first and second anniversaries from the date of grant.

We believe that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients was an accredited investor, acquired the securities for investment purposes only and not with the view to distribution and had adequate information about us.

**Item 4. Submission of Matters to a Vote of Security Holders.**

(a) Our annual meeting of stockholders was held on December 14, 2006.

(b) The following is a complete list of our directors as of December 14, 2006, each of whom was elected to a one-year term at the meeting, and whose term of office continued after the meeting.

Ruedi Stalder

Bruce C. Galton

John E. Thompson, Ph.D.

Christopher Forbes

Thomas C. Quick

David Rector

John Braca

(c) There were 13,630,744 shares of common stock present at the meeting in person or by proxy, out of a total number of 17,473,694 shares of common stock issued and outstanding and entitled to vote at the meeting.

The proposals and results of the vote of the stockholders taken at the meeting by ballot and by proxy as solicited by us on behalf of our Board of Directors were as follows:

(A) For the election of the nominees for our Board of Directors:

| Nominee | **For** | **Withheld** |
|---|---|---|
| Ruedi Stalder | 11,856,631 | 1,774,113 |
| Bruce C. Galton | 11,913,531 | 1,717,213 |
| John E. Thompson, Ph.D. | 12,168,031 | 1,462,713 |
| Christopher Forbes | 11,960,031 | 1,670,713 |
| Thomas C. Quick | 11,878,131 | 1,752,613 |
| David Rector | 11,947,531 | 1,683,213 |
| John Braca | 11,947,531 | 1,683,213 |

(B) For the amendment to our Certificate of Incorporation, as amended, to increase the maximum number of authorized shares of our capital stock, all classes, from thirty five million shares, consisting of (i) thirty million shares of Common Stock, and (ii) five million shares of Preferred Stock, to sixty five million shares, consisting of (i) sixty million shares of Common Stock, and (ii) five million shares of Preferred Stock:

| For | **Against** | **Abstain** |
|---|---|---|
| 11,810,661 | 1,719,868 | 100,215 |

(C) For the amendment to our 1998 Stock Incentive Plan, as amended, to increase the maximum number of shares of Common Stock available for issuance under our 1998 Stock Plan from three million shares to six million shares, and thereby reserve an additional three million shares of Common Stock for issuance under our 1998 Stock Plan:

| For | **Against** | **Abstain** | **Broker Non-Votes** |
|---|---|---|---|
| 6,906,253 | 1,789,386 | 88,272 | 4,846,833 |

(B) For the proposal to ratify the appointment of Goldstein Golub and Kessler, LLP as our independent auditors for the fiscal year ending June 30, 2007:

| For | **Against** | **Abstain** |
|---|---|---|
| 13,362,344 | 185,007 | 83,393 |

**Item 5. Other Information.**

Effective January 1, 2007, a consulting agreement with Dr. John Thompson, a director, executive vice-president and chief scientific officer of our company, was amended to increase his monthly consulting fee from $5,200 to $5,416.

**Item 6. Exhibits.**

Exhibits.

| | |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation. (filed herewith) |
| 10.1 + | Commercial License Agreement by and between the Company and ArborGen, LLC dated as of December 21, 2006. (filed herewith) |
| 10.2 + | License Agreement by and between the Company and Bayer CropScience GmbH dated as of November 8, 2006. (filed herewith) |
| 10.3 | Amended and Restated 1998 Stock Incentive Plan, filed as exhibit 99.1 to the Company s Registration Statement on Form S-8 (File No. 333-140238) |
| 31.1 | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith) |
| 31.2 | Certification of principal financial and accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith) |
| 32.1 | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350. (furnished herewith) |
| 32.2 | Certification of principal financial and accounting officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350. (furnished herewith) |

+ Confidential Treatment has been requested for portions of this exhibit.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SENESCO TECHNOLOGIES, INC.

| | | |
|---|---|---|
| DATE: February 14, 2007 | By: | /s/ Bruce C. Galton<br>Bruce C. Galton, President<br>and Chief Executive Officer<br>(Principal Executive Officer) |
| DATE: February 14, 2007 | By: | /s/ Joel Brooks<br>Joel Brooks, Chief Financial Officer<br>and Treasurer<br>(Principal Financial and Accounting Officer) |

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7.25%, 12/01/26

108,125

B2

190

3

Whiting Petroleum Corp., 7.00%, 2/01/14

190,475

BB

1,000

Williams Cos., Inc., 7.125%, 9/01/11

1,036,250

45,262,491

**Entertainment & Leisure 1.0%**

Ba3

5,425

MGM Mirage, 9.75%, 6/01/07

5,696,250

B

250

Poster Financial Group, Inc., 8.75%, 12/01/11

255,000

B+

460

3

| | | | |
|---|---|---|---|
| San Pasqual Casino, 8.00%, 9/15/13 | | | 460,000 |
| | | B+ | |
| | | | 400 |
| Wynn Las Vegas LLC/Wynn Las Vegas Cap. Corp., 6.625%, 12/01/14 | | | |
| | | | 381,000 |

6,792,250

**Financial Institutions 8.2%**

BB

1,480

3

American Real Estate Partners LP/American Real Estate Finance Corp., 7.125%, 2/15/13

1,435,600

B-

2,333

BCP Crystal US Holdings Corp., 9.625%, 6/15/14 (Luxembourg)

2,566,300

BB

3,360

Crum & Forster Hldgs. Corp., 10.375%, 6/15/13

3,595,200

B+

550

3

E*Trade Financial Corp., 7.375%, 9/15/13

541,750

BB

1,000

Fairfax Financial Holdings Ltd., 7.75%, 4/26/12 (Canada)

910,000

Ford Motor Credit Co.,

BBB-

500

7.25%, 10/25/11

465,020

BBB-

7,500

2

7.375%, 2/01/11

7,043,977

General Motors Acceptance Corp.,

BB

3,000

5.05%, 1/16/07

2,941,560

BB

7,500

3

6.875%, 8/28/12

7,201,800

Ba3

2,500

Huntsman Advanced Materals, LLC, 11.00%, 7/15/10

2,790,625

B-

900

K&F Acquisition, Inc., 7.75%, 11/15/14

900,000

Baa2

5,000

3

Kazkommerts Intl. BV, 10.125%, 5/08/07

5,287,500

BBB

200

Marsh & McLennan Cos., Inc., 4.27%, 7/13/07

199,256

B-

1,800

3

Nell AF, 8.375%, 8/15/15 (Luxembourg)

1,728,000

Rainbow National Services LLC,

B+

925

3

8.75%, 9/01/12

971,250

B+

4,985

3

10.375%, 9/01/14

5,495,962

B-

1,080

Standard Aero Holdings, Inc., 8.25%, 9/01/14

1,028,700

NR

7,135

Structured Asset Receivable Trust, 1.649%, 1/21/10

7,145,761

B-

220

Universal City Florida Hldg. Co. I/II, 9.00%, 5/01/10

224,400

BB-

4,425

2

Western Financial Bank, 9.625%, 5/15/12

5,011,313

57,483,974

**Health Care 2.8%**

B-

5,000

Concentra Operating Corp., 9.50%, 8/15/10

5,150,000

CCC

80

Curative Health Services, Inc., 10.75%, 5/01/11

54,000

B

1,345

3

Elan Finance Corp., 7.75%, 11/15/11 (Ireland)

1,183,600

B

1,750

3

Insight Health Services Corp., 9.174%, 11/01/11

1,658,125

B-

3,000

Norcross Safety Products LLC/Norcross Capital Corp., 9.875%, 8/15/11

3,195,000

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Health Care (cont d.)** | |
| | | Tenet Healthcare Corp., | |
| B | $ 340 | 6.375%, 12/01/11 | $ 296,650 |
| B | 1,470 | 9.875%, 7/01/14 | 1,433,250 |
| B3 | 4,500 | United Surgical Partners Intl., Inc., 10.00%, 12/15/11 | 4,871,250 |
| B- | 1,880 | Universal Hospital Services, Inc., 10.125%, 11/01/11 | 1,898,800 |
| | | | 19,740,675 |
| | | **Industrials 3.2%** | |
| B- | 3003 | Chart Industries, Inc., 9.125%, 10/15/15 | 296,250 |
| Caa1 | 5,7603 | DI Finance/DynCorp. Intl., 9.50%, 2/15/13 | 5,961,600 |
| B- | 2,665 | ERICO Intl. Corp., 8.875%, 3/01/12 | 2,744,950 |
| B- | 4,000 | Fasten Tech, Inc., 11.50%, 5/01/11 | 4,140,000 |
| Caa1 | 1,6703 | Hydrochem Industrial Services, 9.25%, 2/15/13 | 1,523,875 |
| B- | 1,880 | NationsRent Cos., Inc., 9.50%, 5/01/15 | 1,950,500 |
| CCC+ | 1,955 | Park-Ohio Inds., Inc., 8.375%, 11/15/14 | 1,705,737 |
| B3 | 2,2403 | Sunstate Equipment Co. LLC, 10.50%, 4/01/13 | 2,262,400 |
| CCC+ | 2,395 | Trimas Corp., 9.875%, 6/15/12 | 1,951,925 |
| | | | 22,537,237 |
| | | **Media 7.3%** | |
| B- | 740 | Allbritton Communications Co., 7.75%, 12/15/12 | 736,300 |
| CCC+ | 1,550 | American Media Operations, Inc., 10.25%, 5/01/09 | 1,472,500 |
| NR | 2,360 | Cablecom SCA, 4.935%, 4/30/12 (Luxembourg) | 2,855,435 |
| CCC+ | 3,500 | CBD Media Inc., 8.625%, 6/01/11 | 3,548,125 |
| CCC+ | 880 | Charter Communications Holdings II, LLC/Charter Communications Holdings II Cap. Corp., 10.25%, 9/15/10 | 882,200 |
| BBB+ | 6,6852 | Comcast Cable Communications, Inc., 6.875%, 6/15/09 | 7,034,291 |
| BB- | 6,0002 | CSC Holdings, Inc., 7.875%, 12/15/07 | 6,157,500 |
| B1 | 1,300 | Dex Media East LLC, 12.125%, 11/15/12 | 1,521,000 |
| | | Echostar DBS Corp., | |
| BB- | 2,000 | 5.75%, 10/01/08 | 1,955,000 |
| BB- | 5,100 | 7.304%, 10/01/08 | 5,189,250 |
| B- | 5,000 | Houghton Mifflin Co., 9.875%, 2/01/13 | 5,212,500 |
| CCC+ | 3003 | iesy Repository GmbH, 10.375%, 2/15/15 (Germany) | 321,750 |
| B3 | 760 | Nexstar Finance, Inc., 7.00%, 1/15/14 | 672,600 |
| B3 | 2,750 | Nextmedia Operating, Inc., 10.75%, 7/01/11 | 2,997,610 |
| B1 | 2,5003 | Paxson Communications Corp., 6.90%, 1/15/10 | 2,493,750 |
| B2 | 1,200 | Primedia, Inc., 9.715%, 5/15/10 | 1,224,000 |
| B2 | 2,000 | Salem Communications Corp., 7.75%, 12/15/10 | 2,075,000 |
| | | Vertis, Inc., | |
| Caa1 | 2,540 | 10.875%, 6/15/09 | 2,362,200 |
| Caa2 | 953 | 13.50%, 12/07/09 | 73,150 |
| Caa1 | 2,875 | Young Broadcasting, Inc., 10.00%, 3/01/11 | 2,702,500 |
| | | | 51,486,661 |
| | | **Real Estate 1.1%** | |
| BB | 5,860 | American Real Estate Partners, 8.125%, 6/01/11 | 6,021,150 |
| BB+ | 2,000 | Rouse Co., 5.375%, 11/26/13 | 1,884,240 |
| | | | 7,905,390 |

| | | | |
|---|---|---|---|
| | | **Technology 2.9%** | |
| B- | 1,958 | Amkor Tech. Inc., 7.75%, 5/15/13 | 1,664,300 |
| B | 1,145 | Celestica, Inc., 7.625%, 7/01/13 (Canada) | 1,107,787 |
| BB+ | 3,232 | Flextronics Intl. Ltd., 6.50%, 5/15/13 (Singapore) | 3,240,080 |
| B+ | 4303 | Hynix Semiconductor, Inc., 9.875%, 7/01/12 (South Korea) | 478,913 |
| BB- | 3,830 | Lucent Technologies, Inc., 6.50%, 1/15/28 | 3,255,500 |
| Ba3 | 500 | MagnaChip Semiconductor SA/Magna Semiconductor Finance Co., 7.12%, 12/15/11 (Luxembourg) | 487,500 |
| B+ | 485 | Sanmina-SCI Corp., 6.75%, 3/01/13 | 457,113 |
| BB | 200 | Stats Chippac Ltd., 7.50%, 7/19/10 (Singapore) | 201,000 |
| | | Sungard Data Systems, Inc., | |
| B- | 5003 | 8.525%, 8/15/13 | 515,000 |
| B- | 1,9003 | 9.125%, 8/15/13 | 1,942,750 |
| B- | 1,8303 | 10.25%, 8/15/15 | 1,811,700 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Technology (cont d.)** | |
| B | $ 3,515 | Superior Essex Communications LLC/Essex Group, Inc., 9.00%, 4/15/12 | $ 3,479,850 |
| B- | 1,440 | UGS Corp., 10.00%, 6/01/12 | 1,576,800 |
| | | | 20,218,293 |
| | | **Telecommunications 5.0%** | |
| BB- | 920 | Cincinnati Bell, Inc., 7.25%, 7/15/13 | 959,100 |
| A- | 5,000[2] | Deutsche Telekom Intl. Finance BV, 8.50%, 6/15/10 | 5,575,200 |
| B- | 860[3] | Hawaiian Telcom Communications, Inc., 9.948%, 5/01/13 | 849,250 |
| | | Intelsat Ltd., | |
| Caa1 | 800 | 5.25%, 11/01/08 | 728,000 |
| B2 | 460[3] | 8.25%, 1/15/13 | 461,150 |
| B2 | 2,250[3] | 8.625%, 1/15/15 | 2,283,750 |
| B2 | 2,360[3] | 8.695%, 1/15/12 | 2,395,400 |
| BB- | 120 | Lucent Technologies, Inc., 6.45%, 3/15/29 | 102,600 |
| B- | 300 | Nortel Networks Corp., 6.875%, 9/01/23 (Canada) | 273,000 |
| B1 | 2,737 | PanAmSat Corp., 9.00%, 8/15/14 | 2,880,692 |
| BB | 4,000 | Qwest Communications Intl., Inc, 7.84%, 2/15/09 | 4,000,000 |
| | | Qwest Corp., | |
| BB+ | 2,500[3] | 7.12%, 6/15/13 | 2,618,750 |
| BB+ | 1,000 | 7.875%, 9/01/11 | 1,050,000 |
| BB+ | 6,000[2] | 8.875%, 3/15/12 | 6,615,000 |
| BB | 1,320 | Qwest Services Corp., 13.50%, 12/15/10 | 1,506,450 |
| BB+ | 460 | Rogers Wireless, Inc., 7.25%, 12/15/12 | 484,150 |
| Caa1 | 2,030 | Rural Cellular Corp., 9.875%, 2/01/10 | 2,111,200 |
| | | | 34,893,692 |
| | | **Transportation 1.0%** | |
| B | 1,575[3] | CHC Helicopter Corp., 7.375%, 5/01/14 (Canada) | 1,582,875 |
| B | 140 | CHC Helicopter Corp., 7.375%, 5/01/14 (Canada) | 141,225 |
| B3 | 111 | Horizon Lines LLC, 9.00%, 11/01/12 | 117,799 |
| B+ | 360 | OMI Corp., 7.625%, 12/01/13 | 369,900 |
| BB+ | 1,650 | Overseas Shipholding Group, Inc., 8.75%, 12/01/13 | 1,856,250 |
| B | 3,015 | Sea Containers Ltd., 10.50%, 5/15/12 | 3,015,000 |
| | | | 7,083,049 |
| | | Total Corporate Bonds | 421,653,482 |
| | | **Bank Loans 43.8%** | |
| | | **Aerospace & Defense 0.8%** | |
| | 985 | Arinc, Inc., Term Loan B, LIBOR + 2.00%, 3/10/11 | 992,388 |
| | 976 | Camp Acquisition Co., Term Loan A, LIBOR + 3.25%, 8/30/11 | 978,246 |
| | 1,990 | Dyncorp International LLC, Term Loan B, LIBOR + 2.75%, 2/11/11 | 1,990,000 |
| | 1,465 | Transdigm, Inc., Term Loan, LIBOR + 2.25%, 7/22/10 | 1,484,113 |
| | | | 5,444,747 |
| | | **Automotive 1.4%** | |
| | 1,229 | Dayco Products, LLC, Term Loan B, LIBOR + 3.00%, 6/23/11 | 1,239,487 |
| | | Goodyear Tire & Rubber Co. (The), | |

| | | |
|---|---|---|
| 500 | Term Loan, LIBOR + 2.75%, 4/30/10 | 503,854 |
| 2,000 | Term Loan, LIBOR + 3.50%, 4/01/11 | 1,983,000 |
| 995 | Hilite International, Term Loan, LIBOR + 4.00%, 4/15/10 | 950,225 |
| 999 | Metaldyne Co. LLC, Term Loan D, LIBOR + 4.50%, 12/31/09 | 991,751 |
| 1,000 | Polar Corp., Term Loan, LIBOR, 6/15/10 | 1,015,000 |
| 500 | Precision Parts Intl., Term Loan B, LIBOR + 3.75%, 10/15/11 | 503,750 |
| 517 | Tenneco Automotive, Inc., Term Loan B-1, LIBOR + 2.25%, 12/12/10 | 523,448 |
| 2,481 | TRW Automotive Acquisitions Corp., Term Loan B, LIBOR + 1.50%, 6/30/12 | 2,501,926 |
| | | 10,212,441 |
| | **Basic Materials 2.9%** | |
| | Basell Fin. Co., | |
| 83 | Term Loan B4, LIBOR + 2.50%, 9/07/13 | 84,531 |
| 83 | Term Loan C4, LIBOR + 2.50%, 9/07/14 | 84,635 |
| | Basell NV, | |
| 417 | Term Loan B2, LIBOR + 2.50%, 9/07/13 | 422,656 |
| 417 | Term Loan C2, LIBOR + 3.00%, 9/07/14 | 423,177 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Principal Amount (000) | Description | Value |
|---|---|---|
| | **Basic Materials (cont d.)** | |
| $ 998 | Berry Plastics Corp., Term Loan, LIBOR + 2.00%, 12/02/11 | $ 1,008,223 |
| 956 | Boise Cascade Corp., Term Loan D, LIBOR + 1.75%, 10/29/11 | 968,307 |
| 2,201 | Celanese, Ag, Term Loan B, LIBOR + 2.25%, 4/06/11 | 2,230,691 |
| 3,000 | Cognis Deutschland, Term Loan, LIBOR + 4.75%, 11/15/13 | 3,061,500 |
| 1,946 | Huntsman International, LLC, Term Loan B, LIBOR + 1.75%, 8/16/12 | 1,955,279 |
| 920 | Ineos Grp. Holdings, PLC, Term Loan C, LIBOR + 3.50%, 4/26/09 | 921,639 |
| | Invista, B.V., | |
| 1,850 | Term Loan B-1, LIBOR + 2.25%, 4/29/11 | 1,877,411 |
| 803 | Term Loan B-2, LIBOR + 2.25%, 4/29/11 | 814,546 |
| 2,497 | Nalco Co., Term Loan B, LIBOR + 2.00%, 11/04/10 | 2,532,793 |
| 498 | PQ Corp., Term Loan, LIBOR + 2.00%, 2/10/12 | 500,609 |
| 995 | Rockwood Specialties Group, Inc., Term Loan D, LIBOR + 2.50%, 12/10/12 | 1,010,132 |
| | SP Newsprint, | |
| 1,611 | Term Loan B, Zero Coupon, 1/09/08 | 1,633,264 |
| 656 | Term Loan, LIBOR + 2.25%, 1/08/10 | 665,274 |
| | | 20,194,667 |
| | **Building & Development 0.5%** | |
| 242 | Atrium Companies, Inc., Term Loan, LIBOR + 3.75%, 12/28/11 | 242,108 |
| 1,500 | Custom Building Products, Inc., Term Loan, LIBOR + 5.00%, 4/29/12 | 1,490,625 |
| 250 | Euramax International, Inc., Term Loan, LIBOR + 7.00%, 6/29/13 | 245,000 |
| 495 | Nortek, Inc., Term Loan B, LIBOR + 2.25%, 8/27/11 | 499,702 |
| 1,250 | Professional Service, Inc., TBD | 1,253,125 |
| | | 3,730,560 |
| | **Conglomerates 4.0%** | |
| | Atlantis Plastics, Inc., | |
| 995 | Term Loan, LIBOR + 2.75%, 9/30/11 | 990,025 |
| 500 | Term Loan, LIBOR + 7.25%, 3/11/05 | 501,875 |
| 1,985 | Colfax Corp., Term Loan B, LIBOR + 2.25%, 5/30/09 | 2,001,541 |
| 3,125 | Fidelity National Information Solutions, Inc., Term Loan B, LIBOR + 1.75%, 3/09/13 | 3,134,013 |
| 494 | Fisher Scientific International, Inc., Term Loan B, LIBOR + 1.50%, 8/02/11 | 496,219 |
| 500 | Gentek, Inc., Term Loan, LIBOR + 5.75%, 3/15/12 | 490,250 |
| 1,481 | Honeywell Security, Term Loan B, PRIME + 2.00%, 6/28/10 | 1,488,664 |
| | IAP Acquisition Corp., | |
| 1,496 | Term Loan, LIBOR + 2.75%, 3/01/11 | 1,516,824 |
| 625 | Term Loan, LIBOR + 5.75%, 3/01/12 | 636,979 |
| | Invensys Intl Holdings, Ltd., | |
| 1,000 | Term Loan, 0.50%, 3/05/09 | 970,000 |
| 1,144 | Term Loan B1, LIBOR + 3.50%, 9/05/09 | 1,152,513 |
| 4,250 | Term Loan, LIBOR + 4.75%, 11/30/09 | 4,345,625 |
| | Jarden Corp., | |
| 998 | Term Loan B2, LIBOR + 1.75%, 1/24/12 | 1,001,618 |
| 1,109 | Term Loan, LIBOR + 2.00%, 8/15/11 | 1,116,456 |
| 1,000 | Mueller Group, Inc., Term Loan B, LIBOR + 2.25%, 10/03/12 | 1,012,857 |

| | | |
|---|---|---|
| 466 | Penn Engineering & Manufacturing, Term Loan, LIBOR + 2.25%, 5/25/11 | 471,157 |
| 292 | Precise Technology, Inc., Term Loan, LIBOR + 3.00%, 3/31/11 | 292,502 |
| | Sensus Metering Systems, Inc., | |
| 1,220 | Term Loan B1, LIBOR + 2.50%, 12/17/10 | 1,228,712 |
| 190 | Term Loan B2, LIBOR + 2.50%, 12/17/10 | 191,699 |
| 876 | St. John Knits International, Inc., Term Loan B, LIBOR + 2.50%, 3/18/12 | 886,902 |
| 2,494 | Sungard Data Systems, Inc., Term Loan B, LIBOR + 2.50%, 2/11/13 | 2,513,870 |
| 1,425 | Visant Holding Corp., Term Loan B, LIBOR + 2.50%, 10/04/11 | 1,445,930 |
| | | 27,886,231 |
| | **Consumer Products 7.2%** | |
| 1,000 | 24 Hour Fitness Worldwide, Inc., Term Loan B, LIBOR + 3.00%, 6/08/12 | 1,014,375 |
| 488 | Adams Outdoor Advertising, L.P., Term Loan, LIBOR + 2.00%, 10/18/12 | 494,573 |
| 1,053 | Alimentation Couche-Tard, Inc., Term Loan, LIBOR + 1.75%, 12/17/10 | 1,063,863 |
| 499 | Arby s Restaurant Group, Inc., Term Loan B, LIBOR + 2.25%, 7/25/12 | 501,244 |
| | Berkline Bench Craft, | |
| 963 | Term Loan B, LIBOR + 3.00%, 11/03/11 | 943,250 |
| 1,000 | Term Loan, PRIME + 7.00%, 4/30/12 | 900,000 |

See Notes to Financial Statements.

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**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Principal Amount (000) | Description | Value |
|---|---|---|
| | **Consumer Products (cont d.)** | |
| $ 500 | Buffets, Inc., LIBOR + 0.10%, 6/28/09 | $ 502,500 |
| 499 | Burger King Corp., Term Loan B, LIBOR + 1.75%, 6/30/12 | 503,381 |
| 744 | Central Garden & Pet Co., Term Loan B, LIBOR + 1.75%, 5/31/09 | 753,630 |
| | Chiquita Brands International, Inc., | |
| 299 | Term Loan B, LIBOR + 2.50%, 6/28/12 | 303,672 |
| 499 | Term Loan C, LIBOR + 2.50%, 6/28/12 | 504,984 |
| 983 | CKE Restaurants, Inc., Term Loan, LIBOR + 2.00%, 5/01/10 | 987,522 |
| 1 | Delaware Laboratories, Inc., TBD | 639 |
| 1,000 | Denny s Corp., Term Loan, LIBOR + 5.13%, 9/30/10 | 1,023,125 |
| 549 | Dole Food Co., Inc., Term Loan B, LIBOR + 1.50%, 4/18/12 | 553,059 |
| 496 | Douglas Dynamics, LLC, Term Loan, PRIME + 1.00%, 12/16/10 | 501,213 |
| 2,901 | Dr. Pepper Bottling Co. of Texas, Inc., Term Loan B, PRIME + 1.00%, 12/19/10 | 2,938,734 |
| | Eastman Kodak Co., | |
| 368 | Term Loan B-2, 1.50%, 10/18/12 | 363,971 |
| 882 | Term Loan B1, LIBOR + 2.25%, 10/18/12 | 877,721 |
| 995 | Eye Care Centers of America, Inc., Term Loan, LIBOR + 3.00%, 2/16/12 | 1,001,219 |
| 792 | Keystone Foods Holdings, LLC, Term Loan, LIBOR + 1.75%, 6/16/11 | 799,979 |
| 500 | Knoll, Inc., Term Loan, LIBOR + 2.00%, 10/03/12 | 506,250 |
| 902 | Language Line, Inc., Term Loan B, LIBOR + 4.25%, 6/10/11 | 906,960 |
| 1,653 | Le-Natures, Inc., Term Loan B, LIBOR + 3.00%, 5/30/10 | 1,657,526 |
| 500 | MD Beauty, Inc., Term Loan, PRIME + 6.00%, 2/18/13 | 498,750 |
| 2,738 | Michael Foods, Inc., Term Loan B, LIBOR + 2.25%, 11/21/10 | 2,777,617 |
| 998 | Movie Gallery, Inc., Term Loan B, LIBOR + 3.75%, 4/27/11 | 972,147 |
| 1,750 | Neiman-Marcus Group, Inc., Term Loan, LIBOR + 2.50%, 4/06/13 | 1,757,656 |
| 1,995 | NewPage, Term Loan B, LIBOR + 3.00%, 5/02/11 | 2,009,962 |
| 950 | Nice Pak Products, Term Loan, LIBOR + 3.50%, 6/15/10 | 953,563 |
| | Olympus Cable Holdings, LLC, | |
| 2,000 | Term Loan A, PRIME + 1.25%, 6/30/10 | 1,965,358 |
| 3,500 | Term Loan B, PRIME + 2.00%, 9/30/10 | 3,463,750 |
| 500 | Oriental Trading Co., Inc., Term Loan, LIBOR + 4.75%, 1/08/11 | 501,563 |
| 2,633 | Oriental Trading Company, Inc., Term Loan B, LIBOR + 2.25%, 8/06/10 | 2,641,205 |
| 2,970 | OSI Group LLC, Term Loan B, LIBOR + 2.00%, 9/02/11 | 3,002,174 |
| 1,745 | Pantry, Inc. (The), Term Loan B, LIBOR + 2.25%, 3/12/11 | 1,768,920 |
| 953 | PBM Products, LLC, Term Loan B, LIBOR + 3.00%, 7/26/11 | 957,821 |
| 844 | Pierre Foods, Inc., Term Loan B, LIBOR + 2.75%, 6/30/10 | 853,312 |
| 750 | Pivotal Promontory, LLC, Term Loan, LIBOR + 6.50%, 8/31/11 | 753,750 |
| 1,478 | Prestige Brands Holdings, Inc., Term Loan B, LIBOR + 2.25%, 4/06/11 | 1,494,122 |
| 3,470 | R.H. Donnelley, Inc., Term Loan D, LIBOR + 1.75%, 6/30/11 | 3,487,072 |
| 442 | Sealy Mattress Co., Term Loan D, LIBOR + 1.75%, 4/06/12 | 445,658 |
| 600 | Synventive Acquisition, Inc., Term Loan, LIBOR + 14.0%, 7/29/14 | 600,000 |
| 500 | Travelcenters of America, Inc., Term Loan B, LIBOR + 1.75%, 12/01/11 | 505,000 |
| | | 51,012,790 |
| | **Containers & Packaging 1.8%** | |

| | | |
|---|---|---|
| 868 | Bway Corp., Term Loan, LIBOR + 2.25%, 6/30/11 | 878,850 |
| 353 | Flexsol Packaging Corp., Term Loan, LIBOR + 3.25%, 11/30/11 | 352,440 |
| | Graham Packaging Company, L.P., | |
| 1,985 | Term Loan B, LIBOR + 2.50%, 10/07/11 | 2,007,953 |
| 2,000 | Term Loan C, LIBOR + 4.25%, 4/07/12 | 2,031,666 |
| 1,383 | Graphic Packaging International, Inc., Term Loan C, LIBOR + 2.50%, 6/30/10 | 1,393,710 |
| | Owens-Illinois Group, Inc., | |
| 3,170 | Term Loan A1, LIBOR + 2.75%, 4/01/07 | 3,188,516 |
| 589 | Term Loan C1, LIBOR + 1.75%, 4/01/08 | 592,796 |
| 568 | Smurfit-Stone Container Corp., Term Loan, LIBOR + 2.10%, 11/01/11 | 573,558 |
| 1,970 | Solo Cup, Inc., Term Loan, LIBOR + 2.50%, 2/27/11 | 1,974,432 |
| | | 12,994,921 |

See Notes to Financial Statements.

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**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Principal Amount (000) | Description | Value |
|---|---|---|
| | **Ecological Services & Equipment 0.6%** | |
| | Allied Waste North America, Inc., | |
| $ 1,003 | Term Loan A, LIBOR + 2.00%, 1/15/12 | $ 1,008,256 |
| 2,655 | Term Loan, LIBOR + 2.00%, 1/15/12 | 2,667,712 |
| 500 | Envirosolutions, Inc., Term Loan, LIBOR + 3.50%, 7/07/12 | 508,125 |
| | | 4,184,093 |
| | **Energy 3.1%** | |
| 429 | AES Corp., Term Loan, LIBOR + 1.75%, 4/30/08 | 433,607 |
| 998 | Cellnet Technology, Inc., Term Loan B, LIBOR + 3.00%, 4/26/12 | 1,002,487 |
| | Coffeyville Resources, LLC, | |
| 600 | Term Loan, LIBOR + 2.50%, 6/24/12 | 609,250 |
| 898 | Term Loan B, LIBOR + 2.50%, 6/24/12 | 911,591 |
| 777 | Cogentrix Delaware Holdings, Inc., Term Loan, LIBOR + 1.75%, 4/14/12 | 785,129 |
| 250 | Complete Production Services, Inc., Term Loan B, LIBOR, 9/12/12 | 251,979 |
| | El Paso Corp., | |
| 375 | Term Loan, LIBOR + 2.85%, 11/30/07 | 377,448 |
| 615 | Term Loan B, LIBOR + 2.75%, 11/23/09 | 619,015 |
| 998 | Kerr-McGee Corp., Term Loan B, PRIME + 1.50%, 5/24/11 | 999,495 |
| 1,500 | Key Energy Services, Term Loan B, 1.00%, 6/30/12 | 1,520,625 |
| 500 | Magellan Midstream Holdings, L.P., Term Loan, LIBOR + 2.13%, 6/30/12 | 506,562 |
| | MDCP Acquistions, | |
| 2,429 | Term Loan B3, LIBOR + 2.75%, 12/31/08 | 2,425,867 |
| 2,429 | Term Loan C3, LIBOR + 2.75%, 10/31/11 | 2,428,702 |
| 250 | Petrohawk, Term Loan, LIBOR + 4.50%, 7/31/10 | 250,938 |
| 304 | Pike Electric, Inc., Term Loan B, LIBOR + 2.25%, 7/01/12 | 306,849 |
| | Reliant Energy Resources Corp., | |
| 1,500 | Term Loan, LIBOR + 2.38%, 9/30/10 | 1,503,214 |
| 2,729 | Term Loan, LIBOR + 2.38%, 4/30/10 | 2,735,224 |
| | Semcrude, L.P., | |
| 797 | Term Loan, LIBOR + 2.50%, 3/16/11 | 804,467 |
| 697 | Term Loan, LIBOR + 2.50%, 3/16/11 | 703,465 |
| 1,000 | Targa Resources Asst. Sale, TBD | 1,000,000 |
| 500 | Trout Coal Holdings, LLC, Term Loan, LIBOR + 6.50%, 3/15/12 | 503,750 |
| 995 | Universal Compression, Inc., Term Loan, 0.35%, 2/15/12 | 1,004,640 |
| | | 21,684,304 |
| | **Entertainment & Leisure 2.6%** | |
| 988 | Boyd Gaming Corp., Term Loan B, LIBOR + 1.50%, 6/30/11 | 997,992 |
| | CCM Merger, Inc., | |
| 498 | Term Loan, 0.50%, 7/25/12 | 502,484 |
| 750 | Term Loan B, LIBOR + 2.00%, 4/25/12 | 755,156 |
| 2,790 | Greektown Casino, LLC, Term Loan D, LIBOR + 3.50%, 12/31/05 | 2,800,245 |
| 493 | Green Valley Ranch Gaming, LLC, Term Loan B, LIBOR + 2.00%, 12/17/11 | 498,685 |
| 1,241 | Isle of Capri Casinos, Inc., Term Loan, LIBOR + 1.75%, 2/04/11 | 1,251,869 |
| 985 | Loews Cineplex Entertainment Corp., Term Loan B, LIBOR + 2.25%, 7/31/11 | 987,879 |

| | | |
|---|---|---|
| 5,000 | Metro-Goldwyn-Mayer Studios, Inc., Term Loan B, LIBOR + 2.25%, 4/08/12 | 5,039,375 |
| 2,000 | Penn National Gaming, Term Loan B, PRIME + 1.00%, 10/03/12 | 2,023,126 |
| 499 | Volume Svcs. America, Inc., Term Loan, PRIME + 1.25%, 10/01/10 | 503,111 |
| | Wyndham International, Inc., | |
| 651 | TBD | 650,650 |
| 1,099 | Term Loan E, LIBOR, 9/11/07 | 1,099,350 |
| 1,000 | Wynn Las Vegas, LLC, Term Loan, 1.00%, 12/14/11 | 1,009,000 |
| 500 | Yellowstone Mtn. Club, Term Loan, LIBOR + 2.38%, 9/30/10 | 505,000 |
| | | 18,623,922 |
| | **Financial Institutions 1.2%** | |
| 1,500 | Arias Acquisitions, Inc., Term Loan, LIBOR + 3.75%, 7/26/11 | 1,494,375 |
| 956 | CCC Information Services, Inc., Term Loan B, LIBOR + 2.75%, 8/20/10 | 955,563 |
| 1,432 | Global Cash Access, LLC, Term Loan, LIBOR + 2.25%, 3/10/10 | 1,450,932 |
| | N.E.W. Holdings I, LLC, | |
| 966 | Term Loan, LIBOR + 3.25%, 7/08/11 | 977,776 |
| 250 | Term Loan, LIBOR + 7.00%, 6/30/12 | 253,438 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Principal Amount (000) | Description | Value |
|---|---|---|
| | **Financial Institutions (cont d.)** | |
| $ 1,975 | SBA Sen. Finance, Inc., Term Loan D, LIBOR + 2.25%, 10/31/08 | $ 1,979,114 |
| 463 | Universal American Financial Corp., Term Loan, LIBOR + 2.25%, 3/31/09 | 462,500 |
| 981 | USI Holdings Corp., Term Loan B, LIBOR + 2.50%, 8/11/08 | 981,838 |
| | | 8,555,536 |
| | **Health Care 4.3%** | |
| 494 | Accellent Corp., Term Loan B, LIBOR + 2.25%, 6/30/10 | 494,676 |
| 181 | Ameripath, Inc., Term Loan, LIBOR + 3.25%, 3/27/10 | 182,529 |
| 1,500 | CCS Medical, Term Loan B, TBD | 1,497,499 |
| 719 | Colgate Medical, Ltd., Term Loan B, LIBOR + 2.00%, 12/30/08 | 724,713 |
| 2,970 | Community Health Systems, Inc., Term Loan, LIBOR + 1.75%, 8/19/11 | 3,005,269 |
| 2,500 | Concentra Operating Corp., Term Loan B, LIBOR + 2.00%, 9/30/11 | 2,526,562 |
| 1,922 | Davita, Inc., Term Loan B, LIBOR + 2.25%, 10/05/12 | 1,947,990 |
| 1,000 | Duloxetine Royalty Sub., Term Loan, LIBOR + 4.50%, 10/15/13 | 1,000,000 |
| | HealthSouth Corp., | |
| 638 | Term Loan B, 0.50%, 2/28/10 | 639,492 |
| 2,357 | Term Loan, LIBOR + 2.50%, 6/14/07 | 2,363,958 |
| 2,000 | Term Loan, LIBOR + 5.00%, 6/15/10 | 2,003,334 |
| 988 | IASIS Healthcare Corp., Term Loan B, LIBOR + 2.25%, 6/30/11 | 1,000,256 |
| 2,970 | Jean Coutu Group, Inc., Term Loan B, LIBOR + 2.25%, 7/30/11 | 3,001,093 |
| 776 | Kinetic Concepts, Inc., Term Loan B-2, LIBOR + 1.75%, 8/11/10 | 784,151 |
| 827 | NDC Hlth Corp., Term Loan, PRIME + 2.00%, 11/26/08 | 827,036 |
| 993 | Pacificare Health Systems, Inc., Term Loan B, LIBOR + 1.50%, 12/13/10 | 993,534 |
| 995 | Select Med. Corp., Term Loan B, LIBOR + 1.75%, 2/24/12 | 994,862 |
| 500 | Triumph Healthcare Second Holdings, Inc., Term Loan, PRIME + 7.50%, 8/31/12 | 499,062 |
| 1,000 | Vanguard Hlth. Holding Co. II, Term Loan, LIBOR + 2.25%, 9/23/11 | 1,012,500 |
| | Warner Chilcott Corp., | |
| 530 | Term Loan, 1.375%, 1/31/06 - 6/30/06 | 531,482 |
| 2,173 | Term Loan B, LIBOR + 2.75%, 1/18/12 | 2,178,931 |
| 876 | Term Loan C, LIBOR + 2.75%, 1/18/12 | 878,003 |
| 404 | Term Loan D, LIBOR + 2.75%, 1/18/12 | 405,613 |
| 988 | Wellcare Holdings, LLC, Term Loan, LIBOR + 2.50%, 5/13/09 | 993,672 |
| | | 30,486,217 |
| | **Industrials 1.5%** | |
| 236 | Alderwoods Group, Inc., Term Loan B2, LIBOR + 2.00%, 9/29/09 | 238,464 |
| 3,198 | Buhrmann U.S., Inc., Term Loan C1, LIBOR + 2.50%, 12/31/10 | 3,254,235 |
| 780 | Novelis, Inc., Term Loan, LIBOR + 1.75%, 1/06/12 | 788,455 |
| 499 | Roller Bearing Co. of America, Term Loan B, LIBOR + 3.75%, 12/29/10 | 506,231 |
| 1,961 | Trimas Corp., Term Loan B, LIBOR + 3.75%, 12/31/09 | 1,976,846 |
| 1,806 | United Rentals (North America), Inc., Term Loan B, LIBOR + 2.25%, 2/14/11 | 1,818,926 |

| | | |
|---|---|---|
| 1,698 | Worldspan, L.P., Term Loan, LIBOR + 2.75%, 2/16/10 | 1,653,211 |
| | | 10,236,368 |
| | **Media 5.8%** | |
| 1,741 | American Lawyers Media, Inc., Term Loan, 0.75%, 3/05/10 | 1,739,800 |
| 4,000 | Century Cable Holdings, LLC, Term Loan, PRIME + 2.00%, 6/30/09 | 3,957,856 |
| 3,452 | Charter Communications Operating, LLC, Term Loan, LIBOR + 3.25%, 4/27/11 | 3,458,862 |
| 3,684 | Dex Media West, LLC, Term Loan B, LIBOR + 1.75%, 3/09/10 | 3,697,028 |
| 2,333 | DirecTV Holdings, LLC, Term Loan B, LIBOR + 1.50%, 4/13/13 | 2,351,806 |
| 2,978 | Emmis Communications Co., Term Loan B, LIBOR + 1.75%, 11/10/11 | 2,994,993 |
| 2,581 | Insight Midwest Holdings, LLC, Term Loan C, LIBOR + 2.00%, 12/31/09 | 2,614,884 |
| 249 | Masonite International Corp., Term Loan, LIBOR + 2.00%, 4/05/13 | 247,943 |
| 1,990 | Mediacom Communications Corp., Term Loan C, LIBOR + 2.00%, 2/01/14 | 2,017,363 |
| 1,985 | Mediacom Illinois, LLC, Term Loan B, LIBOR + 2.25%, 3/31/13 | 2,014,156 |
| 1,946 | Mission Broadcasting, Inc., Term Loan B, LIBOR + 1.75%, 8/14/12 | 1,955,645 |
| 500 | NEP Supershooters, L.P., Term Loan, LIBOR + 8.00%, 2/01/11 | 495,000 |
| 1,981 | Nexstar Broadcasting, Inc., Term Loan B, LIBOR + 1.75%, 8/14/12 | 1,990,749 |
| 3,000 | NTL Investment Holding Ltd., Term Loan B, LIBOR + 3.00%, 5/19/12 | 3,006,750 |
| 750 | Puerto Rico Cable Acquisition Co., Term Loan, PRIME + 5.25%, 2/28/12 | 760,313 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Principal Amount (000) | Description | Value |
|---|---|---|
| | **Media (cont d.)** | |
| $ 2,500 | Raycom Media, Inc., Term Loan B, LIBOR + 1.75%, 3/31/12 | $ 2,509,375 |
| | Relizon Co. (The), | |
| 122 | Term Loan B-1, LIBOR + 3.00%, 2/20/11 | 122,336 |
| 1,118 | Term Loan, LIBOR + 3.00%, 2/20/11 | 1,120,697 |
| 2,000 | UPC Distribution Corp., Term Loan H, LIBOR + 2.50%, 9/30/12 | 2,015,416 |
| 1,968 | WMG Acquisition Corp., Term Loan, LIBOR + 2.00%, 2/28/11 | 1,986,422 |
| | | 41,057,394 |
| | **Publishing 0.1%** | |
| 750 | Endurance Business Media, Term Loan B, PRIME + 1.25%, 3/08/12 | 755,625 |
| | **Real Estate 1.7%** | |
| 627 | Crescent Real Estate Equities, L.P., Term Loan, LIBOR + 2.25%, 1/12/06 | 628,893 |
| | General Growth Properties, Inc., | |
| 1,766 | Term Loan A, LIBOR + 1.75%, 11/12/07 | 1,772,128 |
| 3,003 | Term Loan B, LIBOR + 2.00%, 11/12/08 | 3,034,339 |
| | Kyle Acquisition Group, LLC, | |
| 731 | Term Loan B, PRIME, 7/20/08 | 738,661 |
| 300 | Term Loan, PRIME, 7/20/10 | 303,000 |
| 1,000 | Landsource Communities Development, LLC, Term Loan B, LIBOR + 2.50%, 3/31/10 | 1,006,250 |
| 476 | Macerich Partnership, L.P., Term Loan, LIBOR + 1.60%, 4/25/06 | 476,154 |
| 249 | Masonite Intl. Corp., Term Loan, LIBOR + 2.00%, 4/05/13 | 247,521 |
| | Ply Gem Industries, Inc., | |
| 61 | Term Loan, LIBOR + 2.50%, 3/15/10 | 61,745 |
| 1,916 | Term Loan B, LIBOR + 2.50%, 2/12/11 | 1,925,819 |
| 712 | Stewart Enterprises, Inc., Term Loan B, LIBOR + 1.75%, 11/19/11 | 720,132 |
| 1,000 | Williams Scotsman, Inc., Term Loan B, LIBOR + 2.50%, 6/28/10 | 1,011,875 |
| | | 11,926,517 |
| | **Technology 0.4%** | |
| 413 | Coinstar, Inc., Term Loan, LIBOR + 2.25%, 7/07/11 | 419,792 |
| 498 | Federal IT Systems, Inc., Term Loan, LIBOR + 2.75%, 4/01/11 | 502,786 |
| 1,441 | Verifone, Inc., Term Loan B, LIBOR + 2.00%, 6/30/11 | 1,448,415 |
| 241 | Westcom Corp., Term Loan B, LIBOR + 2.75%, 12/16/10 | 242,312 |
| | | 2,613,305 |
| | **Telecommunications 3.4%** | |
| 250 | AAT Communications Corp., Term Loan, LIBOR + 1.75%, 7/27/12 | 253,125 |
| 1,000 | Alaska Communications Systems Holdings, Inc., Term Loan, LIBOR + 2.00%, 1/31/12 | 1,012,000 |
| 1,000 | Atlantic Broadband Finance, LLC, Term Loan B1, LIBOR + 2.75%, 8/04/12 | 1,015,000 |

| | | |
|---|---|---|
| | Centennial Cellular Operating Co., | |
| 489 | Term Loan, LIBOR + 2.25%, 2/09/11 | 490,913 |
| 991 | Term Loan, LIBOR + 2.25%, 2/09/11 | 995,669 |
| 1,481 | Cons. Communications, Inc., Term Loan D, LIBOR + 2.25%, 10/14/11 | 1,496,062 |
| 500 | Country Road Communications, LLC, Term Loan, LIBOR, 7/15/13 | 506,250 |
| 750 | Fairpoint Communications, Inc., Term Loan, LIBOR + 1.75%, 2/15/12 | 756,750 |
| 1,244 | Freedom Communications, Inc., Term Loan B, LIBOR + 1.50%, 5/01/13 | 1,251,834 |
| 993 | Intelsat Zeus, Ltd., Term Loan, 0.75%, 7/28/11 | 1,000,358 |
| 2,000 | Iowa Telecommunications Services, Inc., Term Loan B, LIBOR + 1.75%, 11/23/11 | 2,017,500 |
| | IPC Acquisition Corp., | |
| 1,000 | Term Loan, LIBOR + 2.75%, 8/05/11 | 1,003,333 |
| 500 | Term Loan, LIBOR + 7.25%, 8/05/12 | 490,000 |
| 1,000 | Madison River Capital, LLC, Term Loan B, LIBOR + 2.50%, 7/29/12 | 1,013,333 |
| 2,500 | Nextel Partners Operating Corp., Term Loan D, LIBOR + 1.50%, 5/31/12 | 2,505,730 |
| | Ntelos, Inc., | |
| 744 | Term Loan, LIBOR + 2.50%, 8/25/11 | 749,027 |
| 750 | Term Loan, LIBOR + 5.00%, 2/25/12 | 754,688 |
| 2,000 | Qwest Corp., Term Loan A, LIBOR + 4.75%, 6/30/07 | 2,059,444 |
| 2,000 | Satbirds Finance, Term Loan, LIBOR + 4.25%, 10/15/13 | 2,414,536 |
| 1,933 | Valor Telecommunication Enterprises II, LLC, Term Loan B, LIBOR + 1.75%, 2/14/12 | 1,953,703 |
| | | 23,739,255 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Transportation 0.5%** | |
| | $ 500 | Delta Air Lines, Inc., Term Loan B, LIBOR + 6.50%, 3/16/08 | $ 516,750 |
| | 988 | Kenan Advantage Group, Inc., Term Loan, LIBOR + 3.50%, 6/30/10 | 997,375 |
| | 1,000 | Sirva Worldwide, Inc., Term Loan, LIBOR + 3.50%, 12/01/10 | 954,500 |
| | 750 | Transport Industries, L.P., Term Loan B, LIBOR + 2.50%, 9/30/11 | 755,625 |
| | | | 3,224,250 |
| | | Total Bank Loans | 308,562,143 |
| | | **Mortgage Pass-Through Securities 21.2%** | |
| | | Federal National Mortgage Assoc., | |
| | 988[2] | 5.00%, 6/01/20 - 8/01/20 | 974,650 |
| | 3,519 | 5.50%, 12/01/28 - 11/01/33 | 3,476,430 |
| | 7,725[2] | 5.50%, 7/01/33 - 10/01/33 | 7,627,858 |
| | 170,002 | 7.25%, 1/15/10 | 18,582,020 |
| | 120,700 | TBA, 5.00%, 11/30/20 | 119,040,375 |
| | | Total Mortgage Pass-Through Securities | 149,701,333 |
| | | **Interest Only Asset-Backed Securities 1.3%** | |
| | | Sterling Coofs Trust, | |
| NR | 58,694 | Ser. 1, 2.362%, 4/15/29 | 4,842,287 |
| NR | 54,298 | Ser. 2, 1.00%, 3/30/30 | 4,140,202 |
| | | Total Interest Only Asset-Backed Securities | 8,982,489 |
| | | **Asset-Backed Securities 2.7%** | |
| AAA | 2,080[2] | Citibank Credit Card Issuance Trust, 2.50%, 4/07/08 | 2,063,651 |
| AAA | 4,031[2] | DaimlerChrysler Auto Trust, 2.25%, 8/08/07 | 4,008,902 |
| AAA | 5,170[2] | Honda Auto Receivables Class A3, 2.30%, 10/18/07 | 5,116,536 |
| AAA | 7,910[2] | MBNA Credit Card Master Note Trust, 5.75%, 10/15/08 | 7,965,528 |
| | | Total Asset-Backed Securities | 19,154,617 |
| | | **Collateralized Mortgage Obligations 2.1%** | |
| | | GSR Mortgage Loan Trust, | |
| AAA | 7,764 | Ser. 10, Class 2A1, 4.475%, 10/25/33 | 7,389,218 |
| AAA | 7,510 | Ser. 13, Class 1A1, 4.506%, 10/25/33 | 7,224,207 |
| | | Total Collateralized Mortgage Obligations | 14,613,425 |
| | | **U.S. Government and Agency Securities 5.3%** | |
| | | U.S. Treasury Notes, | |
| | 20,425[2] | 3.375%, 12/15/08 - 9/15/09 | 19,773,303 |
| | 10,000[2] | 3.75%, 3/31/07 | 9,909,400 |
| | 6,000[2] | 3.875%, 5/15/09 | 5,889,360 |
| | 1,815[2] | 4.25%, 8/15/15 | 1,770,768 |

| | | | |
|---|---|---|---|
| | | Total U.S. Government and Agency Securities | 37,342,831 |
| | | **Foreign Government Bonds 2.5%** | |
| B+ | 1,190 | Bolivarian Republic of Venezuela, 4.563%, 12/18/07 | 1,184,462 |
| BB | 5,000 | Republic of Colombia, 9.75%, 4/23/09 | 5,597,500 |
| BB | 5,000 | Republic of Peru, 9.125%, 2/21/12 | 5,780,000 |
| BB- | 5,000 | Republic of Turkey, 11.375%, 11/27/06 | 5,350,000 |
| | | Total Foreign Government Bonds | 17,911,962 |
| | | **Warrants 0.0%** | |
| NR | 10[7] | Reliant Resources, Inc., expires 8/25/05, strike price $0.001, 1 share for 1 warrant | 77,609 |
| | | **Total Long-Term Investments** (cost 978,248,319) | 977,999,891 |

See Notes to Financial Statements.

**BlackRock Limited Duration Income Trust (BLW) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **SHORT-TERM INVESTMENT 0.6%** | |
| | | **U.S. Government and Agency Zero Coupon Bond 0.6%** | |
| A-1+ | $ 4,000 | FNMA Discount Notes, 3.72%, 11/01/05[6] (cost $4,000,000) | $ 4,000,000 |
| | | **Total investments before borrowed bond** (cost $982,248,319[4]) | 981,999,891 |
| | | **BORROWED BOND 1.2%** | |
| | 8,671[5] | U.S. Treasury Note, 4.25%, 11/04/05 (cost $8,670,825) | 8,670,825 |
| | | **Total investments net of borrowed bonds 140.5%** | 990,670,716 |
| | | Liabilities in excess of other assets (40.5)% | (285,709,299) |
| | | **Net Assets 100%** | $ 704,961,417 |

1 Using the higher of S&P s, Moody s or Fitch s rating.
2 Entire or partial principal amount pledged as collateral for reverse repurchase agreements. See Note 4 in the Notes to Financial Statements for details of open reverse repurchase agreements.
3 Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A under that Act, to qualified institutional buyers. As of October 31, 2005, the Trust held 12.3% of its net assets, with a current market value of $86,425,365, in securities restricted as to resale.
4 Cost for Federal income tax purposes is $982,455,182. The net unrealized depreciation on a tax basis is $455,291, consisting of $12,636,533 gross unrealized appreciation and $13,091,824 gross unrealized depreciation.
5 The interest rate and maturity date shown represent the terms of the borrowed bond transaction, not the security borrowed (see Note 1).
6 Rate shown is yield to maturity as of October 31, 2005.
7 Non-income producing security.

A category in the Corporate Bonds and Bank Loans sections may contain multiple industries as defined by the SEC s Standard Industry Codes.

**KEY TO ABBREVIATIONS**

| | |
|---|---|
| TBA | To Be Announced |
| TBD | To Be Determined |

See Notes to Financial Statements.

## PORTFOLIO OF INVESTMENTS
## OCTOBER 31, 2005

**BlackRock Strategic Bond Trust (BHD)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **LONG-TERM INVESTMENTS 130.0%** | |
| | | **Corporate Bonds 122.7%** | |
| | | **Aerospace & Defense 6.7%** | |
| NR | $ 250 | AAR Corp., 8.39%, 5/15/11 | $ 255,000 |
| B- | 320 | BE Aerospace, Inc., 8.875%, 5/01/11 | 336,800 |
| BBB+ | 2,000 | Lockheed Martin Corp., 8.50%, 12/01/29 | 2,709,880 |
| BBB+ | 1,000 | Northrop Grumman Corp., 7.125%, 2/15/11 | 1,089,830 |
| BBB | 650 | Raytheon Co., 4.85%, 1/15/11 | 640,913 |
| BB | 350 | Sequa Corp., 8.875%, 4/01/08 | 361,375 |
| A+ | 1,000[2] | United Technologies Corp., 6.35%, 3/01/11 | 1,062,460 |
| | | | 6,456,258 |
| | | **Automotive 3.4%** | |
| B- | 180 | Accuride Corp., 8.50%, 2/01/15 | 170,100 |
| BB+ | 60 | Arvinmeritor, Inc., 8.75%, 3/01/12 | 56,700 |
| A3 | 1,000[2] | DaimlerChrysler NA Holding Corp., 7.30%, 1/15/12 | 1,074,330 |
| Caa1 | 1,000 | Delco Remy Intl., Inc., 11.00%, 5/01/09 | 482,500 |
| BB | 300 | General Motors Acceptance Corp., 8.00%, 11/01/31 | 309,129 |
| B- | 80 | Goodyear Tire & Rubber Co., 7.857%, 8/15/11 | 77,000 |
| CCC+ | 200[3] | Metaldyne Corp., 11.00%, 11/01/13 | 179,500 |
| BB | 130 | Navistar Intl. Corp., 6.25%, 3/01/12 | 116,675 |
| BB- | 717 | TRW Automotive, Inc., 9.375%, 2/15/13 | 770,775 |
| | | | 3,236,709 |
| | | **Basic Materials 6.2%** | |
| BB- | 105 | Abitibi-Consolidated, Inc., 8.375%, 4/01/15 (Canada) | 97,388 |
| B- | 80[3] | BCI US Finance Corp./Borden 2 Nova Scotia Finance ULC, 9.65%, 7/15/10 | 80,800 |
| BB- | 415 | Bowater Canada Finance Corp., 7.95%, 11/15/11 (Canada) | 398,400 |
| B- | 2,175 | Caraustar Industries, Inc., 9.875%, 4/01/11 | 2,115,187 |
| BB- | 120 | Donohue Forest Products, 7.625%, 5/15/07 (Canada) | 121,500 |
| | | Huntsman LLC, | |
| B | 99 | 11.50%, 7/15/12 | 111,870 |
| BB- | 50 | 11.625%, 10/15/10 | 56,875 |
| BB | 70 | IMC Global, Inc., 10.875%, 6/01/08 | 78,225 |
| CCC+ | 1,155[3] | Innophos, Inc., 9.125%, 8/15/14 | 1,169,437 |
| | | Lyondell Chemical Co., | |
| BB- | 300 | 9.50%, 12/15/08 | 314,250 |
| BB- | 130 | 10.50%, 6/01/13 | 147,550 |
| B- | 85 | Nalco Co., 8.875%, 11/15/13 | 86,913 |
| CCC+ | 310 | NewPage Corp., 10.00%, 5/01/12 | 283,650 |
| B- | 80[3] | PQ Corp., 7.50%, 2/15/13 | 72,800 |
| | | Rhodia SA, | |
| CCC+ | 300 | 8.875%, 6/01/11 (France) | 282,750 |
| B3 | 30 | 10.25%, 6/01/10 (France) | 31,875 |
| BBB- | 110[3] | Southern Peru Copper Corp., 7.50%, 7/27/35 | 106,975 |
| BBB | 441 | Weyerhaeuser Co., 6.125%, 3/15/07 | 448,069 |
| | | | 6,004,514 |

| | | | |
|---|---|---|---|
| | | **Building & Development 2.2%** | |
| B- | 75[3] | Ahern Rentals, Inc., 9.25%, 8/15/13 | 76,594 |
| BB+ | 1,000 | Beazer Homes USA, Inc., 8.625%, 5/15/11 | 1,017,500 |
| B2 | 150[3] | Compression Polymers Corp., 10.50%, 7/01/13 | 136,500 |
| B- | 775[3] | Goodman Global Holding Co., Inc., 7.875%, 12/15/12 | 732,375 |
| B | 200 | North American Energy Partners, Inc., 9.00%, 6/01/10 (Canada) | 208,000 |
| | | | 2,170,969 |

See Notes to Financial Statements.

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**BlackRock Strategic Bond Trust (BHD) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Conglomerates 1.6%** | |
| A+ | $ 325 | Honeywell Intl., Inc., 7.50%, 3/01/10 | $ 357,718 |
| BB- | 30 | Stena AB, 7.00%, 12/01/16 (Sweden) | 27,750 |
| BBB+ | 1,132[2] | Tyco Intl. Group, 6.375%, 2/15/06 | 1,137,388 |
| | | | 1,522,856 |
| | | **Consumer Products 10.6%** | |
| B3 | 90 | ALH Finance LLC, 8.50%, 1/15/13 | 81,450 |
| BBB- | 2,000 | Autonation, Inc., 9.00%, 8/01/08 | 2,165,000 |
| B1 | 2,000 | Cenveo Corp., 9.625%, 3/15/12 | 2,110,000 |
| B2 | 465 | Finlay Fine Jewelry Corp., 8.375%, 6/01/12 | 395,250 |
| BBB+ | 1,000[2] | General Mills, Inc., 5.125%, 2/15/07 | 1,003,020 |
| B2 | 320 | Gold Kist, Inc., 10.25%, 3/15/14 | 361,600 |
| | | GSC Holdings Corp., | |
| Ba3 | 70[3] | 7.875%, 10/01/11 | 70,438 |
| Ba3 | 125[3] | 8.00%, 10/01/12 | 121,875 |
| B- | 460[3] | Knowledge Learning Corp., Inc., 7.75%, 2/01/15 | 427,800 |
| B- | 380 | Lazydays RV Center, Inc., 11.75%, 5/15/12 | 395,200 |
| B | 270 | Levi Strauss & Co., 8.804%, 4/01/12 | 268,312 |
| B3 | 530 | Movie Gallery, Inc., 11.00%, 5/01/12 | 424,000 |
| B- | 500 | Pantry, Inc., The, 7.75%, 2/15/14 | 491,250 |
| BB- | 100[3] | Quiksilver, Inc., 6.875%, 4/15/15 | 92,750 |
| B- | 500[3] | Rite Aid Corp., 6.125%, 12/15/08 | 470,000 |
| CCC+ | 75[3] | Rural/Metro Corp., 9.875%, 3/15/15 | 78,375 |
| B | 1,400 | Sonic Automotive, Inc., 8.625%, 8/15/13 | 1,326,500 |
| | | | 10,282,820 |
| | | **Containers & Packaging 1.5%** | |
| | | Crown European Holdings SA, | |
| B+ | 200 | 9.50%, 3/01/11 (France) | 220,000 |
| B | 800 | 10.875%, 3/01/13 (France) | 944,000 |
| CCC+ | 95 | Graham Packaging Co., Inc., 9.875%, 10/15/14 | 90,013 |
| CCC+ | 230[3] | Pregis Corp., 12.375%, 10/15/13 | 225,400 |
| | | | 1,479,413 |
| | | **Ecological Services & Equipment 1.9%** | |
| BB- | 265 | Allied Waste NA, Inc., 5.75%, 2/15/11 | 246,450 |
| B | 1,500 | Casella Waste Systems, Inc., 9.75%, 2/01/13 | 1,608,750 |
| | | | 1,855,200 |
| | | **Energy 15.1%** | |
| | | ANR Pipeline Co., | |
| B1 | 185 | 7.375%, 2/15/24 | 192,631 |
| B1 | 655 | 9.625%, 11/01/21 | 792,550 |
| B2 | 1,010 | Aquila Finance Corp., 7.75%, 6/15/11 (Canada) | 1,030,200 |
| | | Calpine Corp., | |
| B- | 35[3] | 8.50%, 7/15/10 | 24,588 |
| B | 225[3] | 9.625%, 9/30/14 | 228,375 |
| CCC | 5 | Calpine Energy Finance ULC, 8.50%, 5/01/08 (Canada) | 2,713 |

| | | | |
|---|---|---|---|
| CCC+ | 255 | Calpine Generating Co. LLC, 11.50%, 4/01/11 | 233,006 |
| B- | 270[3] | Clayton Williams Energy, Inc., 7.75%, 8/01/13 | 260,550 |
| | | CMS Energy Corp., | |
| BB- | 95 | 7.50%, 1/15/09 | 98,325 |
| BB- | 295 | 9.875%, 10/15/07 | 317,125 |
| Ba3 | 120[3] | Compagnie Generale de Geophysique SA, 7.50%, 5/15/15 (France) | 124,800 |
| A1 | 1,000 | ConocoPhillips Holding Co., 6.95%, 4/15/29 | 1,190,220 |
| BBB+ | 1,000[2] | Dominion Resources, Inc., 5.70%, 9/17/12 | 1,016,340 |
| B2 | 470 | Dresser, Inc., 9.375%, 4/15/11 | 489,975 |
| BBB | 250 | DTE Energy Co., 7.05%, 6/01/11 | 268,247 |
| B+ | 610[3] | Dynegy Holdings, Inc., 10.125%, 7/15/13 | 671,000 |
| | | El Paso CGP Co., | |
| B- | 200 | 7.42%, 2/15/37 | 181,000 |
| B- | 165 | 9.625%, 5/15/12 | 180,881 |
| B- | 100 | 10.75%, 10/01/10 | 109,125 |

See Notes to Financial Statements.

**BlackRock Strategic Bond Trust (BHD) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Energy (cont d)** | |
| | | El Paso Corp., | |
| B- | $ 165 | 7.75%, 1/15/32 | $ 164,588 |
| B- | 205 | 7.80%, 8/01/31 | 203,206 |
| B1 | 175 | El Paso Natural Gas Co., 8.375%, 6/15/32 | 192,938 |
| B | 250 | Exco Resources, Inc., 7.25%, 1/15/11 | 255,000 |
| BBB- | 1,075 | FirstEnergy Corp., 7.375%, 11/15/31 | 1,224,169 |
| | | Hilcorp Energy I LP/Hilcorp Finance Corp., | |
| B | 100[3] | 7.75%, 11/01/15 | 100,000 |
| B | 97[3] | 10.50%, 9/01/10 | 108,640 |
| | | KCS Energy, Inc., | |
| B- | 70 | 7.125%, 4/01/12 | 71,225 |
| B- | 125[3] | 7.125%, 4/01/12 | 127,500 |
| | | Midwest Generation LLC, | |
| B+ | 596 | 8.56%, 1/02/16 | 649,720 |
| B+ | 370 | 8.75%, 5/01/34 | 407,925 |
| B2 | 120 | Mission Energy Holdings Co., 13.50%, 7/15/08 | 139,500 |
| A- | 250 | Occidental Petroleum Corp., 6.75%, 1/15/12 | 274,997 |
| B- | 110[3] | Ocean Rig Norway AS, 8.375%, 7/01/13 | 118,525 |
| B2 | 140 | Orion Power Holdings, Inc., 12.00%, 5/01/10 | 165,900 |
| | | Progress Energy, Inc., | |
| Baa2 | 1,000 | 6.75%, 3/01/06 | 1,006,850 |
| Baa2 | 1,000 | 7.75%, 3/01/31 | 1,149,070 |
| B | 30 | Range Resources Corp., 6.375%, 3/15/15 | 30,075 |
| | | Reliant Energy, Inc., | |
| BB- | 70 | 6.75%, 12/15/14 | 64,925 |
| BB- | 75 | 9.25%, 7/15/10 | 78,750 |
| B2 | 400[3] | Targa Resources, Inc., 8.50%, 11/01/13 | 406,000 |
| BB+ | 30 | Transcontinental Gas Pipe Line Corp., 7.25%, 12/01/26 | 32,438 |
| B2 | 60[3] | Whiting Petroleum Corp., 7.00%, 2/01/14 | 60,150 |
| BB | 100 | Williams Cos., Inc., 7.125%, 9/01/11 | 103,625 |
| | | | 14,547,367 |
| | | **Entertainment & Leisure 4.0%** | |
| BB | 195 | MGM Mirage, 6.00%, 10/01/09 | 191,100 |
| B | 55 | Poster Financial Group, Inc., 8.75%, 12/01/11 | 56,100 |
| B | 1,000 | Resorts Intl. Hotel & Casino, Inc., 11.50%, 3/15/09 | 1,112,500 |
| Ba1 | 1,500 | Royal Caribbean Cruises Ltd., 8.75%, 2/02/11 | 1,679,100 |
| B+ | 70[3] | San Pasqual Casino, 8.00%, 9/15/13 | 70,000 |
| BB- | 190[3] | Seneca Gaming Corp., 7.25%, 5/01/12 | 194,750 |
| B+ | 565 | Wynn Las Vegas LLC / Wynn Las Vegas Cap. Corp., 6.625%, 12/01/14 | 538,162 |
| | | | 3,841,712 |
| | | **Financial Institutions 25.6%** | |
| AA | 185[3] | Allstate Financial Global Funding LLC, 5.25%, 2/01/07 | 186,062 |
| BB | 230[3] | American Real Estate Partners LP/American Real Estate Finance Corp., 7.125%, 2/15/13 | 223,100 |
| Aa3 | 1,000[2] | Bank One Corp., 6.50%, 2/01/06 | 1,005,360 |
| Aa3 | 650[3] | Barclays Bank PLC, 8.55%, 9/29/49 (United Kingdom) | 751,505 |
| B- | 250 | BCP Crystal US Holdings Corp., 9.625%, 6/15/14 (Luxembourg) | 275,000 |
| A+ | 325 | Bear Stearns Co., Inc., 6.50%, 5/01/06 | 328,091 |

| | | | |
|---|---|---|---|
| B1 | 2,000 | Bluewater Finance Ltd., 10.25%, 2/15/12 | 2,135,000 |
| B- | 500[3] | Borden US Finance Corp./Nova Scotia Finance ULC, 9.00%, 7/15/14 | 492,500 |
| AA+ | 3,000[2] | Citigroup, Inc., 5.75%, 5/10/06 | 3,020,250 |
| BB | 590 | Crum & Forster Hldgs. Corp., 10.375%, 6/15/13 | 631,300 |
| B+ | 130[3] | E*Trade Financial Corp., 7.375%, 9/15/13 | 128,050 |
| BB | 200 | Fairfax Financial Holdings Ltd., 7.75%, 4/26/12 (Canada) | 182,000 |
| BB | 300 | Fairfax Financial Holdings, Ltd., 6.875%, 4/15/08 (Canada) | 289,500 |
| | | Ford Motor Credit Co., | |
| BBB- | 720 | 5.70%, 1/15/10 | 648,079 |
| BBB- | 1,600 | 5.72%, 1/15/10 | 1,461,728 |
| BBB- | 750 | 5.80%, 1/12/09 | 684,533 |
| BBB- | 75 | 7.25%, 10/25/11 | 69,753 |

See Notes to Financial Statements.

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**BlackRock Strategic Bond Trust (BHD) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Financial Institutions (cont d)** | |
| AAA | $ 2,000[2] | General Electric Cap. Corp., 3.45%, 7/16/07 | $ 1,957,440 |
| BB | 250 | General Motors Acceptance Corp., 6.75%, 1/15/06 | 249,888 |
| AA | 1,500[2] | HSBC Bank USA, Inc., 3.875%, 9/15/09 | 1,443,735 |
| B- | 225 | K&F Acquisition, Inc., 7.75%, 11/15/14 | 225,000 |
| AAA | 850 | KFW Intl. Finance, Inc., 5.25%, 6/28/06 | 854,870 |
| A | 325 | MetLife, Inc., 6.125%, 12/01/11 | 340,334 |
| B- | 415[3] | Nell AF, 8.375%, 8/15/15 (Luxembourg) | 398,400 |
| | | Rainbow National Services LLC, | |
| B+ | 210[3] | 8.75%, 9/01/12 | 220,500 |
| B+ | 2,045[3] | 10.375%, 9/01/14 | 2,254,612 |
| B- | 340 | Standard Aero Holdings, Inc., 8.25%, 9/01/14 | 323,850 |
| NR | 923 | Structured Asset Receivable Trust, 1.649%, 1/21/10 | 924,215 |
| AAA | 1,000[2,3] | TIAA Global Markets, Inc., 3.875%, 1/22/08 | 979,010 |
| B- | 50 | Universal City Florida Hldg. Co. I/II, 9.00%, 5/01/10 | 51,000 |
| Aa1 | 2,000[2] | Wells Fargo & Co., 3.50%, 4/04/08 | 1,941,140 |
| BB- | 50 | Western Financial Bank, 9.625%, 5/15/12 | 56,625 |
| | | | 24,732,430 |
| | | **Health Care 8.1%** | |
| CCC | 10 | Curative Health Services, Inc., 10.75%, 5/01/11 | 6,750 |
| B | 170[3] | Elan Finance Corp., 7.75%, 11/15/11 (Ireland) | 149,600 |
| NR | 2,000 | Healthsouth Corp., 7.375%, 10/01/06 | 1,980,000 |
| B | 300[3] | Insight Health Services Corp., 9.174%, 11/01/11 | 284,250 |
| AA | 1,000[2] | Merck & Co., Inc., 4.375%, 2/15/13 | 939,410 |
| | | Tenet Healthcare Corp., | |
| B | 50 | 6.375%, 12/01/11 | 43,625 |
| B | 380 | 9.875%, 7/01/14 | 370,500 |
| B3 | 1,500 | United Surgical Partners Intl., Inc., 10.00%, 12/15/11 | 1,623,750 |
| B- | 290 | Universal Hospital Services, Inc., 10.125%, 11/01/11 | 292,900 |
| BBB+ | 1,000[2] | WellPoint, Inc., 5.95%, 12/15/34 | 1,015,700 |
| A | 1,000[2] | Wyeth, 6.50%, 2/01/34 | 1,097,050 |
| | | | 7,803,535 |
| | | **Industrials 5.0%** | |
| B- | 80[3] | Chart Industries, Inc., 9.125%, 10/15/15 | 79,000 |
| Caa1 | 1,185[3] | DI Finance/DynCorp. Intl., 9.50%, 2/15/13 | 1,226,475 |
| B- | 595 | ERICO Intl. Corp., 8.875%, 3/01/12 | 612,850 |
| Caa1 | 550[3] | Hydrochem Industrial Services, 9.25%, 2/15/13 | 501,875 |
| B- | 300 | NationsRent Cos., Inc., 9.50%, 5/01/15 | 311,250 |
| CCC+ | 700 | Park-Ohio Inds., Inc., 8.375%, 11/15/14 | 610,750 |
| B3 | 350[3] | Sunstate Equipment Co. LLC, 10.50%, 4/01/13 | 353,500 |
| CCC+ | 775 | Trimas Corp., 9.875%, 6/15/12 | 631,625 |
| Caa1 | 525 | United Rentals NA, Inc., 7.00%, 2/15/14 | 477,750 |
| | | | 4,805,075 |
| | | **Media 12.7%** | |
| NR | 1,000[4] | Adelphia Communications Corp., 10.50%, 7/15/04 | 645,000 |
| B- | 165 | Allbritton Communications Co., 7.75%, 12/15/12 | 164,175 |
| CCC+ | 400 | American Media Operations, Inc., 10.25%, 5/01/09 | 380,000 |
| BBB+ | 1,000 | AOL Time Warner, Inc., 7.70%, 5/01/32 | 1,144,190 |

| | | | |
|---|---|---|---|
| CCC+ | 1,675[3] | CCH I Holdings LLC/Cap. Corp., 11.125%, 1/15/14 | 1,139,000 |
| CCC+ | 365 | Charter Communications Holdings II, LLC/Charter Communications Holdings II Cap. Corp., 10.25%, 9/15/10 | 365,912 |
| BBB+ | 1,000[2] | Comcast Cable Communications, Inc., 6.875%, 6/15/09 | 1,052,250 |
| BB- | 200 | Echostar DBS Corp., 7.304%, 10/01/08 | 203,500 |
| CCC+ | 75[3] | iesy Repository GmbH, 10.375%, 2/15/15 (Germany) | 80,438 |
| BBB | 1,500[2] | News America, Inc., 6.20%, 12/15/34 | 1,455,345 |
| B3 | 220 | Nexstar Finance, Inc., 7.00%, 1/15/14 | 194,700 |
| B3 | 1,765 | Nextmedia Operating, Inc., 10.75%, 7/01/11 | 1,923,921 |
| B2 | 270 | Primedia, Inc., 9.715%, 5/15/10 | 275,400 |
| BBB+ | 1,000 | TCI Communications, Inc., 7.875%, 2/15/26 | 1,146,580 |

See Notes to Financial Statements.

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**BlackRock Strategic Bond Trust (BHD) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | Value |
|---|---|---|---|
| | | **Media (cont d)** | |
| | | Vertis, Inc., | |
| Caa1 | $ 1,090 | 10.875%, 6/15/09 | $ 1,013,700 |
| Caa2 | 90[3] | 13.50%, 12/07/09 | 69,300 |
| Baa3 | 85 | Viacom, Inc., 6.625%, 5/15/11 | 88,773 |
| Caa1 | 970 | Young Broadcasting, Inc., 10.00%, 3/01/11 | 911,800 |
| | | | 12,253,984 |
| | | **Real Estate 2.6%** | |
| BB | 860 | American Real Estate Partners, 8.125%, 6/01/11 | 883,650 |
| A | 500 | ERP Operating LP, 6.95%, 3/02/11 | 537,870 |
| B1 | 1,000 | Felcore Lodging LP, 9.00%, 6/01/11 | 1,070,000 |
| | | | 2,491,520 |
| | | **Technology 4.3%** | |
| B | 315 | Celestica, Inc., 7.625%, 7/01/13 (Canada) | 304,762 |
| B+ | 100[3] | Hynix Semiconductor, Inc., 9.875%, 7/01/12 (Korea) | 111,375 |
| BB- | 905 | Lucent Technologies, Inc., 6.50%, 1/15/28 | 769,250 |
| | | MagnaChip Semiconductor SA/Magna Semiconductor Finance Co., | |
| Ba3 | 250 | 6.875%, 12/15/11 | 233,750 |
| Ba3 | 175 | 7.12%, 12/15/11 (Luxembourg) | 170,625 |
| B+ | 115 | Sanmina-SCI Corp., 6.75%, 3/01/13 | 108,388 |
| BB | 50 | Stats Chippac Ltd., 7.50%, 7/19/10 (Singapore) | 50,250 |
| | | Sungard Data Systems, Inc., | |
| B- | 120[3] | 8.525%, 8/15/13 | 123,600 |
| B- | 450[3] | 9.125%, 8/15/13 | 460,125 |
| B- | 480[3] | 10.25%, 8/15/15 | 475,200 |
| B | 950 | Superior Essex Communications LLC/Essex Group, Inc., 9.00%, 4/15/12 | 940,500 |
| B- | 360 | UGS Corp., 10.00%, 6/01/12 | 394,200 |
| | | | 4,142,025 |
| | | **Telecommunications 9.2%** | |
| BB- | 190 | Cincinnati Bell, Inc., 7.25%, 7/15/13 | 198,075 |
| B- | 130[3] | Hawaiian Telcom Communications, Inc., 9.948%, 5/01/13 | 128,375 |
| | | Intelsat Ltd., | |
| Caa1 | 550 | 5.25%, 11/01/08 | 500,500 |
| B2 | 50[3] | 8.25%, 1/15/13 | 50,125 |
| B2 | 325[3] | 8.625%, 1/15/15 | 329,875 |
| B2 | 295[3] | 8.695%, 1/15/12 | 299,425 |
| BB- | 30 | Lucent Technologies, Inc., 6.45%, 3/15/29 | 25,650 |
| B- | 235 | Nortel Networks Corp., 6.875%, 9/01/23 (Canada) | 213,850 |
| | | Qwest Corp., | |
| BB+ | 340[3] | 7.12%, 6/15/13 | 356,150 |
| BB+ | 200 | 7.875%, 9/01/11 | 210,000 |
| BB | 450 | Qwest Services Corp., 13.50%, 12/15/10 | 513,562 |
| BB+ | 85 | Rogers Wireless, Inc., 7.25%, 12/15/12 | 89,463 |
| Caa1 | 350 | Rural Cellular Corp., 9.875%, 2/01/10 | 364,000 |
| A | 1,500[2] | SBC Communications, Inc., 6.45%, 6/15/34 | 1,512,270 |
| A- | 1,000[2] | Telecom Italia Cap., 4.95%, 9/30/14 (Luxembourg) | 956,420 |

| | | | |
|---|---|---|---|
| A+ | 2,000[2] | Verizon New England, Inc., 6.50%, 9/15/11 | 2,067,520 |
| A+ | 1,000[2] | Vodafone Group PLC, 7.75%, 2/15/10 (United Kingdom) | 1,100,770 |
| | | | 8,916,030 |
| | | **Transportation 2.0%** | |
| A- | 500 | Canadian National Railway Co., 6.90%, 7/15/28 (Canada) | 582,405 |
| B | 445[2] | CHC Helicopter Corp., 7.375%, 5/01/14 (Canada) | 447,225 |
| B | 30 | CHC Helicopter Corp., 7.375%, 5/01/14 (Canada) | 30,262 |
| B3 | 39 | Horizon Lines LLC, 9.00%, 11/01/12 | 41,389 |
| B+ | 90 | OMI Corp., 7.625%, 12/01/13 | 92,475 |
| BB+ | 300 | Overseas Shipholding Group, Inc., 8.25%, 3/15/13 | 319,500 |
| B | 440 | Sea Containers Ltd., 10.50%, 5/15/12 | 440,000 |
| | | | 1,953,256 |
| | | Total Corporate Bonds | 118,495,673 |

See Notes to Financial Statements.

**BlackRock Strategic Bond Trust (BHD) (continued)**

| Rating[1] (unaudited) | Principal Amount (000) | Description | | Value |
|---|---|---|---|---|
| | | **U.S. Government and Agency Securities 5.1%** | | |
| | $ 410[2] | U.S. Treasury Bonds, 5.375%, 2/15/31 | $ | 447,027 |
| | | U.S. Treasury Notes, | | |
| | 1,010[2] | 2.50%, 5/31/06 | | 999,900 |
| | 933[2] | 2.625%, 11/15/06 | | 916,523 |
| | 810[2] | 4.125%, 8/15/10 | | 797,850 |
| | 1,075[2] | 4.25%, 8/15/13 | | 1,053,952 |
| | 710[2] | 4.75%, 5/15/14 | | 718,989 |
| | | Total U.S. Government and Agency Securities | | 4,934,241 |
| | | **Foreign Government Bond 1.3%** | | |
| Baa1 | 1,000 | United Mexican States, 8.125%, 12/30/19 (Mexico) | | 1,196,000 |
| | | **Supranational 0.9%** | | |
| AAA | 850[2] | European Investment Bank, 4.875%, 9/06/06 (Luxembourg) | | 852,975 |
| | | **Total Long-Term Investments** (cost $126,865,439) | | 125,478,889 |
| | | **SHORT-TERM INVESTMENT 0.7%** | | |
| | | **U.S. Government and Agency Zero Coupon Bond 0.7%** | | |
| | 700 | FNMA Discount Notes, 3.72%, 11/01/05[5] | | 700,000 |
| | | **Total investments 130.7%** (cost $127,565,439[6]) | $ | 126,178,889 |
| | | Liabilities in excess of other assets (30.7)% | | (29,632,818) |
| | | **Net Assets 100%** | $ | 96,546,071 |

1 Using the higher of S&P s, Moody s or Fitch s rating.

2 Entire or partial principal amount pledged as collateral for reverse repurchase agreements. See Note 4 in the Notes to Financial Statements for details of open reverse repurchase agreements.

3 Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A under that Act, to qualified institutional buyers. As of October 31, 2005, the Trust held 19.5% of its net assets, with a current market value of $18,835,149, in securities restricted as to resale.

4 Issuer is in default and/or bankruptcy.

5 Rate shown is yield to maturity as of October 31, 2005.

6 Cost for Federal income tax purposes is $127,571,106. The net unrealized depreciation on a tax basis is $1,392,217, consisting of $2,678,979 gross unrealized appreciation and $4,071,196 gross unrealized depreciation.

A category in the Corporate Bonds section may contain multiple industries as defined by the SEC s Standard Industry Codes.

See Notes to Financial Statements.

**STATEMENTS OF ASSETS AND LIABILITIES**
**October 31, 2005**

| | Broad Investment Grade 2009 Term Trust Inc.[1] (BCT) | Core Bond Trust (BHK) |
|---|---|---|
| **Assets** | | |
| Investments at value[2] | $ 43,089,124 | $ 491,529,484 |
| Cash | 81,748 | 223,772 |
| Foreign currency at value[3] | | 3,767,682 |
| Receivable from investments sold | | 31,756,967 |
| Variation margin receivable | | 72,156 |
| Borrowed bond | | |
| Unrealized gain on foreign currency exchange contracts | | 49,277 |
| Interest receivable | 509,610 | 8,022,338 |
| Unrealized appreciation on interest rate swaps | | 1,845,618 |
| Unrealized appreciation on credit default swaps | 176 | 2,240 |
| Investments in affiliates | 18,841 | 60,284 |
| Other assets | 3,802 | 24,003 |
| | 43,703,301 | 537,353,821 |
| **Liabilities** | | |
| Reverse repurchase agreement | | 86,876,056 |
| Payable for investments purchased | | 53,549,428 |
| Payable for dollar rolls | | 7,284,443 |
| Variation margin payable | | |
| Loan payable | | |
| Investments sold short at value[4] | | |
| Outstanding options written at value[5] | | 2,541,070 |
| TBA Sale Commitments[6] | | |
| Interest payable | 4,386 | 1,146,351 |
| Cash with brokers as collateral | | 727 |
| Investment advisory fee payable | 20,489 | 201,963 |
| Administration fee payable | 5,588 | |
| Deferred Trustees fees | 18,841 | 60,284 |
| Payable to affiliates | 8,063 | 21,396 |
| Other accrued expenses | 369,930 | 158,314 |
| | 427,297 | 151,840,032 |
| **Net Assets** | $ 43,276,004 | $ 385,513,789 |
| Composition of Net Assets: | | |
| Par value | $ 29,571 | $ 27,019 |
| Paid-in capital in excess of par | 41,775,250 | 386,195,641 |
| Cost of shares held in treasury[7] | | |
| Undistributed (distributions in excess of) net investment income | 4,778,322 | 515,459 |
| Accumulated net realized gain (loss) | (2,676,404) | 7,694,700 |
| Net unrealized depreciation | (630,735) | (8,919,030) |
| Net assets, October 31, 2005 | $ 43,276,004 | $ 385,513,789 |
| Net asset value[8] | $ 14.63 | $ 14.27 |

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| | | | |
|---|---|---|---|
| 1 | Consolidated Statement of Assets and Liabilities | | |
| 2 | Investments at cost | $ 43,720,035 | $ 502,449,899 |
| 3 | Foreign currency at cost | | 3,873,887 |
| 4 | Proceeds received | | |
| 5 | Premium received | | 2,716,753 |
| 6 | Proceeds for TBA Sale Commitments | | |
| 7 | Shares held in treasury | | |
| 8 | Shares outstanding | 2,957,093 | 27,018,774 |

See Notes to Financial Statements.

| High Yield Trust (BHY) | Income Opportunity Trust (BNA) | Income Trust Inc. (BKT) | Limited Duration Income Trust (BLW) | Strategic Bond Trust (BHD) |
|---|---|---|---|---|
| $ 66,969,774 | $ 608,448,685 | $ 589,714,325 | $ 981,999,891 | $ 126,178,889 |
| 97,957 | 78,105 | 88,034 | 1,391,333 | 67,525 |
| | | | 386,270 | |
| 378,168 | 195,253,202 | 46,264,151 | 1,849,075 | 64,735 |
| | 116,853 | | | |
| | | 73,097,025 | 8,670,825 | |
| | | | 77,712 | |
| 1,696,403 | 8,104,198 | 5,396,082 | 14,564,359 | 2,567,437 |
| | 2,067,178 | 1,299,430 | | |
| | 2,357 | | 4,008 | |
| 26,235 | 128,426 | 148,802 | 45,901 | 12,800 |
| 6,741 | 25,304 | 24,443 | 47,747 | 9,701 |
| 69,175,278 | 814,224,308 | 716,032,292 | 1,009,037,121 | 128,901,087 |
| | 120,179,200 | 149,558,250 | 176,010,262 | 31,882,548 |
| 283,026 | 169,241,259 | 48,947,681 | 7,353,861 | 253,519 |
| | | | 119,709,882 | |
| | | 132,701 | | |
| 20,750,000 | | | | |
| | | 72,102,183 | | |
| | 2,728,629 | 2,680,283 | | |
| | 122,095,861 | 21,505,004 | | |
| 77,175 | 1,290,089 | 2,016,551 | 350,282 | 45,465 |
| | | | | |
| 43,780 | 205,013 | 231,479 | 470,577 | 60,553 |
| 2,078 | 67,658 | 97,112 | | |
| 26,235 | 128,426 | 148,802 | 45,901 | 12,800 |
| 33 | 14,177 | 57,226 | | 6,702 |
| 69,118 | 195,943 | 164,896 | 134,939 | 93,429 |
| 21,251,445 | 416,146,255 | 297,642,168 | 304,075,704 | 32,355,016 |
| $ 47,923,833 | $ 398,078,053 | $ 418,390,124 | $ 704,961,417 | $ 96,546,071 |
| $ 6,411 | $ 344,497 | $ 639,425 | $ 36,768 | $ 7,058 |
| 92,938,867 | 406,532,068 | 525,523,492 | 700,832,170 | 98,695,235 |
| | (17,377,850) | | | |
| (26,235) | 2,180,817 | (595,003) | 6,419,573 | (12,800) |
| (34,567,433) | 9,852,458 | (93,186,618) | (2,214,977) | (756,872) |
| (10,427,777) | (3,453,937) | (13,991,172) | (112,117) | (1,386,550) |
| $ 47,923,833 | $ 398,078,053 | $ 418,390,124 | $ 704,961,417 | $ 96,546,071 |
| $ 7.48 | $ 11.56 | $ 6.54 | $ 19.17 | $ 13.68 |
| $ 77,397,551 | $ 613,852,525 | $ 611,303,548 | $ 982,248,319 | $ 127,565,439 |
| | | | 386,386 | |
| | | 73,151,527 | | |
| | 2,917,398 | 2,868,468 | | |
| | 122,969,414 | 21,750,313 | | |

| | | | | |
|---|---|---|---|---|
| | 1,757,400 | | | |
| 6,411,104 | 34,449,693 | 63,942,536 | 36,768,498 | 7,058,402 |

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**STATEMENTS OF OPERATIONS**
**For the year ended October 31, 2005**

| | Broad Investment Grade 2009 Term Trust Inc.[1] (BCT) | Core Bond Trust (BHK) |
|---|---|---|
| **Investment Income** | | |
| Interest income | $ 3,436,738 | $ 35,145,787 |
| Other affiliated income | 1,341 | 4,294 |
| Total investment income | 3,438,079 | 35,150,081 |
| **Expenses** | | |
| Investment advisory | 248,955 | 2,755,737 |
| Administration | 67,897 | |
| Transfer agent | 10,851 | 14,965 |
| Custodian | 71,642 | 201,990 |
| Reports to shareholders | 31,345 | 116,400 |
| Directors/Trustees | 12,658 | 58,035 |
| Registration | 1,825 | 18,544 |
| Independent accountants | 47,361 | 63,913 |
| Legal | 27,377 | 105,453 |
| Insurance | 3,757 | 33,324 |
| Deferred Trustees fee | 1,341 | 4,294 |
| Miscellaneous | 13,253 | 72,249 |
| Total expenses excluding interest expense and excise tax | 538,262 | 3,444,904 |
| Interest expense | 182,554 | 10,768,498 |
| Excise tax | 352,123 | |
| Total expenses | 1,072,939 | 14,213,402 |
| Less fees waived by Advisor | | |
| Less fees paid indirectly | | (9,682) |
| Net expenses | 1,072,939 | 14,203,720 |
| Net investment income | 2,365,140 | 20,946,361 |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) on: | | |
| Investments | 828,061 | 6,297,249 |
| Foreign currency | | 2,713,506 |
| Futures | (42,750) | 7,686,890 |
| Interest rate swaps | 172 | (1,193,199) |
| Options written | | 1,494,491 |
| Short sales | | 27,694 |
| | 785,483 | 17,026,631 |
| Net change in unrealized appreciation/depreciation on: | | |
| Investments | (3,199,814) | (27,195,374) |
| Foreign currency | | 180,169 |
| Futures | (134,098) | (632,282) |
| Interest rate floors | | |
| Interest rate swaps | | 1,401,202 |
| Credit default swaps | 176 | 2,240 |
| Options written | | (681,787) |

| | | |
|---|---|---|
| Short sales | | |
| | (3,333,736) | (26,925,832) |
| Net loss | (2,548,253) | (9,899,201) |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | $ (183,113) | $ 11,047,160 |

1 Consolidated Statement of Operations.

See Notes to Financial Statements.

| High Yield Trust (BHY) | Income Opportunity Trust (BNA) | Income Trust Inc. (BKT) | Limited Duration Income Trust (BLW) | Strategic Bond Trust (BHD) |
|---|---|---|---|---|
| $ 6,122,646 | $ 31,810,718 | $ 40,148,316 | $ 65,962,793 | $ 9,641,546 |
| 1,665 | 10,399 | 9,829 | 3,308 | 797 |
| 6,124,311 | 31,821,117 | 40,158,145 | 65,966,101 | 9,642,343 |
| 739,567 | 2,474,512 | 2,795,230 | 5,675,801 | 991,562 |
| 70,435 | 412,419 | 645,053 | | |
| 16,060 | 29,200 | 85,400 | 17,885 | 14,965 |
| 89,602 | 152,968 | 199,002 | 366,988 | 76,533 |
| 40,806 | 127,671 | 154,855 | 175,664 | 32,040 |
| 12,520 | 59,612 | 58,110 | 79,935 | 13,870 |
| 17,410 | 24,351 | 44,530 | 27,615 | 18,775 |
| 42,171 | 75,318 | 63,820 | 61,402 | 34,558 |
| 6,118 | 85,060 | 57,369 | 93,833 | 1,989 |
| 4,813 | 35,724 | 43,256 | 70,856 | 8,985 |
| 1,665 | 10,399 | 9,829 | 3,308 | 797 |
| 11,830 | 101,301 | 84,872 | 73,464 | 17,966 |
| 1,052,997 | 3,588,535 | 4,241,326 | 6,646,751 | 1,212,040 |
| 710,346 | 3,544,922 | 7,792,988 | 5,743,773 | 971,619 |
| 1,763,343 | 7,133,457 | 12,034,314 | 12,390,524 | 2,183,659 |
| | | | | (264,417) |
| (4,032) | (7,810) | (20,620) | (62,718) | (11,291) |
| 1,759,311 | 7,125,647 | 12,013,694 | 12,327,806 | 1,907,951 |
| 4,365,000 | 24,695,470 | 28,144,451 | 53,638,295 | 7,734,392 |
| 863,475 | 4,116,519 | (5,669,450) | (2,461,619) | (324,159) |
| | | | 11,452 | |
| | 9,983,319 | (6,286,755) | | |
| | (2,214,104) | (2,108,655) | 3,910 | |
| | 2,090,580 | (11,183) | 246,726 | |
| | 339,049 | (1,360,293) | | |
| 863,475 | 14,315,363 | (15,436,336) | (2,199,531) | (324,159) |
| (3,198,856) | (26,513,426) | (13,522,491) | (32,088,372) | (7,608,367) |
| | | | 76,984 | |
| | (4,455,818) | 6,979,802 | | |
| | | 9,265 | | |
| | 1,465,515 | 3,187,784 | | |
| | 2,357 | | 4,008 | |
| | (965,867) | (1,185,793) | (185) | |
| | 327,492 | 1,474,383 | | |
| (3,198,856) | (30,139,747) | (3,057,050) | (32,007,565) | (7,608,367) |
| (2,335,381) | (15,824,384) | (18,493,386) | (34,207,096) | (7,932,526) |

| | | | | |
|---|---|---|---|---|
| $ 2,029,619 | $ 8,871,086 | $ 9,651,065 | $ 19,431,199 | $ (198,134) |

**STATEMENTS OF CASH FLOWS**
**For the year ended October 31, 2005**

| | Broad Investment Grade 2009 Term Trust Inc (BCT) | Core Bond Trust (BHK) |
|---|---|---|
| Net Increase (Decrease) in net assets resulting from operations | $ (183,113) | $ 11,047,160 |
| Purchases of long-term investments | (45,719,992) | (6,335,366,352) |
| Proceeds from sales of long-term investments | 67,920,139 | 6,384,043,264 |
| Net proceeds (purchases) of short-term investments | (2,761,930) | 18,241,178 |
| Amortization of premium and discount on investments | 1,272,212 | 2,118,306 |
| Net realized loss (gain) on investments | (828,061) | (9,034,013) |
| Decrease in unrealized appreciation/depreciation on investments | 3,199,814 | 27,015,205 |
| Increase (Decrease) in investments sold short | | |
| Increase in outstanding options written | | 1,202,098 |
| Increase (Decrease) in TBA Commitments | | |
| Increase in interest rate floor | | |
| Increase in interest rate swaps | | (1,401,202) |
| Increase in credit default swaps | (176) | (2,240) |
| Decrease (Increase) in receivable for investments sold | | 60,898,401 |
| Decrease in variation margin receivable | 23,313 | 170,032 |
| Decrease (Increase) in unrealized gain on forgein currency exchange contracts | | (340,719) |
| Decrease (Increase) in interest receivable | 180,851 | (94,147) |
| Decrease (Increase) in investments in affiliates | 5,812 | 24,833 |
| Decrease (Increase) in other assets | (11,551) | (38,455) |
| Increase (Decrease) in payable for investments purchased | | (100,494,399) |
| Increase (Decrease) in interest payable | (7,790) | 766,089 |
| Increase (Decrease) in payable for dollar rolls | | (2,561,368) |
| Decrease in collateral due to broker | | |
| Increase (Decrease) in deposits with brokers | | |
| Increase (Decrease) in variation margin payable | | |
| Increase (Decrease) in investment advisory fee payable | (1,434) | |
| Increase (Decrease) in administration fee payable | (391) | (32,840) |
| Increase (Decrease) in deferred Directors/Trustees fees | 4,966 | 14,055 |
| Increase (Decrease) in payable to affiliates | 44 | (2,981) |
| Increase (Decrease) in accrued expenses | 1,912 | 65,356 |
| Increase (Decrease) in due to parent | | |
| Total adjustments | 23,277,738 | 45,190,101 |
| Net cash provided by (used for) operating activities | $ 23,094,625 | $ 56,237,261 |
| **Increase (Decrease) in Cash and Foreign Currency** | | |
| Net cash provided by (used for) operating activities | $ 23,094,625 | $ 56,237,261 |
| Cash provided by (used for) financing activities: | | |
| Capital Contributions | | |
| Increase (Decrease) in reverse repurchase agreements | (19,262,500) | (15,597,918) |
| Increase in loan payable | | |
| Cash dividends paid | (3,796,316) | (36,696,629) |
| Cost of Trust shares reacquired | | |
| Net cash provided by (used for) financing activities | (23,058,816) | (52,294,547) |
| Net increase (decrease) in cash | 35,809 | 3,942,714 |
| Cash and foreign currency at beginning of year | 45,939 | 48,740 |

| | | |
|---|---|---|
| Cash and foreign currency at end of year | $ 81,748 | $ 3,991,454 |

[1] Consolidated Statement of Cash Flows.

See Notes to Financial Statements.

| High Yield Trust (BHY) | Income Opportunity Trust (BNA) | Income Trust Inc. (BKT) | Limited Duration Income Trust (BLW) | Strategic Bond Trust (BHD) |
|---|---|---|---|---|
| $ 2,029,619 | $ 8,871,086 | $ 9,651,065 | $ 19,431,199 | $ (198,134) |
| (69,592,009) | (7,857,225,052) | (1,596,170,009) | (2,057,187,494) | (79,667,761) |
| 70,383,838 | 7,874,145,476 | 1,630,929,666 | 2,051,064,147 | 65,492,193 |
| (1,657,102) | 926,098 | 6,574,961 | (3,710,287) | (681,768) |
| (24,984) | 2,663,759 | 14,262,687 | 2,289,553 | 277,146 |
| (863,475) | (4,116,519) | 5,669,450 | 3,078,372 | 324,159 |
| 3,198,814 | 26,513,426 | 13,522,491 | 32,011,388 | 7,608,367 |
| | | 59,024,863 | | |
| | 1,325,645 | 1,139,095 | | |
| | 76,280,101 | 21,505,004 | | |
| | | (68,890) | | |
| | (1,465,515) | (856,894) | | |
| | (2,357) | | (4,008) | |
| 1,473,625 | (106,212,104) | (27,924,676) | 8,774,091 | 626,735 |
| | 317,377 | | | |
| | | | 77,100 | |
| (116,122) | (303,234) | 1,385,182 | (335,382) | 11,416 |
| (5,290) | (20,391) | (20,312) | (19,932) | |
| (3,771) | (944) | 41,291 | 65,652 | (6,886) |
| (1,371,057) | 12,142,263 | 39,791,081 | (3,225,459) | (2,890,439) |
| | 488,993 | 610,080 | 225,369 | 7,009 |
| | (17,775,500) | | (4,462,149) | |
| | (529,143) | (646,730) | (806,692) | |
| | | (68,724,228) | (8,670,825) | |
| 38,814 | | (309,835) | | 39,310 |
| (35) | (9,941) | (11,907) | (9,792) | |
| (4) | (1,656) | (2,747) | | |
| 5,290 | 20,391 | (20,312) | 19,932 | 4,528 |
| (944) | (6,145) | (5,053) | (3,381) | (1,134) |
| (812) | 14,953 | (20,591) | (43,762) | |
| | | | | (42,446) |
| 1,464,776 | 7,169,981 | 99,673,667 | 19,126,441 | (8,899,571) |
| $ 3,494,395 | $ 16,041,067 | $ 109,324,732 | $ 38,557,640 | $ (9,097,705) |
| $ 3,494,395 | $ 16,041,067 | $ 109,324,732 | $ 38,557,640 | $ (9,097,705) |
| 67,537 | | | 822,572 | 145,218 |
| | 25,535,287 | (74,177,339) | 16,594,531 | 18,694,694 |
| 1,500,000 | | | | |
| (5,087,371) | (37,436,482) | (35,465,482) | (54,517,748) | (9,834,138) |
| (3,519,834) | (11,901,195) | (109,642,821) | (37,100,645) | 9,005,774 |
| (25,439) | 4,139,872 | (318,089) | 1,456,995 | (91,931) |
| 123,396 | (4,061,767) | 406,123 | 320,608 | 159,456 |
| $ 97,957 | $ 78,105 | $ 88,034 | $ 1,777,603 | $ 67,525 |

## STATEMENTS OF CHANGES IN NET ASSETS
## For the years ended October 31, 2005 and 2004

| | Broad Investment Grade 2009 Term Trust Inc.[1] (BCT) | | Core Bond Trust (BHK) | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Increase (Decrease) in Net Assets** | | | | |
| **Operations:** | | | | |
| Net investment income | $ 2,365,140 | $ 1,807,108 | $ 20,946,361 | $ 24,880,206 |
| Net realized gain (loss) | 785,483 | (654,975) | 17,026,631 | 11,672,686 |
| Net change in unrealized appreciation/depreciation | (3,333,736) | 1,383,412 | (26,925,832) | 6,039,881 |
| Net increase (decrease) in net assets resulting from operations | (183,113) | 2,535,545 | 11,047,160 | 42,592,773 |
| **Dividends and Distributions:** | | | | |
| Net investment income | (3,053,790) | (2,661,384) | (27,245,732) | (23,226,362) |
| Net realized gain | (742,526) | | (9,450,897) | (6,742,863) |
| Tax return of capital | | | | |
| Total dividends and distributions | (3,796,316) | (2,661,384) | (36,696,629) | (29,969,225) |
| **Capital Share Transactions:** | | | | |
| Reinvestment of dividends | | | | |
| Total increase (decrease) | (3,979,429) | (125,839) | (25,649,469) | 12,623,548 |
| **Net Assets:** | | | | |
| Beginning of year | 47,255,433 | 47,381,272 | 411,163,258 | 398,539,710 |
| End of year | $ 43,276,004 | $ 47,255,433 | $ 385,513,789 | $ 411,163,258 |
| End of year undistributed (distribution in excess of) net investment income | $ 4,778,321 | $ 7,945,414 | $ 515,459 | $ 2,267,985 |

1 Consolidated Statement of Changes in Net Assets.

See Notes to Financial Statements.

| High Yield Trust (BHY) | | Income Opportunity Trust (BNA) | | Income Trust Inc. (BKT) | |
|---|---|---|---|---|---|
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| $ 4,365,000 | $ 5,860,489 | $ 24,695,470 | $ 26,125,045 | $ 28,144,451 | $ 31,946,835 |
| 863,475 | (316,410) | 14,315,363 | 10,285,218 | (15,436,336) | (8,309,572) |
| (3,198,856) | 6,773,216 | (30,139,747) | 8,190,164 | (3,057,050) | (1,727,131) |
| 2,029,619 | 12,317,295 | 8,871,086 | 44,600,427 | 9,651,065 | 21,910,132 |
| (5,087,371) | (5,864,606) | (27,821,573) | (28,937,742) | (30,667,298) | (38,921,208) |
| | | (9,614,909) | | | |
| | (187,188) | | | (4,798,184) | |
| (5,087,371) | (6,051,794) | (37,436,482) | (28,937,742) | (35,465,482) | (38,921,208) |
| 67,545 | 210,485 | | | 1,569,925 | 2,335,670 |
| (2,990,207) | 6,475,986 | (28,565,396) | 15,662,685 | (24,244,492) | (14,675,406) |
| 50,914,040 | 44,438,054 | 426,643,449 | 410,980,764 | 442,634,616 | 457,310,022 |
| $ 47,923,833 | $ 50,914,040 | $ 398,078,053 | $ 426,643,449 | $ 418,390,124 | $ 442,634,616 |
| $ (26,235) | $ (20,945) | $ 2,180,817 | $ 2,972,407 | $ (595,003) | $ 3,499,237 |

**STATEMENTS OF CHANGES IN NET ASSETS (continued)**
**For the years ended October 31, 2005 and 2004**

| | Limited Duration Income Trust (BLW) | | Strategic Bond Trust (BHD) | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Net Increase (Decrease) in Net Assets** | | | | |
| **Operations:** | | | | |
| Net investment income | $ 53,638,295 | $ 53,609,041 | $ 7,734,392 | $ 9,814,985 |
| Net realized gain (loss) | (2,199,531) | 5,497,164 | (324,159) | 1,061,047 |
| Net change in unrealized appreciation/depreciation | (32,007,565) | 10,020,060 | (7,608,367) | 648,992 |
| Net increase (decrease) in net assets resulting from operations | 19,431,199 | 69,126,265 | (198,134) | 11,525,024 |
| **Dividends and Distributions** | | | | |
| Net investment income | (49,020,501) | (54,687,174) | (7,935,935) | (11,337,469) |
| Net realized gain | (5,497,247) | (390,466) | | |
| Tax return of capital | | | (1,898,203) | |
| Total dividends and distributions | (54,517,748) | (55,077,640) | (9,834,138) | (11,337,469) |
| **Capital Share Transactions:** | | | | |
| Reinvestment of common dividends | 822,572 | 429,365 | 145,218 | 200,599 |
| Total increase (decrease) | (34,263,977) | 14,477,990 | (9,887,054) | 388,154 |
| **Net Assets** | | | | |
| Beginning of year | 739,225,394 | 724,747,404 | 106,433,125 | 106,044,971 |
| End of year | $ 704,961,417 | $ 739,225,394 | $ 96,546,071 | $ 106,433,125 |
| End of period undistributed (distributions in excess of) net investment income | $ 6,419,573 | $ 1,786,417 | $ (12,800) | $ 188,743 |

See Notes to Financial Statements.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

**BlackRock Broad Investment Grade 2009 Term Trust Inc. (BCT)**

| | Year Ended October 31, | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| **PER SHARE OPERATING PERFORMANCE:** | | | | | |
| Net asset value, beginning of year | $ 15.98 | $ 16.02 | $ 17.33 | $ 16.05 | $ 13.64 |
| Investment operations: | | | | | |
| Net investment income | 0.80 | 0.61 | 1.28 | 2.01 | 1.17 |
| Net realized and unrealized gain (loss) | (0.87) | 0.25 | (1.40) | 0.04 | 2.01 |
| Net increase (decrease) from investment operations | (0.07) | 0.86 | (0.12) | 2.05 | 3.18 |
| Dividends and distributions: | | | | | |
| Net investment income | (1.03) | (0.90) | (1.19) | (0.77) | (0.77) |
| Net realized gains | (0.25) | | | | |
| Total dividends and distributions | (1.28) | (0.90) | (1.19) | (0.77) | (0.77) |
| Net asset value, end of year | $ 14.63 | $ 15.98 | $ 16.02 | $ 17.33 | $ 16.05 |
| Market price, end of year | $ 15.86 | $ 15.80 | $ 15.85 | $ 16.18 | $ 14.39 |
| **TOTAL INVESTMENT RETURN[1]** | 8.74% | 5.45% | 5.32% | 18.34% | 27.66% |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | | |
| Total expenses | 2.37% | 2.48% | 2.43% | 2.50% | 3.52% |
| Net expenses | 2.37% | 2.48% | 2.43% | 2.50% | 3.52% |
| Net expenses excluding interest expense and excise tax | 1.19% | 1.11% | 1.18% | 1.16% | 1.16% |
| Net investment income | 5.23% | 3.83% | 7.54% | 12.22% | 7.93% |
| **SUPPLEMENTAL DATA:** | | | | | |
| Average net assets | $ 45,264 | $ 47,191 | $ 49,882 | $ 48,731 | $ 43,701 |
| Portfolio turnover | 116% | 20% | 39% | 35% | 19% |
| Net assets, end of year (000) | $ 43,276 | $ 47,255 | $ 47,381 | $ 51,244 | $ 47,466 |
| Reverse repurchase agreements outstanding, end of year (000) | $ | $ 19,263 | $ 19,953 | $ 23,669 | $ 13,373 |
| Asset coverage, end of year[2] | $ | $ 3,453 | $ 3,375 | $ 3,165 | $ 4,550 |
| Reverse repurchase agreements average daily balance (000) | $ 7,865 | $ 22,055 | $ 19,409 | $ 18,388 | $ 18,080 |
| Reverse repurchase agreements weighted average interest rate | 2.32% | 1.20% | 1.21% | 1.82% | 4.94% |

1 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Past performance is not a guarantee of future results.

2 Per $1,000 of reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each year indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

## FINANCIAL HIGHLIGHTS

**BlackRock Core Bond Trust (BHK)**

| | Year Ended October 31, 2005 | Year Ended October 31, 2004 | Year Ended October 31, 2003 | For the period November 30, 2001[1] through October 31, 2002 |
|---|---|---|---|---|
| **PER SHARE OPERATING PERFORMANCE:** | | | | |
| Net asset value, beginning of period | $ 15.22 | $ 14.75 | $ 14.33 | $ 14.33[2] |
| Investment operations: | | | | |
| Net investment income | 0.78 | 0.92 | 0.83 | 0.99 |
| Net realized and unrealized gain (loss) | (0.37) | 0.66 | 0.77 | 0.04 |
| Net increase from investment operations | 0.41 | 1.58 | 1.60 | 1.03 |
| Dividends and distributions from: | | | | |
| Net investment income | (1.01) | (0.86) | (1.00) | (1.00) |
| Net realized gains | (0.35) | (0.25) | (0.18) | |
| Total dividends and distributions | (1.36) | (1.11) | (1.18) | (1.00) |
| Capital charges with respect to issuance of shares | | | | (0.03) |
| Net asset value, end of period | $ 14.27 | $ 15.22 | $ 14.75 | $ 14.33 |
| Market price, end of period | $ 13.69 | $ 14.02 | $ 13.57 | $ 13.82 |
| **TOTAL INVESTMENT RETURN[3]** | 7.46% | 11.93% | 6.62% | (1.02%) |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | |
| Total expenses | 3.53% | 1.32% | 1.05% | 1.04%[4] |
| Net expenses | 3.53% | 1.32% | 1.05% | 1.04%[4] |
| Net expenses excluding interest expense | 0.85% | 0.92% | 0.87% | 0.93%[4] |
| Net investment income | 5.20% | 6.20% | 5.58% | 7.67%[4] |
| **SUPPLEMENTAL DATA:** | | | | |
| Average net assets | $ 402,783 | $ 401,212 | $ 401,049 | $ 380,277 |
| Portfolio turnover | 220% | 398% | 161% | 73% |
| Net assets, end of period (000) | $ 385,514 | $ 411,163 | $ 398,540 | $ 387,238 |
| Reverse repurchase agreements outstanding, end of period (000) | $ 86,876 | $ 102,474 | $ 91,668 | $ 165,215 |
| Asset coverage, end of period[5] | $ 5,438 | $ 5,012 | $ 5,348 | $ 3,342 |
| Reverse repurchase agreements average daily balance (000) | $ 91,130 | $ 145,094 | $ 67,591 | $ 35,207 |
| Reverse repurchase agreements weighted average interest rate | 2.86% | 1.11% | 1.05% | 1.04% |

1 Commencement of investment operations. This information includes the initial investment by BlackRock Funding, Inc.

2 Net asset value, beginning of period, reflects a deduction of $0.675 per share sales charge from the initial offering price of $15.00 per share.

3 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not

annualized. Past performance is not a guarantee of future results.

4 Annualized.

5 Per $1,000 of reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

## FINANCIAL HIGHLIGHTS

**BlackRock High Yield Trust (BHY)**

| | Year Ended October 31, | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| **PER SHARE OPERATING PERFORMANCE:** | | | | | |
| Net asset value, beginning of year | $ 7.95 | $ 6.96 | $ 6.13 | $ 7.20 | $ 10.60 |
| Investment operations: | | | | | |
| Net investment income | 0.68 | 0.92 | 1.06 | 1.20 | 1.32 |
| Net realized and unrealized gain (loss) | (0.36) | 1.02 | 0.89 | (0.98) | (3.13) |
| Net increase (decrease) from investment operations | 0.32 | 1.94 | 1.95 | 0.22 | (1.81) |
| Dividends and Distributions: | | | | | |
| Net investment income | (0.79) | (0.92) | (1.07) | (1.20) | (1.48) |
| Tax return of capital | | (0.03) | (0.05) | (0.09) | (0.11) |
| Total dividends and distributions | (0.79) | (0.95) | (1.12) | (1.29) | (1.59) |
| Net asset value, end of year | $ 7.48 | $ 7.95 | $ 6.96 | $ 6.13 | $ 7.20 |
| Market price, end of year | $ 7.36 | $ 9.30 | $ 10.25 | $ 8.68 | $ 9.18 |
| **TOTAL INVESTMENT RETURN[1]** | (13.49%) | 0.28% | 32.87% | 7.97% | (11.31%) |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | | |
| Total expenses | 3.52% | 2.69% | 3.07% | 3.45% | 4.90% |
| Net expenses | 3.51% | 2.68% | 3.07% | 3.45% | 4.90% |
| Net expenses excluding interest expense | 2.10% | 1.96% | 2.22% | 2.20% | 2.03% |
| Net investment income | 8.71% | 12.16% | 16.37% | 16.29% | 14.23% |
| **SUPPLEMENTAL DATA:** | | | | | |
| Average net assets | $ 50,104 | $ 48,186 | $ 41,326 | $ 46,751 | $ 58,553 |
| Portfolio turnover | 102% | 156% | 30% | 147% | 71% |
| Net assets, end of year (000) | $ 47,924 | $ 50,914 | $ 44,438 | $ 38,953 | $ 45,520 |
| Loan outstanding, end of year (000) | $ 20,750 | $ 19,250 | $ 19,250 | $ 19,250 | $ 23,000 |
| Asset coverage, end of year[2] | $ 3,310 | $ 3,645 | $ 3,308 | $ 3,024 | $ 2,893 |
| Loan average daily balance (000) | $ 20,425 | $ 19,250 | $ 19,250 | $ 22,664 | $ 28,449 |
| Loan weighted average interest rate | 2.87% | 1.80% | 1.96% | 2.65% | 5.90% |

1 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Past performance is not a guarantee of future results.

2 Per $1,000 of loan outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each year indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

## FINANCIAL HIGHLIGHTS

**BlackRock Income Opportunity Trust (BNA)**

| | Year Ended October 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| **PER SHARE OPERATING PERFORMANCE:** | | | | | |
| Net asset value, beginning of year | $ 12.38 | $ 11.93 | $ 11.83 | $ 11.47 | $ 11.03 |
| Investment operations: | | | | | |
| Net investment income | 0.72 | 0.76 | 0.84 | 1.15 | 0.87 |
| Net realized and unrealized gain (loss) | (0.45) | 0.53 | 0.31 | (0.05) | 0.34 |
| Net increase from investment operations | 0.27 | 1.29 | 1.15 | 1.10 | 1.21 |
| Dividends and distributions from: | | | | | |
| Net investment income | (0.81) | (0.84) | (0.81) | (0.75) | (0.23) |
| Net realized gains | (0.28) | | (0.24) | | |
| Tax return of capital | | | | | (0.54) |
| Total dividends and distributions | (1.09) | (0.84) | (1.05) | (0.75) | (0.77) |
| Increase resulting from Trust shares repurchased | | | | 0.01 | |
| Net asset value, end of year | $ 11.56 | $ 12.38 | $ 11.93 | $ 11.83 | $ 11.47 |
| Market price, end of year | $ 10.90 | $ 11.38 | $ 10.95 | $ 10.50 | $ 10.41 |
| **TOTAL INVESTMENT RETURN**[1] | 5.53% | 12.04% | 14.71% | 8.44% | 15.09% |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | | |
| Total expenses | 1.72% | 1.11% | 1.29% | 1.40% | 3.62% |
| Net expenses | 1.72% | 1.11% | 1.29% | 1.40% | 3.62% |
| Net expenses excluding interest expense | 0.87% | 0.84% | 0.89% | 0.93% | 1.01% |
| Net investment income | 5.97% | 6.29% | 6.99% | 10.04% | 7.76% |
| **SUPPLEMENTAL DATA:** | | | | | |
| Average net assets | $ 413,777 | $ 415,131 | $ 413,543 | $ 394,495 | $ 388,478 |
| Portfolio turnover | 396% | 300% | 46% | 153% | 83% |
| Net assets, end of year (000) | $ 398,078 | $ 426,643 | $ 410,981 | $ 407,480 | $ 397,756 |
| Reverse repurchase agreements outstanding, end of year (000) | $ 120,179 | $ 94,644 | $ 103,378 | $ 85,704 | $ 136,385 |
| Asset coverage, end of year[2] | $ 4,312 | $ 5,508 | $ 4,976 | $ 5,755 | $ 3,916 |
| Reverse repurchase agreements average daily balance (000) | $ 122,457 | $ 97,264 | $ 136,172 | $ 36,153 | $ 151,804 |
| Reverse repurchase agreements weighted average interest rate | 2.87% | 1.14% | 1.22% | 1.93% | 4.92% |

1 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Past performance is not a guarantee of future results.

2 Per $1,000 of reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each year indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

## FINANCIAL HIGHLIGHTS

**BlackRock Income Trust Inc. (BKT)**

| | Year Ended October 31, | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| **PER SHARE OPERATING PERFORMANCE:** | | | | | |
| Net asset value, beginning of year | $ 6.95 | $ 7.21 | $ 8.13 | $ 8.06 | $ 7.23 |
| Investment operations: | | | | | |
| Net investment income | 0.44 | 0.51 | 0.61 | 0.99 | 0.56 |
| Net realized and unrealized gain (loss) | (0.30) | (0.16) | (0.52) | (0.35) | 0.83 |
| Net increase from investment operations | 0.14 | 0.35 | 0.09 | 0.64 | 1.39 |
| Dividends and Distributions: | | | | | |
| Net investment income | (0.48) | (0.61) | (1.01) | (0.57) | (0.56) |
| Tax return of capital | (0.07) | | | | |
| Total dividends and distributions | (0.55) | (0.61) | (1.01) | (0.57) | (0.56) |
| Net asset value, end of year | $ 6.54 | $ 6.95 | $ 7.21 | $ 8.13 | $ 8.06 |
| Market price, end of year | $ 5.90 | $ 7.50 | $ 7.71 | $ 8.07 | $ 7.26 |
| **TOTAL INVESTMENT RETURN**[1] | (14.63)% | 5.97% | 15.41% | 15.35% | 23.23% |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | | |
| Total expenses | 2.80% | 1.37% | 1.36% | 2.05% | 2.54% |
| Net expenses | 2.79% | 1.37% | 1.36% | 2.05% | 2.54% |
| Net expenses excluding interest expense | 0.99% | 0.97% | 1.02% | 1.03% | 1.03% |
| Net investment income | 6.54% | 7.13% | 8.18% | 12.28% | 7.43% |
| **SUPPLEMENTAL DATA:** | | | | | |
| Average net assets | $ 430,035 | $ 447,984 | $ 472,676 | $ 506,533 | $ 470,185 |
| Portfolio turnover | 60% | 120% | 64% | 125% | 32% |
| Net assets, end of year (000) | $ 418,390 | $ 442,635 | $ 457,301 | $ 511,385 | $ 506,764 |
| Reverse repurchase agreements outstanding, end of year (000) | $ 149,558 | $ 223,736 | $ 121,767 | $ 205,792 | $ 118,634 |
| Asset coverage, end of year[2] | $ 3,798 | $ 2,978 | $ 4,756 | $ 3,485 | $ 5,272 |
| Reverse repurchase agreements average daily balance (000) | $ 180,553 | $ 158,278 | $ 135,804 | $ 173,501 | $ 148,204 |
| Reverse repurchase agreements weighted average interest rate | 2.81% | 1.12% | 1.17% | 1.81% | 4.78% |

1 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Past performance is not a guarantee of future results.

2 Per $1,000 of reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each year indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

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## FINANCIAL HIGHLIGHTS

**BlackRock Limited Duration Income Trust (BLW)**

| | Year Ended October 31, 2005 | Year Ended October 31, 2004 | For the Period July 30, 2003[1] through October 31, 2003 |
|---|---|---|---|
| **PER SHARE OPERATING PERFORMANCE:** | | | |
| Net asset value, beginning of period | $ 20.13 | $ 19.74 | $ 19.10[2] |
| Investment operations: | | | |
| Net investment income | 1.46 | 1.46 | 0.33 |
| Net realized and unrealized gain (loss) | (0.94) | 0.43 | 0.60 |
| Net increase from investment operations | 0.52 | 1.89 | 0.93 |
| Dividends and distributions from: | | | |
| Net investment income | (1.33) | (1.49) | (0.25) |
| Net realized gains | (0.15) | (0.01) | |
| Total dividends and distributions | (1.48) | (1.50) | (0.25) |
| Capital charges with respect to issuance of shares | | | (0.04) |
| Net asset value, end of period | $ 19.17 | $ 20.13 | $ 19.74 |
| Market price, end of period | $ 17.48 | $ 19.95 | $ 18.80 |
| **TOTAL INVESTMENT RETURN[3]** | (5.30)% | 14.64% | (4.77)% |
| **RATIOS TO AVERAGE NET ASSETS:** | | | |
| Total expenses | 1.71% | 1.26% | 0.82%[4] |
| Net expenses | 1.71% | 1.25% | 0.82%[4] |
| Net expenses excluding interest expense | 0.92% | 0.90% | 0.79%[4] |
| Net investment income | 7.42% | 7.34% | 6.87%[4] |
| **SUPPLEMENTAL DATA:** | | | |
| Average net assets (000) | $ 722,668 | $ 730,369 | $ 686,655 |
| Portfolio turnover | 70% | 215% | 127% |
| Net assets, end of period (000) | $ 704,961 | $ 739,225 | $ 724,747 |
| Reverse repurchase agreements outstanding, end of period (000) | $ 176,010 | $ 159,416 | $ 118,993 |
| Asset coverage, end of period[5] | $ 5,005 | $ 5,637 | $ 7,091 |
| Reverse repurchase agreements average daily balance (000) | $ 186,660 | $ 195,845 | $ 26,591 |
| Reverse repurchase agreements weighted average interest rate | 3.08% | 1.32% | 0.76% |

1 Commencement of investment operations. This information includes the initial investment by BlackRock Funding, Inc.

2 Net asset value, beginning of period, reflects a deduction of $0.90 per share sales charge from the initial offering price of $20.00 per share.

3 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results.

4 Annualized.

5 Per $1,000 reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

## FINANCIAL HIGHLIGHTS

**BlackRock Strategic Bond Trust (BHD)**

| | Year Ended October 31, 2005 | Year Ended October 31, 2004 | Year Ended October 31, 2003 | For the period February 28, 2002[1] through October 31, 2002 |
|---|---|---|---|---|
| **PER SHARE OPERATING PERFORMANCE:** | | | | |
| Net asset value, beginning of period | $ 15.10 | $ 15.07 | $ 12.63 | $ 14.33[2] |
| Investment operations: | | | | |
| Net investment income | 1.10 | 1.39 | 1.59 | 0.98 |
| Net realized and unrealized gain (loss) | (1.13) | 0.25 | 2.34 | (1.77) |
| Net increase (decrease) from investment operations | (0.03) | 1.64 | 3.93 | (0.79) |
| Dividends and Distributions: | | | | |
| Net investment income | (1.12) | (1.61) | (1.49) | (0.84) |
| Tax return of capital | (0.27) | | | |
| Total dividends and distributions | (1.39) | (1.61) | (1.49) | (0.84) |
| Capital charges with respect to issuance of shares | | | | (0.07) |
| Net asset value, end of period | $ 13.68 | $ 15.10 | $ 15.07 | $ 12.63 |
| Market price, end of period | $ 12.45 | $ 16.70 | $ 15.27 | $ 12.35 |
| **TOTAL INVESTMENT RETURN[3]** | (18.11)% | 21.54% | 37.36% | (12.34)% |
| **RATIOS TO AVERAGE NET ASSETS:** | | | | |
| Total expenses | 2.14% | 1.49% | 2.01% | 2.57%[4] |
| Net expenses | 1.87% | 1.23% | 1.71% | 2.26% |
| Net expenses excluding interest expense and excise tax | 0.92% | 0.89% | 1.01% | 1.25%[4] |
| Net investment income | 7.58% | 9.23% | 11.32% | 10.68%[4] |
| **SUPPLEMENTAL DATA:** | | | | |
| Average net assets | $ 101,990 | $ 106,330 | $ 98,498 | $ 95,675 |
| Portfolio turnover | 51% | 31% | 32% | 22% |
| Net assets, end of period (000) | $ 96,546 | $ 106,433 | $ 106,045 | $ 88,594 |
| Reverse repurchase agreements outstanding, end of period (000) | $ 31,883 | $ 13,188 | $ 45,872 | $ 44,223 |
| Asset coverage, end of period[5] | $ 4,028 | $ 9,071 | $ 3,312 | $ 3,003 |
| Reverse repurchase agreements average daily balance (000) | $ 30,406 | $ 27,652 | $ 46,036 | $ 44,889 |
| Reverse repurchase agreements weighted average interest rate | 3.20% | 1.33% | 1.51% | 1.45% |

1 Commencement of investment operations. This information includes the initial investment by BlackRock Funding, Inc.

2 Net asset value, beginning of period, reflects a deduction of $0.675 per share sales charge from the initial offering price of $15.00 per share.

3 Total investment return is calculated assuming a purchase of a share at the curent market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust s dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results.

4 Annualized.

5 Per $1,000 of reverse repurchase agreements outstanding.

The information in the above Financial Highlights represents the operating performance for a common share outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This information has been determined based upon financial information provided in the financial statements and market price data for the Trust s common shares.

See Notes to Financial Statements.

## NOTES TO FINANCIAL STATEMENTS (unaudited)

### Note 1. Organization & Accounting Policies

BlackRock Broad Investment Grade 2009 Term Trust Inc. ( Broad Investment Grade ), BlackRock Core Bond Trust ( Core Bond ), BlackRock High Yield Trust ( High Yield ), BlackRock Income Opportunity Trust ( Income Opportunity ), BlackRock Income Trust Inc. ( Income Trust ), BlackRock Limited Duration Income Trust ( Limited Duration ) and BlackRock Strategic Bond Trust ( Strategic Bond ) (collectively, the Trusts ) are registered as diversified, closed-end management investment companies under the Investment Company Act of 1940, as amended. Broad Investment Grade, Income Opportunity and Income Trust are organized as Maryland corporations. Core Bond, High Yield, Limited Duration and Strategic Bond are organized as Delaware statutory trusts.

On December 3, 1999, Broad Investment Grade transferred a substantial portion of its total assets to a 100% owned regulated investment company subsidiary called BCT Subsidiary, Inc. The financial statements and these notes to the financial statements for Broad Investment Grade are consolidated and include the operations of both Broad Investment Grade and its wholly owned subsidiary after elimination of all intercompany transactions and balances.

The following is a summary of significant accounting policies followed by the Trusts.

**Investment Valuation:** The Trusts value most of their investments on the basis of current market quotations provided by dealers or pricing services selected under the supervision of each Trust s Board (the Board ) of Directors/Trustees (the Trustees ). In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, market transactions in comparable investments, various relationships observed in the market between investments, and calculated yield measures based on valuation technology commonly employed in the market for such investments. Exchange-traded options are valued at their last sales price as of the close of options trading on applicable exchanges. In the absence of a last sale, options are valued at the average of the quoted bid and asked prices as of the close of business. A futures contract is valued at the last sale price as of the close of the commodities exchange on which it trades. Swap quotations are provided by dealers selected under the supervision of the Board. Short-term securities may be valued at amortized cost. Investments in open-end investment companies are valued at net asset value. Investments or assets for which such current market quotations are not readily available are valued at fair value ( Fair Value Assets ) as determined in good faith under procedures established by, and under the general supervision and responsibility of, each Trust s Board. The investment advisor and/or sub-advisor will submit its recommendations regarding the valuation and/or valuation methodologies for Fair Value Assets to a valuation committee. The valuation committee may accept, modify or reject any recommendations. The pricing of all Fair Value Assets shall be subsequently reported to the Board.

When determining the price for a Fair Value Asset, the investment advisor and/or sub-advisor shall seek to determine the price that the Trust might reasonably expect to receive from the current sale of that asset in an arm s-length transaction. Fair value determinations shall be based upon all available factors that BlackRock Advisors deems relevant.

**Investment Transactions and Investment Income:** Investment transactions are recorded on trade date. The cost of investments sold and the related gain or loss is determined by use of the specific identification method, generally first-in, first out, for both financial reporting and federal income tax purposes. Each Trust records interest income on an accrual basis and amortizes premium and/or accretes discount on securities purchased using the interest method.

**Repurchase Agreements:** In connection with transactions in repurchase agreements, a Trust s custodian takes possession of the underlying collateral securities, the value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to ensure the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by a Trust may be delayed or limited.

**Bank Loans:** In the process of buying, selling and holding bank loans, a Trust may receive and/or pay certain fees. These fees are in addition to interest payments received and may include facility fees, commitment fees, amendment fees, commissions and prepayment penalty fees. When a Trust buys a bank loan it may receive a facility fee and when it sells a bank loan it may pay a facility fee. On an ongoing basis, a Trust may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a bank loan. In certain circumstances, a Trust may receive a prepayment penalty fee upon the prepayment of a bank loan by a borrower. Other fees received by a Trust may include covenant waiver fees and covenant modification fees.

**Option Writing/Purchasing:** When a Trust writes or purchases an option, an amount equal to the premium received or paid by the Trust is recorded as an asset or a liability and is subsequently adjusted to the current market value of the option written or purchased. Premiums received or paid from writing or purchasing options which expire unexercised are treated by the Trust on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on effecting a closing purchase or sale transaction, including brokerage commissions, is also treated as a realized gain or loss. If an option is exercised, the premium paid or received is added to the cost of the purchase or the proceeds from the sale in determining whether a Trust has realized a gain or a loss on investment transactions. A Trust, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the security underlying the written option.

Options, when used by the Trusts, help in maintaining a targeted duration. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of one means that a portfolio s or a security s price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of five would imply that the price would move approximately five percent in relation to a one percent change in interest rates.

Option writing and purchasing may be used by the Trusts as an attempt to manage the duration of positions, or collections of positions, so that changes in interest rates do not adversely affect the targeted duration of the portfolio unexpectedly. A call option gives the purchaser of the option the right (but not obligation) to buy, and obligates the seller to sell (when the option is exercised), the underlying position at the exercise price at any time or at a specified time during the option period. A put option gives the holder the right to sell and obligates the writer to buy the underlying position at the exercise price at any time or at a specified time during the option period. Put or call options can be purchased or sold to help manage the targeted duration of the portfolio.

The main risk that is associated with purchasing options is that the option expires without being exercised. In this case, the option expires worthless and the premium paid for the option is considered the loss. The risk associated with writing call options is that a Trust may forgo the opportunity for a profit if the market value of the underlying position increases and the option is exercised. The risk in writing put options is that a Trust may incur a loss if the market value of the underlying position decreases and the option is exercised. In addition, the Trust risks not being able to enter into a closing transaction for the written option as the result of an illiquid market.

**Stripped Mortgage-Backed Securities:** Stripped mortgage-backed securities are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. In certain cases, one class will receive all of the interest (the interest-only or IO class), while the other class will receive all of the principal (the principal-only or PO class). The yield to maturity on IOs is sensitive to the rate of principal repayments (including prepayments) on the related underlying mortgage assets, and principal payments may have a material effect on yield to maturity. If the underlying mortgage assets experience greater than anticipated prepayments of principal, a Trust may not fully recoup its initial investment in IOs. Such securities will be considered liquid only if so determined in accordance with guidelines established by the Trustees.

**Credit Default Swaps:** Credit default swaps are agreements in which one party pays fixed periodic payments to a counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place. Risks arise from the possible inability of the counterparties to meet the terms of their contracts.

During the term of the swap, changes in the value of the swap are recognized as unrealized gains or losses by marking-to-market to reflect the market value of the swap. When the swap is terminated, a Trust will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust s basis in the contract, if any.

The Trusts are exposed to credit loss in the event of non-performance by the other party to the swap. However, the Trusts closely monitor swaps and do not anticipate non-performance by any counterparty.

**Total Return Swaps:** Total return swaps are agreements in which one party commits to pay interest in exchange for a market linked return. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Trust will receive a payment from or make a payment to the counterparty.

During the term of the swap, changes in the value of the swap are recognized as unrealized gains or losses by marking-to-market to reflect the market value of the swap. When the swap is terminated, a Trust will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust s basis in the contract, if any.

The Trusts are exposed to credit loss in the event of non-performance by the other party to the swap. However, the Trusts closely monitor swaps and do not anticipate non-performance by any counterparty.

**Interest Rate Swaps:** Interest rate swaps are agreements in which one party pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, a party may pay a fixed rate and receive a floating rate. Interest rate swaps are efficient as asset/liability management tools. In more complex swaps, the notional principal amount may decline (or amortize) over time.

During the term of the swap, changes in the value of the swap are recognized as unrealized gains or losses by marking-to-market to reflect the market value of the swap. When the swap is terminated, a Trust will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust s basis in the contract, if any.

The Trusts are exposed to credit loss in the event of non-performance by the other party to the swap. However, the Trusts closely monitor swaps and do not anticipate non-performance by any counterparty.

**Swap Options:** Swap options are similar to options on securities except that instead of selling or purchasing the right to buy or sell a security, the writer or purchaser of the swap option is granting or buying the right to enter into a previously agreed upon interest rate swap agreement at any time before the expiration of the option. Premiums received or paid from writing or purchasing options are recorded as liabilities or assets and are subsequently adjusted to the current market value of the option written or purchased. Premiums received or paid from writing or purchasing options which expire unexercised are treated by a Trust on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on effecting a closing purchase or sale transaction, including brokerage commission, is also treated as a realized gain or loss. If an option is exercised, the premium paid or received is added to the cost of the purchase or the proceeds from the sale in determining whether a Trust has realized a gain or loss on investment transactions.

The main risk that is associated with purchasing swap options is that the swap option expires without being exercised. In this case, the option expires worthless and the premium paid for the swap option is considered the loss. The main risk that is associated with the writing of a swap option is the market risk of an unfavorable change in the value of the interest rate swap underlying the written swap option.

Swap options may be used by the Trusts to manage the duration of the Trusts portfolios in a manner similar to more generic options described above.

**Interest Rate Caps:** Interest rate caps are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the excess, if any, of a floating rate over a specified fixed or floating rate.

Interest rate caps are intended to both manage the duration of the Trusts portfolios and their exposure to changes in short-term interest rates. Owning interest rate caps reduces a portfolio s duration, making it less sensitive to changes in interest rates from a market value perspective. The effect on income involves protection from rising short-term interest rates, which the Trusts experience primarily in the form of leverage.

The Trusts are exposed to credit loss in the event of non-performance by the other party to the interest rate cap. However, the Trusts do not anticipate non-performance by any counterparty.

Transaction fees paid or received by the Trusts are recognized as assets or liabilities and amortized or accreted into interest expense or income over the life of the interest rate cap. The asset or liability is subsequently adjusted to the current market value of the interest rate cap purchased or sold. Changes in the value of the interest rate cap are recognized as unrealized gains and losses.

**Interest Rate Floors:** Interest rate floors are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the deficiency, if any, of a floating rate under a specified fixed or floating rate.

Interest rate floors are used by the Trusts to both manage the duration of the portfolios and their exposure to changes in short-term interest rates. Selling interest rate floors reduces a portfolio s duration, making it less sensitive to changes in interest rates from a market value perspective. The Trusts leverage provides extra income in a period of falling rates. Selling floors reduces some of that extra income by partially monetizing it as an up-front payment which the Trusts receive.

The Trusts are exposed to credit loss in the event of non-performance by the other party to the interest rate floor. However, the Trusts do not anticipate non-performance by any counterparty.

Transaction fees paid or received by the Trusts are recognized as assets or liabilities and amortized or accreted into interest expense or income over the life of the interest rate floor. The asset or liability is subsequently adjusted to the current market value of the interest rate floor purchased or sold. Changes in the value of the interest rate floor are recognized as unrealized gains and losses.

**Financial Futures Contracts:** A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market on a daily basis to reflect the market value of the contract at the end of each day s trading. Variation margin payments are made or received, depending upon whether unrealized gains or losses are incurred. When the contract is closed, a Trust records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust s basis in the contract.

Financial futures contracts, when used by the Trusts, help in maintaining a targeted duration. Futures contracts can be sold to effectively shorten an otherwise longer duration portfolio. In the same sense, futures contracts can be purchased to lengthen a portfolio that is shorter than its duration target. Thus, by buying or selling futures contracts, the Trusts may attempt to manage the duration of positions so that changes in interest rates do not change the duration of the portfolio unexpectedly.

**Forward Currency Contracts:** The Trusts enter into forward currency contracts primarily to facilitate settlement of purchases and sales of foreign securities and to help manage the overall exposure to foreign currency. A forward contract is a commitment to purchase or sell a foreign currency at a future date (usually the security transaction settlement date) at a negotiated forward rate. In the event that a security fails to settle within the normal settlement period, the forward currency contract is renegotiated at a new rate. The gain or loss arising from the difference between the settlement value of the original and renegotiated forward contracts is isolated and is included in net realized gains (losses) from foreign currency transactions. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contract.

Forward currency contracts, when used by the Trusts, help to manage the overall exposure to the foreign currency backing some of the investments held by the Trusts. Forward currency contracts are not meant to be used to eliminate all of the exposure to the foreign currency, rather they allow the Trusts to limit their exposure to foreign currency within a narrow band to the objectives of the Trusts.

**Foreign Currency Translation:** Foreign currency amounts are translated into United States dollars on the following basis:

(i) market value of investment securities, other assets and liabilities at the London 4:00 PM rates of exchange. Effective as of November 7, 2005, the 4:00 PM Eastern Standard Time rates of exchange will be used.

(ii) purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

The Trusts isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Trusts isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the period.

Net realized and unrealized foreign exchange gains and losses includes realized foreign exchange gains and losses from sales and maturities of foreign portfolio securities, maturities of foreign reverse repurchase agreements, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of interest and discount recorded on the Trusts books and the U.S. dollar equivalent amounts actually received or paid and changes in unrealized foreign exchange gains and losses in the value of portfolio securities and other assets and liabilities arising as a result of changes in the exchange rate.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. dollar.

**Short Sales:** The Trusts may make short sales of securities as a method of managing potential price declines in similar securities owned. When a Trust makes a short sale, it may borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Trusts may have to pay a fee to borrow the particular securities and may be obligated to pay over any payments received on such borrowed securities. A gain, limited to the price at which a Trust sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is greater or less than the proceeds originally received.

**Bonds Borrowed Agreements:** In a bonds borrowed agreement, the Trust borrows securities from a third party, with the commitment that they will be returned to the lender on an agreed-upon date. Bonds borrowed agreements are primarily entered into to settle short positions. In a bonds borrowed agreement, the Trust s prime broker or third party broker takes possession of the underlying collateral securities or cash to settle such short positions. The value of the underlying collateral securities or cash approximates the principal amount of the bonds borrowed transaction, including accrued interest. To the extent that bonds borrowed transactions exceed one business day, the value of the collateral with any counterparty is marked-to-market on a daily basis to ensure the adequacy of the collateral. If the lender defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the lender of the security, realization of the collateral by the Trust may be delayed or limited.

**Segregation:** In cases in which the Investment Company Act of 1940, as amended (the 1940 Act ), and the interpretive positions of the Securities and Exchange Commission (the Commission ) require a Trust to segregate assets in connection with certain investments (e.g., when-issued securities, reverse repurchase agreements or futures contracts), each Trust will, consistent with certain interpretive letters issued by the Commission, designate on its books and records cash or liquid securities having a market value at least equal to the amount that would otherwise be required to be physically segregated.

**Federal Income Taxes:** It is each Trust s intention to continue to be treated as a regulated investment company under the Internal Revenue Code and to distribute sufficient amounts of their taxable income to shareholders. Therefore, no Federal income tax provisions are required. As part of a tax planning strategy, Broad Investment Grade has retained a portion of its taxable income and will pay excise tax on the undistributed amounts.

**Dividends and Distributions:** Each Trust declares and pays dividends and distributions to common shareholders monthly from net investment income, net realized short-term capital gains and other sources, if necessary. Net long-term capital gains, if any, in excess of loss car-ryforwards may be distributed in accordance with the 1940 Act. Dividends and distributions are recorded on the ex-dividend date. Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Deferred Compensation and BlackRock Closed-End Share Equivalent Investment Plan:** Under the deferred compensation plan approved by each Trust s Board, non-interested Trustees are required to defer a portion of their annual complex-wide compensation. Deferred amounts earn an approximate return as though equivalent dollar amounts had been invested in common shares of other BlackRock closed-end funds selected by the Trustees. This has the same economic effect for the Trustees as if the Trustees had invested the deferred amounts in such Trusts.

The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the Trust. Each Trust may, however, elect to invest in common shares of those Trusts selected by the Trustees in order to match its deferred compensation obligations.

**Reclassification of Capital Accounts:** In order to present undistributed (distribution in excess of) net investment income ( UNII ), accumulated net realized gain ( Accumulated Gain ) and paid-in-capital ( PIC ) more closely to its tax character, the following accounts for each Trust were increased (decreased):

| **Trust** | **UNII** | **Accumulated Gain** | **PIC** |
|---|---|---|---|
| Broad Investment Grade | $ (2,478,442) | $ (509,131) | $ 2,987,573 |
| Core Bond | 4,546,845 | (4,545,298) | (1,547) |
| High Yield | 717,081 | | (717,081) |
| Income Opportunity | 2,334,513 | (2,334,513) | |
| Income Trust | (1,571,393) | 1,571,393 | |

| | | | |
|---|---|---|---|
| Limited Duration | 15,362 | (15,362) | |
| Strategic Bond | 1,898,203 | | (1,898,203) |

## Note 2. Agreements

Each Trust has an Investment Management Agreement with BlackRock Advisors, Inc. (the Advisor ), which is a wholly owned subsidiary of BlackRock, Inc. BlackRock Financial Management, Inc., a wholly owned subsidiary of BlackRock, Inc., serves as sub-advisor to Core Bond, Limited Duration and Strategic Bond. BlackRock, Inc. is an indirect, majority owned subsidiary of The PNC Financial Services Group, Inc.

Broad Investment Grade, High Yield, Income Opportunity and Income Trust each have an Administration Agreement with the Advisor. The Investment Management Agreement for Core Bond, Limited Duration and Strategic Bond covers both investment advisory and administration services.

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Each Trust s investment advisory fee paid to the Advisor is computed weekly and payable monthly based on an annual rate, 0.55% for Broad Investment Grade, 0.60% for Income Opportunity and 0.65% for Income Trust, of each Trust s average net assets and 0.55% for Core Bond and Limited Duration, 1.05% for High Yield and 0.75% for Strategic Bond, of each Trust s average weekly managed assets. Managed assets means the total assets of a Trust (including any assets attributable to any borrowing that may be outstanding) minus the sum of accrued liabilities (other than debt representing financial leverage). The Advisor has voluntarily agreed to waive a portion of the investment advisory fees or other expenses on Strategic Bond as a percentage of its average weekly managed assets as follows: 0.20% for the first 5 years of the Trust s operations, 0.15% in year 6, 0.10% in year 7 and 0.05% in year 8.

The administration fee paid to the Advisor by Broad Investment Grade, High Yield, Income Opportunity and Income Trust is computed weekly and payable monthly based on an annual rate of 0.15%, 0.05%, 0.10%, and 0.15%, respectively of the Trusts average weekly managed assets.

Pursuant to the agreements, the Advisor provides continuous supervision of the investment portfolio and pays the compensation of officers of each Trust who are affiliated persons of the Advisor, as well as occupancy and certain clerical and accounting costs of each Trust. Each Trust bears all other costs and expenses, which include reimbursements to the Advisor for cost of employees that provide pricing, secondary market support, and compliance services to each Trust. For the year ended October 31, 2005, the Trusts reimbursed the Advisor the following amounts:

| Trust | Amount | Trust | Amount |
|---|---|---|---|
| Broad Investment Grade | $ 3,650 | Income Trust | $ 31,087 |
| Core Bond | 24,820 | Limited Duration | 24,820 |
| High Yield | 2,500 | Strategic Bond | 6,198 |
| Income Opportunity | 25,652 | | |

Pursuant to the terms of their custody agreements, Core Bond, High Yield, Income Opportunity, Income Trust, Limited Duration and Strategic Bond received earnings credits from its custodian for positive cash balances maintained, which are used to offset custody fees.

## Note 3. Portfolio Investments

Purchases and sales of investment securities, other than short-term investments, dollar rolls and U.S. government securities, for the year ended October 31, 2005, aggregated as follows:

| Trust | Purchases | Sales | Trust | Purchases | Sales |
|---|---|---|---|---|---|
| Broad Investment Grade | $ 31,083,360 | $ 31,914,231 | Income Trust | $ 149,707,225 | $ 154,480,452 |
| Core Bond | 343,708,046 | 394,094,432 | Limited Duration | 719,043,234 | 716,261,831 |
| High Yield | 69,592,009 | 70,138,264 | Strategic Bond | 78,237,356 | 64,945,130 |
| Income Opportunity | 969,733,044 | 1,011,842,678 | | | |

Purchases and sales of U.S. government securities for the year ended October 31, 2005 aggregated as follows:

| Trust | Purchases | Sales | Trust | Purchases | Sales |
|---|---|---|---|---|---|
| Broad Investment Grade | $ 14,636,632 | $ 36,005,908 | Income Trust | $ 224,933,848 | $ 254,777,853 |
| Core Bond | 1,070,707,534 | 1,068,262,108 | Limited Duration | 11,853,749 | 8,548,029 |
| High Yield | | 245,574 | Strategic Bond | 1,430,405 | 547,063 |
| Income Opportunity | 1,333,797,883 | 1,388,765,858 | | | |

Each Trust may from time to time purchase in the secondary market certain mortgage pass-through securities packaged or master serviced by affiliates or mortgage-related securities containing loans or mortgages originated by PNC Bank or its affiliates, including Midland Loan Services, Inc., each of which is an affiliate of BlackRock Advisors, Inc. It is possible under certain circumstances, that PNC Mortgage Securities Corp. or its affiliates, including Midland Loan Services, Inc., could have interests that are in conflict with the holders of these mortgage-backed securities, and such holders could have rights against PNC Mortgage Securities Corp. or its affiliates, including Midland Loan Services, Inc.

For Federal income tax purposes, the following Trusts had capital loss carryforwards as of their last respective tax year end. These amounts may be used to offset future realized capital gains, if any:

| Trust | Capital Loss Carryforward Amount | Expires | Trust | Capital Loss Carryforward Amount | Expires |
|---|---|---|---|---|---|
| Broad Investment Grade | $ 2,518,895 | 2011 | Income Trust | $ 33,107,952 | 2007 |
| | 684,360 | 2012 | | 1,352,206 | 2008 |
| | 3,203,255 | | | 13,940,898 | 2009 |
| High Yield | $ 2,558,868 | 2007 | | 21,960,613 | 2011 |
| | 3,270,311 | 2008 | | 10,100,201 | 2012 |
| | 15,159,280 | 2009 | | 3,861,222 | 2013 |
| | 8,468,860 | 2010 | | $ 84,323,092 | |
| | 4,771,417 | 2011 | Limited Duration | $ 2,008,113 | 2013 |
| | 316,410 | 2012 | Strategic Bond | $ 432,713 | 2011 |
| | $ 34,545,146 | | | 318,492 | 2013 |
| | | | | $ 751,205 | |

Accordingly, no capital gain distributions are expected to be paid to shareholders of a Trust until that Trust has net realized capital gains in excess of its carryforward amounts. As of October 31, 2005 High Yield used $884,735 in capital loss carryforwards to offset net taxable gains.

Details of open forward currency contracts at October 31, 2005 were as follows:

| Trust | Foreign Currency | Settlement Date | Contract to Purchase / Receive | Value at Settlement Date | Value at October 31, 2005 | Unrealized Appreciation |
|---|---|---|---|---|---|---|
| Core Bond | **Sold:** | | | | | |
| | Euro | 01/20/06 | 4,106,777 | 4,990,946 | 4,941,669 | 49,277 |
| Limited Duration | **Sold:** | | | | | |
| | Euro | 01/20/06 | 6,586,400 | 8,003,102 | 7,925,390 | 77,712 |

Details of open interest rate swaps at October 31, 2005 were as follows:

| Trust | Notional Amount (000) | Fixed Rate | Floating Rate | Termination Date | Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|---|
| Core Bond | 5,400 | 4.412%[b] | 3-month LIBOR | 02/17/14 | $ 218,586 |
| | 50,000 | 3.000[b] | 3-month LIBOR | 04/16/07 | 1,266,667 |
| | 19,435 | 3.215[a] | 3-month LIBOR | 06/14/06 | (15,277) |
| | 14,300 | 3.210[a] | 3-month LIBOR | 06/17/06 | (11,777) |
| | 950 | 5.365[b] | 3-month LIBOR | 07/29/19 | (32,120) |
| | 1,300 | 5.155[a] | 3-month LIBOR | 08/13/19 | 2,717 |
| | 800 | 4.780[a] | 3-month LIBOR | 10/27/19 | (30,560) |
| | 41,200 | 4.510[b] | 3-month LIBOR | 10/29/14 | 1,573,000 |
| | 20,000 | 4.458[a] | 3-month LIBOR | 04/18/10 | (362,257) |
| | 5,600 | 4.415[a] | 3-month LIBOR | 09/27/08 | (60,200) |
| | 2,800 | 4.500[b] | 3-month LIBOR | 05/26/15 | 81,760 |
| | 3,300 | 4.442[a] | 3-month LIBOR | 07/11/15 | (118,626) |
| | 9,710 | 4.368[a] | 3-month LIBOR | 07/15/10 | (113,122) |
| | 17,500 | 4.385[a] | 3-month LIBOR | 08/02/07 | 71,197 |
| | 9,400 | 4.510[a] | 3-month LIBOR | 09/27/10 | (156,275) |
| | 14,100 | 4.305[a] | 3-month LIBOR | 06/17/10 | (192,089) |
| | 24,400 | 4.444[a] | 3-month LIBOR | 08/17/07 | (118,485) |
| | 10,525 | 4.501[b] | 3-month LIBOR | 08/31/10 | 177,873 |
| | 4,800 | 4.372[a] | 3-month LIBOR | 06/30/15 | (188,160) |
| | 6,200 | 4.725[a] | 3-month LIBOR | 08/02/15 | (147,234) |
| | | | | | 1,845,618 |
| Income Opportunity Trust | 3,000 | 5.230%[a] | 3-month LIBOR | 11/04/21 | (59,367) |
| | 5,700 | 4.412[a] | 3-month LIBOR | 02/17/14 | 230,730 |
| | 50,000 | 3.000[a] | 3-month LIBOR | 04/16/07 | 1,266,667 |
| | 20,735 | 3.215[b] | 3-month LIBOR | 06/14/06 | (16,299) |
| | 15,300 | 3.210[b] | 3-month LIBOR | 06/17/06 | (12,600) |
| | 1,050 | 5.365[a] | 3-month LIBOR | 07/29/19 | (35,501) |
| | 1,400 | 5.155[b] | 3-month LIBOR | 08/13/19 | 2,926 |
| | 27,500 | 4.399[a] | 3-month LIBOR | 10/25/14 | 1,268,860 |
| | 900 | 4.780[b] | 3-month LIBOR | 10/27/19 | (34,380) |
| | 13,800 | 4.510[a] | 3-month LIBOR | 10/29/14 | 526,879 |
| | 10,000 | 4.458[b] | 3-month LIBOR | 04/18/10 | (181,129) |
| | 7,800 | 4.415[b] | 3-month LIBOR | 09/27/08 | (83,850) |
| | 3,000 | 4.500[a] | 3-month LIBOR | 05/26/15 | 87,600 |
| | 3,600 | 4.442[b] | 3-month LIBOR | 07/11/15 | (129,410) |
| | 10,375 | 4.368[b] | 3-month LIBOR | 07/15/10 | (120,869) |
| | 18,800 | 4.385[b] | 3-month LIBOR | 08/02/07 | 76,486 |
| | 4,300 | 4.510[b] | 3-month LIBOR | 09/27/10 | (71,488) |
| | 13,300 | 4.305[b] | 3-month LIBOR | 06/17/10 | (181,190) |
| | 22,200 | 4.444[b] | 3-month LIBOR | 08/17/07 | (107,802) |

| | | | | | |
|---|---|---|---|---|---|
| | 4,825 | 4.501(a) | 3-month LIBOR | 08/31/10 | 81,544 |
| | 8,000 | 4.670(b) | 3-month LIBOR | 09/20/15 | (236,789) |
| | 5,200 | 4.372(b) | 3-month LIBOR | 06/30/15 | (203,840) |
| | | | | | 2,067,178 |

| Trust | Notional Amount (000) | Fixed Rate | Floating Rate | Termination Date | Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|---|
| Income Trust | 24,000 | 3.550%[a] | 3-month LIBOR | 10/24/06 | $ (264,595) |
| | 50,000 | 3.000[b] | 3-month LIBOR | 04/16/07 | 1,266,667 |
| | 19,000 | 4.889[b] | 3-month LIBOR | 04/22/14 | 179,376 |
| | 2,800 | 5.940[a] | 3-month LIBOR | 12/07/15 | 191,520 |
| | 22,295 | 3.215[a] | 3-month LIBOR | 06/14/06 | (17,525) |
| | 16,400 | 3.210[a] | 3-month LIBOR | 06/17/06 | (13,506) |
| | 1,075 | 5.365[b] | 3-month LIBOR | 07/29/19 | (36,346) |
| | 1,450 | 5.155[a] | 3-month LIBOR | 08/13/19 | 3,030 |
| | 12,500 | 4.399[b] | 3-month LIBOR | 10/25/14 | 576,755 |
| | 900 | 4.780[a] | 3-month LIBOR | 10/27/19 | (34,380) |
| | 9,400 | 4.902[b] | 3-month LIBOR | 03/17/15 | 87,702 |
| | 25,000 | 4.883[a] | 3-month LIBOR | 03/21/15 | (242,000) |
| | 16,000 | 4.925[b] | 3-month LIBOR | 03/22/15 | 130,639 |
| | 11,000 | 4.415[a] | 3-month LIBOR | 09/27/08 | (118,250) |
| | 3,000 | 4.500[b] | 3-month LIBOR | 05/26/15 | 87,600 |
| | 4,500 | 4.442[a] | 3-month LIBOR | 07/11/15 | (161,763) |
| | 10,210 | 4.368[a] | 3-month LIBOR | 07/15/10 | (118,947) |
| | 18,300 | 4.385[a] | 3-month LIBOR | 08/02/07 | 74,453 |
| | 12,000 | 4.320[a] | 3-month LIBOR | 09/08/10 | (291,000) |
| | | | | | 1,299,430 |

(a) Trust pays floating interest rate and receives fixed rate.
(b) Trust pays fixed interest rate and receives floating rate.

The terms of the open credit default swap agreements at October 31, 2005 were to receive the quarterly notional amount multiplied by 0.23% and pay Goldman Sachs, upon default event of Consolidated Natural Gas Co., the par value of the notional amount of Consolidated Natural Gas Co. 5.375% 11/01/06. Details of open credit default swaps at October 31, 2005 were as follows:

| Trust | Notional Amount (000) | Termination Date | Unrealized Appreciation |
|---|---|---|---|
| Broad Investment Grade | 300 | 11/01/05 | $ 176 |
| Core Bond | 3,800 | 11/01/05 | $ 2,240 |
| Income Opportunity Trust | 4,000 | 11/01/05 | $ 2,357 |
| Limited Duration | 6,800 | 11/01/05 | $ 4,008 |

Transactions in options written during the year ended October 31, 2005 were as follows:

| Trust | | Contracts/ Notional Amount (000) | Premium Received |
|---|---|---|---|
| Core Bond | Options outstanding at October 31, 2004 | $ 151,700 | $ 2,196,443 |
| | Options written | 65,350 | 3,046,054 |

| | | | |
|---|---|---|---|
| | Options expired | | (136,980) |
| | Options terminated in closing purchase transactions | (156,850) | (2,388,764) |
| | Options outstanding at October 31, 2005 | $ 60,200 | $ 2,716,753 |
| Income Opportunity Trust | | | |
| | Options outstanding at October 31, 2004 | $ 177,400 | $ 2,557,620 |
| | Options written | 70,200 | 3,272,591 |
| | Options expired | | (180,572) |
| | Options terminated in closing purchase transactions | (183,000) | (2,732,241) |
| | Options outstanding at October 31, 2005 | $ 64,600 | $ 2,917,398 |
| Income Trust | | | |
| | Options outstanding at October 31, 2004 | $ 182,800 | $ 2,915,666 |
| | Options written | 69,900 | 2,967,460 |
| | Options expired | (77,000) | (1,699,981) |
| | Options terminated in closing purchase transactions | (111,300) | (1,314,677) |
| | Options outstanding at October 31, 2005 | $ 64,400 | $ 2,868,468 |

## Note 4. Borrowings

**Reverse Repurchase Agreements:** The Trusts may enter into reverse repurchase agreements with qualified third-party broker-dealers as determined by and under the direction of the Trusts   Board. Interest on the value of reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. At the time a Trust enters into a reverse repurchase agreement, it will establish and maintain a segregated account with the lender, containing liquid investment grade securities having a value not less than the repurchase price, including accrued interest of the reverse repurchase agreement. Details of open reverse repurchase agreements at October 31, 2005 were as follows (please see Corresponding Underlying Collateral Chart on pages 84-85):

| Trust/Counter Party | Rate | Trade Date | Maturity Date | Net Closing Amount | Par |
|---|---|---|---|---|---|
| Core Bond | | | | | |
| Lehman Brothers | 3.850% | 10/24/05 | 11/02/05 | $ 80,713,691 | $ 80,636,894 |
| | 3.550 | 10/25/05 | 11/04/05 | 3,677,423 | 3,674,163 |
| | 4.000 | 10/31/05 | 11/01/05 | 2,565,285 | 2,565,000 |
| | | | | | 86,876,057 |
| Income Opportunity | | | | | |
| Credit Suisse First Boston LLC | 3.800 | 10/24/05 | 11/02/05 | 67,781,919 | 67,717,588 |
| | 3.770 | 10/24/05 | 11/04/05 | 41,852,008 | 41,808,225 |
| | | | | | 109,525,813 |
| Lehman Brothers | 3.920 | 10/13/05 | 11/07/05 | 3,846,413 | 3,836,387 |
| | 3.920 | 10/18/05 | 11/08/05 | 4,378,990 | 4,369,000 |
| | 3.900 | 10/19/05 | 11/07/05 | 2,453,039 | 2,448,000 |
| | | | | | 10,653,387 |
| Income Trust | | | | | |
| Barclays Bank PLC | 3.900 | 10/27/05 | 11/07/05 | 35,475,891 | 35,437,500 |
| Credit Suisse First Boston LLC | 3.850 | 10/27/05 | 11/07/05 | 69,558,059 | 69,483,750 |
| Lehman Brothers | 3.920 | 10/13/05 | 11/07/05 | 6,862,387 | 6,844,500 |
| | 3.950 | 10/21/05 | 11/07/05 | 2,528,708 | 2,524,000 |
| | 3.890 | 10/05/05 | 11/07/05 | 10,857,579 | 10,819,000 |
| | 3.930 | 10/13/05 | 11/07/05 | 2,266,924 | 2,261,000 |
| | 3.920 | 10/12/05 | 11/03/05 | 9,080,717 | 9,060,000 |
| | 3.890 | 10/05/05 | 11/03/05 | 9,534,761 | 9,506,000 |
| | 3.800 | 10/20/05 | 11/04/05 | 2,834,182 | 2,830,000 |
| | 4.050 | 10/31/05 | 11/01/05 | 792,589 | 792,500 |
| | | | | | 44,637,000 |
| Limited Duration | | | | | |
| Credit Suisse First Boston LLC | 1.000 | 10/24/05 | 11/04/05 | 1,801,888 | 1,801,387 |
| | 3.720 | 10/24/05 | 11/04/05 | 19,307,180 | 19,287,250 |
| | 3.750 | 10/24/05 | 11/04/05 | 25,485,645 | 25,459,125 |
| | 4.070 | 10/20/05 | 11/21/05 | 27,366,577 | 27,271,000 |
| | 4.230 | 10/20/05 | 11/21/05 | 27,240,865 | 27,142,000 |
| | 3.800 | 09/02/05 | 11/07/05 | 14,445,926 | 14,352,000 |
| | | | | | 115,312,762 |

| | | | | | |
|---|---|---|---|---|---|
| Lehman Brothers | 3.900 | 09/26/05 | 11/04/05 | 18,484,784 | 18,409,000 |
| | 4.100 | 09/26/05 | 11/04/05 | 3,775,268 | 3,759,000 |
| | 3.980 | 10/06/05 | 11/07/05 | 8,683,659 | 8,654,000 |
| | 3.970 | 10/11/05 | 11/14/05 | 1,491,572 | 1,486,000 |
| | 3.900 | 10/13/05 | 11/07/05 | 19,046,894 | 18,997,500 |
| | 3.920 | 10/13/05 | 11/07/05 | 4,488,700 | 4,477,000 |
| | 3.850 | 10/17/05 | 11/07/05 | 265,595 | 265,000 |
| | 3.940 | 10/17/05 | 11/07/05 | 2,188,781 | 2,184,000 |
| | 2.250 | 10/19/05 | 11/07/05 | 2,468,774 | 2,466,000 |
| | | | | | 60,697,500 |
| Strategic Bond | | | | | |
| Credit Suisse First Boston LLC | 4.070 | 10/20/05 | 11/22/05 | 16,393,093 | 16,334,000 |
| Lehman Brothers | 3.150 | 10/03/05 | 11/07/05 | 460,052 | 458,688 |
| | 3.625 | 10/03/05 | 11/07/05 | 1,002,169 | 998,750 |
| | 3.650 | 10/03/05 | 11/07/05 | 743,617 | 741,063 |
| | 3.700 | 10/03/05 | 11/07/05 | 1,012,262 | 1,008,737 |
| | 4.100 | 10/19/05 | 11/21/05 | 10,643,649 | 10,605,000 |
| | 3.750 | 10/19/05 | 11/21/05 | 810,668 | 807,975 |
| | 3.900 | 10/24/05 | 11/17/05 | 930,648 | 928,335 |
| | | | | | 15,548,548 |

Details of underlying collateral for open reverse repurchase agreements at October 31, 2005 were as follows:

| Trust / Counter Party | Description | Rate | Maturity Date | Original Face | Current Face | Market Value |
|---|---|---|---|---|---|---|
| Core Bond | | | | | | |
| Lehman Brothers | U.S. Treasury Bond | 6.125% | 11/15/27 | 48,600,000 | $ 48,600,000 | $ 57,082,158 |
| | U.S. Treasury Bond | 8.500 | 02/15/27 | 10,855,000 | 10,855,000 | 14,983,265 |
| | U.S. Treasury Bond | 7.125 | 02/15/23 | 6,500,000 | 6,500,000 | 8,231,665 |
| | U.S. Treasury Bond | 4.125 | 08/15/08 | 3,665,000 | 3,665,000 | 3,637,513 |
| | | | | | | 83,934,601 |
| Income Opportunity | | | | | | |
| Credit Suisse First Boston LLC | U.S. Treasury Bond | 8.500 | 02/15/20 | 15,845,000 | 15,845,000 | 21,871,012 |
| | U.S. Treasury Bond | 7.125 | 02/15/23 | 9,795,000 | 9,795,000 | 12,404,486 |
| | U.S. Treasury Bond | 6.500 | 11/15/26 | 24,320,000 | 24,320,000 | 29,621,030 |
| | U.S. Treasury Bond | 6.125 | 11/15/27 | 5,060,000 | 5,060,000 | 5,943,122 |
| | U.S. Treasury Bond | 6.000 | 02/15/26 | 32,000,000 | 32,000,000 | 36,787,488 |
| | | | | | | 106,627,138 |
| Lehman Brothers | Resolution Funding Corp. | 0.000 | 04/15/30 | 6,055,000 | 6,055,000 | 1,823,948 |
| | Tennessee Valley Authority | 5.880 | 04/01/36 | 1,800,000 | 1,800,000 | 1,987,812 |
| | Federal National Mortgage Assoc. | 5.500 | 02/01/33 | 9,500,000 | 4,500,368 | 4,443,168 |
| | Tennessee Valley Authority | 4.875 | 12/15/16 | 2,400,000 | 2,400,000 | 2,427,576 |
| | | | | | | 10,682,504 |
| Income Trust | | | | | | |
| Barclays Capital Inc. | U.S. Treasury Bond | 0.000 | 11/15/24 | 90,000,000 | 90,000,000 | 35,674,380 |
| Credit Suisse First Boston LLC | U.S. Treasury Notes | 1.500 | 03/31/06 | 40,000,000 | 40,000,000 | 39,568,800 |
| | U.S. Treasury Notes | 3.750 | 03/31/07 | 21,000,000 | 21,000,000 | 20,809,740 |
| | U.S. Treasury Notes | 4.250 | 11/15/13 | 9,000,000 | 9,000,000 | 8,814,420 |
| | | | | | | 69,192,960 |
| Lehman Brothers | Federal National Mortgage Assoc. | 5.000 | 06/01/33 | 5,999,400 | 5,144,458 | 4,969,681 |
| | Federal National Mortgage Assoc. | 5.000 | 07/01/34 | 4,600,000 | 3,943,200 | 3,802,810 |
| | Federal National Mortgage Assoc. | 5.000 | 06/01/34 | 3,000,000 | 2,327,197 | 2,247,658 |
| | Federal Home Loan Mortgage Corp. | 5.500 | 05/15/23 | 7,800,000 | 7,439,082 | 7,453,440 |
| | Federal National Mortgage Assoc. | 6.500 | 05/01/31 | 48,673,696 | 2,644,117 | 2,715,191 |
| | Federal National Mortgage Assoc. | 5.500 | 09/01/17 | 30,215,381 | 9,217,552 | 9,286,684 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Federal Home Loan Mortgage Corp. | 4.165 | 01/01/35 | 1,277,500 | 1,277,092 | 1,269,263 |
| | Federal Home Loan Mortgage Corp. | 4.959 | 10/01/34 | 1,607,000 | 1,053,328 | 1,036,222 |
| | Resolution Funding Corp. | 0.000 | 04/15/30 | 13,000,000 | 13,000,000 | 3,915,990 |
| | Federal National Mortgage Assoc. | 5.500 | 10/01/35 | 5,600,000 | 5,600,000 | 5,526,161 |
| | U.S. Treasury Notes | 2.500 | 05/31/06 | 2,830,000 | 2,830,000 | 2,801,700 |
| | U.S. Treasury Bond | 0.000 | 11/15/24 | 2,000,000 | 2,000,000 | 792,764 |
| | | | | | | 45,817,564 |
| Limited Duration | | | | | | |
| Credit Suisse | DaimlerChrysler NA Holding Corp. | 4.050 | 06/04/08 | 7,500,000 | 7,500,000 | 7,289,700 |
| First Boston LLC | Comcast Cable Communications, Inc. | 6.875 | 06/15/09 | 6,685,000 | 6,685,000 | 7,034,290 |
| | CSC Holdings, Inc. | 7.875 | 12/15/07 | 6,000,000 | 6,000,000 | 6,157,500 |
| | Georgia Pacific Corp. | 8.875 | 02/01/10 | 5,685,000 | 5,685,000 | 6,317,456 |
| | Qwest Corp. | 9.125 | 03/15/12 | 6,000,000 | 6,000,000 | 6,615,000 |
| | Sequa Corp. | 8.875 | 04/01/08 | 5,350,000 | 5,350,000 | 5,523,875 |
| | Western Financial Bank | 9.625 | 05/15/12 | 4,215,000 | 4,215,000 | 4,773,488 |
| | Weyerhaeuser Co. | 5.250 | 12/15/09 | 7,500,000 | 7,500,000 | 7,479,345 |
| | Deutsche Telekom Intl. Finance BV | 8.500 | 06/15/10 | 5,000,000 | 5,000,000 | 5,575,200 |
| | General Motors Acceptance Corp. | 6.875 | 08/28/12 | 7,500,000 | 7,500,000 | 7,201,800 |
| | Ford Motor Credit Co. | 7.375 | 02/01/11 | 7,500,000 | 7,500,000 | 7,043,978 |
| | U.S. Treasury Notes | 3.375 | 12/15/08 | 17,000,000 | 17,000,000 | 16,476,740 |
| | U.S. Treasury Notes | 4.250 | 11/15/13 | 8,660,000 | 8,660,000 | 8,838,656 |
| | U.S. Treasury Notes | 3.875 | 05/15/09 | 6,000,000 | 6,000,000 | 5,889,360 |
| | U.S. Treasury Notes | 3.375 | 09/15/09 | 3,425,000 | 3,425,000 | 3,296,563 |
| | U.S. Treasury Notes | 3.750 | 03/31/07 | 10,000,000 | 10,000,000 | 9,909,400 |
| | U.S. Treasury Notes | 4.250 | 08/15/15 | 1,815,000 | 1,815,000 | 1,770,768 |
| | | | | | | 117,193,119 |

| Trust / Counter Party | Description | Rate | Maturity Date | Original Face | Current Face | Market Value |
|---|---|---|---|---|---|---|
| Limited Duration (continued) | | | | | | |
| Lehman Brothers | | | | | | |
| | Caraustar Industries, Inc. | 9.875% | 04/01/11 | 4,250,000 | $ 4,250,000 | $ 4,133,125 |
| | Citibank Credit Card Issuance Trust | 2.500 | 04/07/08 | 2,080,000 | 2,080,000 | 2,063,651 |
| | DaimlerChrysler Auto Trust | 2.250 | 08/08/07 | 6,900,000 | 4,654,263 | 4,629,040 |
| | Federal National Mortgage Assoc. | 5.000 | 06/01/20 | 657,205 | 648,118 | 639,408 |
| | Federal National Mortgage Assoc. | 5.500 | 07/01/33 | 1,281,754 | 848,745 | 838,657 |
| | Federal National Mortgage Assoc. | 5.500 | 08/01/33 | 2,113,543 | 1,156,356 | 1,142,611 |
| | Federal National Mortgage Assoc. | 5.500 | 09/01/33 | 5,852,429 | 3,835,880 | 3,790,286 |
| | Federal National Mortgage Assoc. | 5.500 | 10/01/33 | 3,182,952 | 1,880,746 | 1,856,303 |
| | Federal National Mortgage Assoc. | 5.500 | 08/01/20 | 306,253 | 298,907 | 294,956 |
| | Federal National Mortgage Assoc. | 7.250 | 01/15/10 | 17,000,000 | 17,000,000 | 18,582,020 |
| | Goodman Global Holding Co., Inc. | 7.875 | 12/15/12 | 3,170,000 | 3,170,000 | 2,995,650 |
| | Honda Auto Receivables | 2.300 | 10/18/07 | 7,125,000 | 5,675,201 | 5,616,742 |
| | MBNA Credit Card Master Note Trust | 5.750 | 11/15/08 | 7,910,000 | 7,910,000 | 7,965,528 |
| | Tyco Intl. Group SA | 6.125 | 11/01/08 | 7,500,000 | 7,500,000 | 7,721,775 |
| | | | | | | 62,269,752 |
| Strategic Bond | | | | | | |
| Credit Suisse First Boston LLC | Wells Fargo & Co. | 3.500 | 04/04/08 | 2,000,000 | 2,000,000 | 1,941,140 |
| | HSBC Bank USA, Inc. | 3.875 | 09/15/09 | 1,500,000 | 1,500,000 | 1,443,735 |
| | Comcast Cable Communications, Inc. | 6.875 | 06/15/09 | 1,000,000 | 1,000,000 | 1,052,250 |
| | SBC Communications, Inc. | 6.450 | 06/15/34 | 1,500,000 | 1,500,000 | 1,512,270 |
| | Bank One Corp. | 6.500 | 02/01/06 | 1,000,000 | 1,000,000 | 1,005,360 |
| | Dominion Resources, Inc. | 5.700 | 09/17/12 | 1,000,000 | 1,000,000 | 1,016,340 |
| | TIAA Global Markets, Inc. | 3.875 | 01/22/08 | 1,000,000 | 1,000,000 | 979,010 |
| | Tyco Intl. Group | 6.375 | 02/15/06 | 1,132,000 | 1,132,000 | 1,137,388 |
| | DaimlerChrysler NA Holding Corp. | 7.300 | 01/15/12 | 1,000,000 | 1,000,000 | 1,074,330 |
| | Citigroup, Inc. | 5.750 | 05/10/06 | 2,900,000 | 2,900,000 | 2,919,575 |
| | General Electric Cap. Corp. | 3.450 | 07/16/07 | 400,000 | 400,000 | 391,488 |
| | Verizon New England, Inc. | 6.500 | 09/15/11 | 2,000,000 | 2,000,000 | 2,067,520 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | 16,540,406 |
| Lehman Brothers | U.S. Treasury Bond | 5.375 | 02/15/31 | 410,000 | 410,000 | 447,027 |
| | U.S. Treasury Notes | 4.250 | 08/15/13 | 1,000,000 | 1,000,000 | 980,780 |
| | U.S. Treasury Notes | 4.750 | 05/15/14 | 710,000 | 710,000 | 718,989 |
| | U.S. Treasury Notes | 2.500 | 05/31/06 | 1,010,000 | 1,010,000 | 999,900 |
| | General Electric Cap. Corp. | 3.450 | 07/16/07 | 1,600,000 | 1,600,000 | 1,565,952 |
| | News America, Inc. | 6.200 | 12/15/34 | 1,500,000 | 1,500,000 | 1,455,345 |
| | General Mills, Inc. | 5.125 | 02/15/07 | 1,000,000 | 1,000,000 | 1,003,020 |
| | Merck & Co., Inc. | 4.375 | 02/15/13 | 1,000,000 | 1,000,000 | 939,410 |
| | Telecom Italia Cap. | 4.950 | 09/30/14 | 1,000,000 | 1,000,000 | 956,420 |
| | United Technologies Corp. | 6.350 | 03/01/11 | 1,000,000 | 1,000,000 | 1,062,460 |
| | Wellpoint, Inc. | 5.950 | 12/15/34 | 1,000,000 | 1,000,000 | 1,015,700 |
| | Wyeth | 6.500 | 02/01/34 | 1,000,000 | 1,000,000 | 1,097,050 |
| | Vodafone Group PLC | 7.750 | 02/15/10 | 1,000,000 | 1,000,000 | 1,100,770 |
| | European Investment Bank | 4.875 | 09/06/06 | 500,000 | 500,000 | 501,750 |
| | U.S. Treasury Notes | 4.125 | 08/15/10 | 810,000 | 810,000 | 797,850 |
| | U.S. Treasury Notes | 2.625 | 11/15/06 | 933,000 | 933,000 | 916,523 |
| | | | | | | 15,558,946 |

**Dollar Rolls:** The Trusts may enter into dollar rolls in which a Trust sells securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period the Trusts forgo principal and interest paid on the securities. The Trusts will be compensated by the interest earned on the cash proceeds of the initial sale and/or by the lower repurchase price at the future date.

**Loan Payable:** High Yield has a $32 million committed credit facility (the facility ). Under the terms of the facility, the Trust borrows at the London Interbank Offered Rate ( LIBOR ) plus facility and administrative fees. In addition, the Trust pays a liquidity fee on the unused portion of the facility. The Trust may borrow up to 33 1/3% of its total assets up to the committed amount. In accordance with the terms of the facility, the Trust has pledged its portfolio assets as collateral for the borrowing.

## Note 5. Distributions to Shareholders

The tax character of distributions paid during the years ended October 31, 2005 and October 31, 2004 were as follows:

| | Year ended October 31, 2005 | | | |
|---|---|---|---|---|
| **Distributions Paid from:** | **Ordinary Income** | **Non-taxable Return of Capital** | **Long-term Capital Gains** | **Total Distributions** |
| Broad Investment Grade | $ 3,271,251 | $ | $ 525,065 | $ 3,796,316 |
| Core Bond | 27,245,722 | | 9,450,907 | 36,696,629 |
| High Yield | 5,087,371 | | | 5,087,371 |
| Income Opportunity | 28,509,597 | | 8,926,885 | 37,436,482 |
| Income Trust | 30,667,298 | 4,798,184 | | 35,465,482 |
| Limited Duration | 52,882,982 | | 1,634,766 | 54,517,748 |
| Strategic Bond | 7,935,935 | 1,898,203 | | 9,834,138 |

| | Year ended October 31, 2004 | | | |
|---|---|---|---|---|
| **Distributions Paid From:** | **Ordinary Income** | **Non-taxable Return of Capital** | **Long-term Capital Gains** | **Total Distributions** |
| Broad Investment Grade | $ 2,661,384 | $ | $ | $ 2,661,384 |
| Core Bond | 29,412,475 | | 556,750 | 29,969,225 |
| High Yield | 5,864,606 | 187,188 | | 6,051,794 |
| Income Opportunity | 28,937,742 | | | 28,937,742 |
| Income Trust | 38,921,208 | | | 38,921,208 |
| Limited Duration | 55,077,640 | | | 55,077,640 |
| Strategic Bond | 11,337,469 | | | 11,337,469 |

As of October 31, 2005, the components of distributable earnings on a tax basis were as follows:

| **Trust** | **Ordinary Income** | **Undistributed Long-term Gains** | **Undistributed Unrealized Net Appreciation** |
|---|---|---|---|
| Broad Investment Grade | $ 8,125,481 | $ | $ |
| Core Bond | 2,812,502 | 7,424,183 | |
| High Yield | | | |
| Income Opportunity | 2,912,695 | 8,976,685 | |
| Income Trust | | | |
| Limited Duration | 6,547,096 | | |
| Strategic Bond | | | |

## Note 6. Capital

There are 200 million of $0.01 par value common shares authorized for each of the Broad Investment Grade, Income Opportunity and Income Trusts. There are an unlimited number of $0.001 par value common shares authorized for Core Bond, High Yield, Limited Duration and Strategic Bond. At October 31, 2005, the common shares outstanding and the shares owned by affiliates of the Advisor of each Trust were:

| Trust | Common Shares Outstanding | Common Shares Owned |
|---|---|---|
| Broad Investment Grade | 2,957,093 | |
| Core Bond | 27,018,774 | |
| High Yield | 6,411,104 | |
| Income Opportunity | 34,449,693 | |
| Income Trust | 63,942,536 | |
| Limited Duration | 36,768,498 | 6,021 |
| Strategic Bond | 7,058,402 | |

During the year ended October 31, 2005, High Yield, Income Trust, Limited Duration and Strategic Bond issued additional shares under their dividend reinvestment plans of 7,498, 227,068, 41,211, and 9,684, respectively. During the year ended October 31, 2004, High Yield, Income Trust, Limited Duration and Strategic Bond issued additional shares under their dividend reinvestment plans of 21,958, 325,777, 21,266 and 13,097, respectively.

## Note 7. Dividends

Subsequent to October 31, 2005, the Board of each of the Trusts declared dividends per common share payable November 30, 2005 to shareholders of record on November 15, 2005. The per share common dividends declared were as follows:

| Trust | Common Dividend Per Share |
|---|---|
| Broad Investment Grade | $ 0.075000 |
| Core Bond | 0.077100 |
| High Yield | 0.055333 |
| Income Opportunity | 0.061900 |
| Income Trust | 0.036787 |
| Limited Duration | 0.121800 |
| Strategic Bond | 0.088000 |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees/Directors and Shareholders of:
BlackRock Broad Investment Grade 2009 Term Trust Inc.
BlackRock Core Bond Trust
BlackRock High Yield Trust
BlackRock Income Opportunity Trust
BlackRock Income Trust Inc.
BlackRock Limited Duration Income Trust
BlackRock Strategic Bond Trust
(Collectively the Trusts )
We have audited the accompanying statement of assets and liabilities of the Trusts, including the portfolios of investments, as of October 31, 2005, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Trusts management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Trusts are not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2005, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Trusts as of October 31, 2005, the results of their operations and their cash flows for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Boston, Massachusetts
December 29, 2005

## DIRECTORS/TRUSTEES INFORMATION (Unaudited)

| Name, address, age | Current positions held with the Trusts | Term of office and length of time served | Principal occupations during the past five years | Number of portfolios over-seen within the fund complex [1] | Other Directorships held outside the fund complex [1] | Events or transactions by reason of which the Trustee is an interested person as defined in Section 2(a) (19) of the 1940 Act |
|---|---|---|---|---|---|---|
| | | | **Interested Directors/Trustees[2]** | | | |
| Ralph L. Schlosstein BlackRock, Inc. 40 East 52nd Street New York, NY 10022 Age: 54 | Chairman of the Board[3] | 3 years[4]/since inception | Director since 1999 and President of BlackRock, Inc. since its formation in 1998 and of BlackRock, Inc. s predecessor entities since 1988. Member of the Management Committee and Investment Strategy Group of BlackRock, Inc. Formerly, Managing Director of Lehman Brothers, Inc. and Co-head of its Mortgage and Savings Institutions Group. Chairman and President of the BlackRock Liquidity Funds and Director of several of BlackRock s alternative investment vehicles. | 67 | Director and Chairman of the Board of Anthracite Capital, Inc. Member of the Visiting Board of Overseers of the John F. Kennedy School of Government at Harvard University, a member of the board of the Financial Institutions Center of The Wharton School of the University of Pennsylvania, a trustee of the American Museum of Natural History, a trustee of Trinity School in New York City, a member of the Board of Advisors of Marujupu LLC, and a trustee of New Visions for Public Education, The Public Theater in New York City and the James Beard Foundation. Formerly, a director of Pulte Corporation, the nation s largest home-builder, a trustee of Denison University and a member of Fannie Mae s Advisory Council. | Director and President of the Advisor. |
| Robert S. Kapito BlackRock, Inc. 40 East 52nd Street New York, NY 10022 Age: 48 | President and Trustee | 3 years[4]/since August 22, 2002 | Vice Chairman of BlackRock, Inc. Head of the Portfolio Management Group. Also a member of the Management Committee, the Investment Strategy Group, the Fixed Income and Global Operating Committees and the Equity Investment Strategy | 57 | Chairman of the Hope and Heroes Children s Cancer Fund. President of the Board of Directors of the Periwinkle National Theatre for Young Audiences. | Director and Vice Chairman of the Advisor. |

Group. Responsible for
the portfolio
management of the
Fixed Income,
Domestic Equity and
International Equity,
Liquidity, and
Alternative Investment
Groups of BlackRock.

**DIRECTORS/TRUSTEES INFORMATION (Unaudited) (Continued)**

| Name, address, age | Current positions held with the Trusts | Term of office and length of time served | Principal occupations during the past five years | Number of portfolios overseen within the fund complex[1] | Other Directorships held outside the fund complex |
|---|---|---|---|---|---|
| | | | **Independent Directors/ Trustees** | | |
| Andrew F. Brimmer<br>P.O. Box 4546<br>New York, NY<br>10163-4546<br>Age: 79 | Lead Trustee<br>Audit Committee Chairman[5] | 3 years[4]/since inception | President of Brimmer & Company, Inc., a Washington, D.C.-based economic and financial consulting firm, also Wilmer D. Barrett Professor of Economics, University of Massachusetts Amherst. Formerly member of the Board of Governors of the Federal Reserve System. Former Chairman, District of Columbia Financial Control Board. | 57 | Director of CarrAmerica Realty Corporation and Borg-Warner Automotive. Formerly Director of Airborne Express, BankAmerica Corporation (Bank of America), BellSouth Corporation, College Retirement Equities Fund (Trustee), Commodity Exchange, Inc. (Public Governor), Connecticut Mutual Life Insurance Company, E.I. du Pont de Nemours & Company, Equitable Life Assurance Society of the United States, Gannett Company, Mercedes-Benz of North America, MNC Financial Corporation (American Security Bank), NCM Capital Management, Navistar International Corporation, PHH Corp. and UAL Corporation (United Airlines). |
| Richard E. Cavanagh<br>P.O. Box 4546<br>New York, NY<br>10163-4546<br>Age: 59 | Trustee<br>Audit Committee Member | 3 years[4]/since inception[6] | President and Chief Executive Officer of The Conference Board, Inc., a leading global business research organization, from 1995-present. Former Executive Dean of the John F. Kennedy School of Government at Harvard University from 1988-1995. Acting Director, Harvard Center for Business and Government (1991-1993). Formerly Partner (principal) of McKinsey & Company, Inc. (1980-1988). Former Executive Director of | 57 | Trustee of Aircraft Finance Trust (AFT) and Chairman of Educational Testing Service (ETS). Director, Arch Chemicals, Fremont Group and The Guardian Life Insurance Company of America. |

| | | | | | |
|---|---|---|---|---|---|
| | | | Federal Cash Management, White House Office of Management and Budget (1977-1979). Co- author, THE WINNING PERFORMANCE (best selling management book published in 13 national editions). | | |
| Kent Dixon<br>P.O. Box 4546<br>New York, NY<br>10163-4546<br>Age: 68 | Trustee<br>Audit Committee Member[5] | 3 years[4]/since inception | Consultant/Investor. Former President and Chief Executive Officer of Empire Federal Savings Bank of America and Banc PLUS Savings Association, former Chairman of the Board, President and Chief Executive Officer of Northeast Savings. | 57 | Former Director of ISFA (the owner of INVEST, a national securities brokerage service designed for banks and thrift institutions). |
| Frank J. Fabozzi<br>P.O. Box 4546<br>New York, NY<br>10163-4546<br>Age: 57 | Trustee<br>Audit Committee Member[5] | 3 years[4]/since inception | Consultant. Editor of THE JOURNAL OF PORTFOLIO MANAGEMENT and Adjunct Professor of Finance and Becton Fellow at the School of Management at Yale University. Author and editor of several books on fixed income portfolio management. Visiting Professor of Finance and Accounting at the Sloan School of Management, Massachusetts Institute of Technology from 1986 to August 1992. | 57 | Director, Guardian Mutual Funds Group (18 portfolios). |

## DIRECTORS/TRUSTEES INFORMATION (Unaudited) (Continued)

| Name, address, age | Current positions held with the Trusts | Term of office and length of time served | Principal occupations during the past five years | Number of portfolios overseen within the fund complex[1] | Other Directorships held outside the fund complex |
|---|---|---|---|---|---|
| | | **Independent Directors/Trustees (continued)** | | | |
| Kathleen F. Feldstein P.O. Box 4546 New York, NY 10163-4546 Age: 63 | Trustee | 3 years[4]/since January 19, 2005 | President of Economics Studies, Inc., a Belmont, MA-based private economic consulting firm, since 1987; Chair, Board of Trustees, McLean Hospital in Belmont, MA. | 56 | Director of BellSouth Inc. and Knight Ridder, Inc.; Trustee of the Museum of Fine Arts, Boston, Committee for Economic Development and Partners HealthCare, Inc. Corporation Member of Sherrill House, Inc. Member of the Visiting Committee of the Harvard University Art Museums and of the Advisory Board to the International School of Business at Brandeis University. |
| R. Glenn Hubbard P.O. Box 4546 New York, NY 10163-4546 Age: 47 | Trustee | 3 years[4]/since November 16, 2004 | Dean of Columbia Business School since July 1, 2004. Columbia faculty member since 1988. Co-director of Columbia Business School s Entrepreneurship Program 1994-1997. Visiting professor at the John F. Kennedy School of Government at Harvard and the Harvard Business School, as well as the University of Chicago. Visiting scholar at the American Enterprise Institute in Washington and member of International Advisory Board of the MBA Program of BenGurion University. Deputy assistant secretary of the U.S. Treasury Department for Tax Policy 1991-1993. Chairman of the U.S. Council of Economic Advisers under the President of the United States 2001-2003. | 57 | Director of ADP, Dex Media, Duke Realty, KKR Financial Corporation, and Ripplewood Holdings. Advisory boards of the Congressional Budget Office, the Council on Competitiveness, the American Council on Capital Formation, the Tax Foundation and the Center for Addiction and Substance Abuse. Trustee of Fifth Avenue Presbyterian Church of New York. |

| | | | | | |
|---|---|---|---|---|---|
| James Clayburn La Force, Jr. P.O. Box 4546 New York, NY 10163-4546 Age: 76 | Trustee | 3 years[4]/since inception[7] | Dean Emeritus of the John E. Anderson Graduate School of Management, University of California since July 1, 1993. Acting Dean of the School of Business, Hong Kong University of Science and Technology 1990-1993. From 1978 to September 1993, Dean of the John E. Anderson Graduate School of Management, University of California. | 57 | Director of Payden & Rygel Investment Trust, Metzler-Payden Investment Trust, Advisors Series Trust, Arena Pharmaceuticals, Inc. and CancerVax Corporation. Former director of First Nationwide Bank, Eli Lilly & Company, National Inter- group, Rockwell Interna- tional, Cyprus Mines, Getty Oil Company, The Timken Company, Jacobs Engineer- ing Group, and Motor Cargo Industries. |
| Walter F. Mondale P.O. Box 4546 New York, NY 10163-4546 Age: 77 | Trustee | 3 years[4]/since inception[8] | Senior Counsel, Dorsey & Whitney, LLP, a law firm (January 2004-present); Partner, Dorsey & Whitney, LLP, (December 1996-December 2003, September 1987-August 1993). Formerly U.S. Ambassador to Japan (1993-1996). Formerly Vice President of the United States, U.S. Senator and Attorney General of the State of Minnesota. 1984 Democratic Nominee for President of the United States. | 57 | Chairman of Panasonic Foundation s Board of Directors and Director of United Health Foundation. Member of the Hubert H. Humphrey Institute of Public Affairs Advisory Board, The Mike and Maureen Mansfield Foundation and the Dean s Board of Visitors of the Medical School at the University of Minnesota. |

1 The Fund Complex means two or more registered investments companies that: (1) hold themselves out to investors as related companies for purposes of investment and investor services; or (2) have a common investment advisor or have an investment advisor that is an affiliated person of the investment advisor of any of the other registered investment companies.

2 Interested Director/Trustee as defined by Section 2(a)(19) of the Investment Company Act of 1940.

3 Director/Trustee since inception; appointed Chairman of the Board on August 22, 2002.

4 The Board is classified into three classes of which one class is elected annually. Each Director/Trustee serves a three-year term concurrent with the class from which they are elected.

5 The Board of each Trust has determined that each Trust has three Audit Committee financial experts serving on its Audit Committee, Dr. Brimmer, Mr. Dixon and Mr. Fabozzi, each of whom are independent for the purpose of the definition of Audit Committee financial expert as applicable to the Trusts.

6 For Broad Investment Grade, Income Opportunity and Income Trust appointed Director on 8/11/94.

7 For Income Opportunity and Income Trust appointed Director on 6/19/92.

8 Except during the periods August 12, 1993 through April 15, 1997 and October 31, 2002 through November 11, 2002 for all of the Trusts.

## DIVIDEND REINVESTMENT PLANS

Pursuant to each Trust s respective Dividend Reinvestment Plan (the Plan ), shareholders of Broad Investment Grade, Income Opportunity and Income Trust may elect, while shareholders of Core Bond, High Yield, Limited Duration and Strategic Bond are automatically enrolled, to have all distributions of dividends and capital gains reinvested by EquiServe Trust Company, N.A. (the Plan Agent ) in the respective Trust s shares pursuant to the Plan. Shareholders who do not participate in the Plan will receive all distributions in cash paid by check and mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, which serves as agent for the shareholders in administering the Plan.

After Broad Investment Grade and/or Income Opportunity Trust declares a dividend or determines to make a capital gain distribution, the Plan Agent will acquire shares for the participants account, by the purchase of outstanding shares on the open market, on the Trust s primary exchange or elsewhere ( open market purchases ). The Trust will not issue any new shares under the Plan.

After Core Bond, High Yield, Income Trust, Limited Duration and/or Strategic Bond declares a dividend or determines to make a capital gain distribution, the Plan Agent will acquire shares for the participants account, depending upon the circumstances described below, either (i) through receipt of unissued but authorized shares from the Trust ( newly issued shares ) or (ii) by open market purchases. If, on the dividend payment date, the NAV is equal to or less than the market price per share plus estimated brokerage commissions (such condition being referred to herein as market premium ), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participants. The number of newly issued shares to be credited to each participant s account will be determined by dividing the dollar amount of the dividend by the NAV on the date the shares are issued. However, if the NAV is less than 95% of the market price on the payment date, the dollar amount of the dividend will be divided by 95% of the market price on the payment date. If, on the dividend payment date, the NAV is greater than the market value per share plus estimated brokerage commissions (such condition being referred to herein as market discount ), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participants in open-market purchases.

The Plan Agent s fees for the handling of the reinvestment of dividends and distributions will be paid by each Trust. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent s open market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any Federal income tax that may be payable on such dividends or distributions.

Each Trust reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, each Trust reserves the right to amend the Plan to include a service charge payable by the participants. Participants who request a sale of shares through the Plan Agent are subject to a $2.50 sales fee and a $0.15 per share sold brokerage commisson. All correspondence concerning the Plan should be directed to the Plan Agent at 250 Royall Street, Canton, MA 02021 or (800) 699-1BFM.

## BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENTS

At a meeting held on May 26, 2005, the board of directors or the board of trustees, as the case may be (the Board or the Trustees ) of each trust in the BlackRock Closed-End Fund Complex (each a Trust ), including the independent trustees (the Independent Trustees ), unanimously approved the continuance of an Investment Management Agreement between each Trust and BlackRock Advisors, Inc. (the Advisor ). For each Investment Management Agreement, the Boards also approved a related Sub-Investment Advisory Agreement, when applicable, among each respective Trust, the Advisor and BlackRock Financial Management, Inc. (the Sub-Advisor ). The Investment Management Agreements and the Sub-Investment Advisory Agreements sometimes are referred to herein collectively as the Agreements . The Advisor and the Sub-Advisor sometimes are referred to herein collectively as BlackRock .

**Information Received by the Boards**

To assist each Board in its evaluation of the Agreements, the Independent Trustees received information from BlackRock on or about April 27, 2005 which detailed, among other things: the organization, business lines and capabilities of BlackRock, including the responsibilities of various departments and key personnel and biographical information relating to key personnel; financial statements for BlackRock, Inc., The PNC Financial Services Group, Inc. and each Trust; the advisory and/or administrative fees paid by each Trust to BlackRock, including comparisons, compiled by an independent third party, with the management fees of funds with similar investment objectives ( Peers ); the profitability of BlackRock and certain industry profitability analyses for advisors to registered investment companies; the expenses of BlackRock in providing the various services; non-investment advisory reimbursements and fallout benefits to BlackRock; the expenses of each Trust, including comparisons of the respective Trust s expense ratios (both before and after any fee waivers) with the expense ratios of its Peers; and each Trust s performance for the past one-, three-, five- and ten-year periods, when applicable, as well as each Trust s performance compared to its Peers. This information supplemented the information received by each Board throughout the year regarding each Trust s performance, expense ratios, portfolio composition, trade execution and compliance.

In addition to the foregoing materials, independent legal counsel to the Independent Trustees provided a legal memorandum outlining, among other things, the duties of the Boards under the Investment Company Act of 1940, as amended (the 1940 Act ) as well as the general principles of relevant law in reviewing and approving advisory contracts, the requirements of the 1940 Act in such matters, an advisor s fiduciary duty with respect to advisory agreements and compensation, and the standards used by courts in determining whether investment company boards of directors have fulfilled their duties and factors to be considered by the boards in voting on advisory agreements.

Prior to the Board meeting, the Independent Trustees reviewed a preliminary binder of information, and, in consultation with independent counsel, submitted a memorandum on May 12, 2005, to BlackRock setting forth certain questions and requests for additional information. BlackRock responded to these questions in writing on May 24, 2005 and May 25, 2005. The Independent Trustees reviewed these responses with independent counsel on May 25, 2005.

At the Board meeting on May 26, 2005, BlackRock made a presentation to and responded to additional questions from the Boards. After the presentations and after reviewing the written materials, the Independent Trustees met in executive session with their legal counsel to review the Boards duties in reviewing the Agreements and to consider the renewal of the Agreements. With this background, the Boards considered each Agreement and, in consultation with independent counsel, reviewed the factors set out in judicial decisions and Securities and Exchange Commission statements relating to the renewal of the Agreements.

**Matters Considered by the Boards**

In connection with their deliberations, the Boards considered all factors they believed relevant with respect to each Trust, including the following: the nature, extent and quality of the services to be provided by BlackRock; the investment performance of each Trust; the costs of the services to be provided and profits to be realized by BlackRock and its affiliates from their relationship with the Trusts; the extent to which economies of scale would be realized as the BlackRock closed-end fund complex grows; and whether BlackRock realizes other benefits from its relationship with the Trusts.

*Nature and Quality of Investment Advisory and Sub-Advisory Services*. In evaluating the nature, extent and quality of BlackRock s services, the Boards reviewed information concerning the types of services that BlackRock provides and is expected to provide to each Trust, narrative and statistical information concerning each Trust s performance record and how such performance compares to each Trust s Peers, information describing BlackRock s organization and its various departments, the experience and responsibilities of key personnel and available resources. The Boards further noted the willingness of the personnel of BlackRock to engage in open, candid discussions with the Boards. The Boards further considered the quality of BlackRock s investment process in making portfolio management decisions. Given the Boards experience with BlackRock, the Boards noted that they were familiar with and continue to have a good understanding of the organization, operations and personnel of BlackRock.

In addition to advisory services, the Independent Trustees considered the quality of the administrative or non-investment advisory services provided to the Trusts. In this regard, BlackRock provides each Trust with such administrative and other services (exclusive of, and in addition to, any such services provided by others for the Trusts) and officers and other personnel as are necessary for the operations of the respective Trust. In addition to investment management services, BlackRock and its affiliates provide each Trust with a wide range of services, including: preparing shareholder reports and communications, including annual and semi-annual financial statements and Trust web sites; communications with analysts to support secondary market trading; assisting with daily accounting and pricing; preparing periodic filings with regulators and stock exchanges; overseeing and coordinating the activities of other service providers; administering and organizing Board meetings and preparing the Board materials for such meetings; providing legal and compliance support (such as helping to prepare proxy statements and responding to regulatory inquiries); and performing other Trust administrative tasks necessary for the operation of the respective Trust (such as tax reporting and fulfilling regulatory filing requirements). In addition, in evaluating the administrative services, the Boards considered, in particular, BlackRock s policies and procedures for assuring compliance with applicable laws and regulations in light of the new Securities and Exchange Commission regulations governing compliance. The Boards noted BlackRock s focus on compliance and its compliance systems. The Independent Trustees noted that BlackRock s commitment to supporting the secondary market for the common shares of its closed-end funds is particularly noteworthy.

*The Investment Performance of the Trusts*. As previously noted, the Boards received myriad performance information regarding each Trust and its Peers. Among other things, the Boards received materials reflecting each Trust s historic performance and each Trust s performance compared to its Peers. More specifically, each Trust s one-, three-, five- and ten-year total returns (when applicable) were evaluated relative to its respective Peers (including the performance of individual Peers as well as the Peers average performance).

The Boards also reviewed a narrative analysis of the Peer rankings that was prepared by an independent third party and summarized by BlackRock at the Boards request. The summary placed the Peer rankings into context by analyzing various factors that affect these comparisons. In evaluating the performance information, in certain limited instances, the Boards noted that the Peers most similar to a given Trust still would not adequately reflect such Trust s investment objectives and strategies, thereby limiting the usefulness of the comparisons of such Trust s performance with that of its Peers. The Boards noted the quality of information provided by BlackRock throughout the year with respect to the performance of the Trusts. The Boards considered this information in connection with its deliberations as to whether the level of management services provided to each Trust, in light of all the other facts and circumstances relating to that Trust, supports a conclusion that the Trust s Agreement should be renewed.

*Fees and Expenses*. In evaluating the management fees and expenses that a Trust is expected to bear, the Boards considered each Trust s current management fee structure and the Trust s expected expense ratios in absolute terms as well as relative to the fees and expense ratios of applicable Peers. In reviewing fees, the Boards, among other things, reviewed comparisons of each Trust s gross management fees before and after any applicable reimbursements and fee waivers and total expense ratios before and after any applicable waivers with those of the applicable Peers. The Boards also reviewed a narrative analysis of the Peer rankings that was prepared by an independent third party and summarized by BlackRock at the request of the Boards. This summary placed the rankings into context by analyzing various factors that affect these comparisons.

The Boards also compared the management fees charged to the Trusts by BlackRock to the management fees BlackRock charges other types of clients (such as open-end investment companies and separately managed institutional accounts). With respect to open-end investment companies, the management fees charged to the Trusts generally were higher than those charged to the open-end investment companies. The Boards also noted that BlackRock provides the Trusts with certain services not provided to open-end funds, such as leverage management in connection with the issuance of preferred shares, stock exchange listing compliance requirements, rating agency compliance with respect to the leverage employed by the Trusts and secondary market support and other services not provided to the Trusts, such as monitoring of subscriptions and redemptions. With respect to separately managed institutional accounts, the management fees for such accounts were generally lower than those charged to the comparable Trusts. The Boards noted, however, the various services that are provided and the costs incurred by BlackRock in managing and operating the Trusts. For instance, BlackRock and its affiliates provide numerous services to the Trusts that are not provided to institutional accounts including, but not limited to: preparing shareholder reports and communications, including annual and semi-annual financial statements; preparing periodic filings with regulators and stock exchanges; overseeing and coordinating the activities of other service providers; administering and organizing Board meetings and preparing the Board materials for such meetings; income monitoring; expense budgeting; preparing proxy statements; and performing other Trust administrative tasks necessary for the operation of the respective Trust (such as tax reporting and fulfilling regulatory filing requirements). Further, the Boards noted the increased compliance requirements for the Trusts in light of new Securities and Exchange Commission regulations and other legislation. These services are generally not required to the same extent, if at all, for separate accounts.

The Boards considered this information in connection with its deliberations as to whether the fees paid by each Trust under its Agreements, in light of all the other facts and circumstances relating to that Trust, supports a conclusion that the Trust s Agreements should be renewed.

*Profitability*. The Trustees also considered BlackRock s profitability in conjunction with their review of fees. The Trustees reviewed BlackRock s revenues, expenses and profitability margins on an after-tax basis. In reviewing profitability, the Trustees recognized that one of the most difficult issues in determining profitability is establishing a method of allocating expenses. The Trustees also reviewed BlackRock s assumptions and methodology of allocating expenses. In this regard, the methods of allocation used appeared reasonable but the Boards noted the inherent limitations in allocating costs among various advisory products. The Boards also recognized that individual fund or product line profitability of other advisors is generally not publicly available.

The Boards recognized that profitability may be affected by numerous factors including, among other things, the types of funds managed, expense allocations and business mix, and therefore comparability of profitability is somewhat limited. Nevertheless, to the extent available, the Boards considered BlackRock s pre-tax profit margin compared to the pre-tax profitability of various publicly-traded investment management companies and/or investment management companies that publicly disclose some or all of their financial results.

In evaluating the reasonableness of BlackRock s compensation, the Boards also considered any other revenues paid to BlackRock, including partial reimbursements paid to BlackRock for certain non-investment advisory services. The Boards noted that these payments were less than BlackRock s costs for providing these services. The Boards also considered indirect benefits (such as soft dollar arrangements) that BlackRock and its affiliates are expected to receive that are attributable to their management of the Trusts.

In reviewing each Trust s fees and expenses, the Boards examined the potential benefits of economies of scale, and whether any economies of scale should be reflected in the Trusts fee structures, for example through the use of breakpoints. In this connection, the Boards reviewed information provided by BlackRock, noting that most closed-end fund complexes do not have fund-level breakpoints, as closed-end funds generally do not experience substantial growth after their initial public offering and each fund is managed independently consistent with its own investment objectives. The information also revealed that only one closed-end fund complex used a complex-level breakpoint structure, and that this complex generally is homogeneous with regard to the types of funds managed and is about four times as large as the Trusts complex. The Boards concluded that breakpoints were not warranted at this time.

*Other Benefits*. In evaluating fees, the Boards also considered indirect benefits or profits BlackRock or its affiliates may receive as a result of their relationships with the Trusts. The Trustees, including the Independent Trustees, considered the intangible benefits that accrue to BlackRock and its affiliates by virtue of their relationships with the Trusts, including potential benefits accruing to BlackRock and its affiliates as a result of potentially stronger relationships with members of the broker-dealer community, increased name recognition of BlackRock and its affiliates, enhanced sales of other investment funds and products sponsored by BlackRock and its affiliates and increased assets under management which may increase the benefits realized by BlackRock from soft dollar arrangements with broker-dealers. The Boards also considered the unquantifiable nature of these potential benefits.

*Miscellaneous*. During the Boards deliberations in connection with the Agreements, the Boards were aware that the Advisor pays compensation, out of its own assets, to the lead underwriter and to certain qualifying underwriters of many of its closed-end funds, and to employees of BlackRock s affiliates that participated in the offering of such funds. The Boards considered whether the management fee met applicable standards in light of the services provided by BlackRock, without regard to whether BlackRock ultimately pays any portion of the anticipated compensation to the underwriters.

**Conclusion**

The Trustees did not identify any single factor discussed above as all-important or controlling. The Trustees, including a majority of Independent Trustees, determined that each of the factors described above, in light of all the other factors and all of the facts and circumstances applicable to each respective Trust, was acceptable for each Trust and supported the Trustees conclusion that the terms of each Agreement were fair and reasonable, that the respective Trust s fees are reasonable in light of the services provided to the respective Trust, and that the renewal of each Agreement should be approved.

## ADDITIONAL INFORMATION

The Joint Annual Meeting of Shareholders was held on May 26, 2005 to elect a certain number of Directors/Trustees for each of the following Trusts to three-year terms, unless otherwise indicated, expiring in 2008:

**Broad Investment Grade**

Elected the Class II Trustees as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Frank J. Fabozzi | 2,724,305 | 110,182 |
| Kathleen F. Feldstein | 2,805,454 | 29,033 |
| Walter F. Mondale | 2,798,565 | 35,922 |
| Ralph L. Schlosstein | 2,807,102 | 27,385 |

Elected Class I Trustee as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| R. Glenn Hubbard[1] | 2,806,685 | 27,802 |

**Core Bond**

Elected the Class I Trustees as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Richard E. Cavanagh | 23,643,324 | 404,054 |
| R. Glenn Hubbard | 23,623,775 | 423,603 |
| James Clayburn La Force, Jr. | 23,586,832 | 460,546 |

Elected Class II Trustee as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Kathleen F. Feldstein[1] | 23,620,007 | 427,371 |

**High Yield**

Elected the Class III Trustees as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Andrew F. Brimmer | 6,002,200 | 134,114 |
| Kent Dixon | 6,005,218 | 131,096 |
| Robert S. Kapito | 6,033,610 | 102,704 |

**Income Opportunity**

Elected the Class I Directors as follows:

| Director | Votes For | Votes Withheld |
|---|---|---|
| Richard E. Cavanagh | 30,256,745 | 1,232,563 |
| R. Glenn Hubbard | 30,189,633 | 1,299,675 |
| James Clayburn La Force, Jr. | 30,168,983 | 1,320,325 |

Elected Class II Director as follows:

| Director | Votes For | Votes Withheld |
|---|---|---|

| | | |
|---|---|---|
| Kathleen F. Feldstein[1] | 30,240,041 | 1,249,267 |

**Income Trust**

Elected the Class I Directors as follows:

| Director | Votes For | Votes Withheld |
|---|---|---|
| Richard E. Cavanagh | 57,413,396 | 884,310 |
| R. Glenn Hubbard | 57,414,518 | 883,188 |
| James Clayburn La Force, Jr. | 57,351,067 | 946,639 |

Elected Class II Director as follows:

| Director | Votes For | Votes Withheld |
|---|---|---|
| Kathleen F. Feldstein[1] | 57,366,673 | 931,033 |

**Limited Duration**

Elected the Class II Trustees as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Frank J. Fabozzi | 33,675,201 | 389,514 |
| Kathleen F. Feldstein | 33,659,680 | 405,035 |
| Walter F. Mondale | 33,590,950 | 473,765 |
| Ralph L. Schlosstein | 33,663,141 | 401,574 |

**Strategic Bond**

Elected the Class I Trustees as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Richard E. Cavanagh | 5,904,793 | 69,039 |
| R. Glenn Hubbard | 5,905,293 | 68,539 |
| James Clayburn La Force, Jr. | 5,896,023 | 77,809 |

Elected Class II Trustee as follows:

| Trustee | Votes For | Votes Withheld |
|---|---|---|
| Kathleen F. Feldstein[1] | 5,905,293 | 68,539 |

[1] Mr. Hubbard and Ms. Feldstein will serve until the end of the term for the class of Directors/Trustees to which they were elected, if such class was not standing for election at the May 26, 2005 annual shareholders meeting.

The following Trusts had an additional proposal (Proposal #2A) to amend its respective Declaration of Trust in order to change the maximum number of permitted Trustees allowed on its respective Board to 11:

| | Votes For | Votes Against | Votes Withheld |
|---|---|---|---|
| **Core Bond** | 23,442,122 | 419,368 | 185,888 |
| **Limited Duration** | 33,074,495 | 646,876 | 343,344 |
| **Strategic Bond** | 5,800,367 | 93,187 | 80,278 |

The following Trust had an additional proposal (Proposal #2B) to amend its respective Declaration of Trust in order to reduce the maximum number of permitted Trustees allowed on its respective Board from 15 to 11:

| | Votes For | Votes Against | Votes Withheld |
|---|---|---|---|
| **High Yield** | 6,027,273 | 64,513 | 44,528 |

The Trusts listed for trading on the New York Stock Exchange (NYSE) has filed with the NYSE its chief executive officer certification regarding compliance with the NYSE s listing standards and each Trust listed for trading on the American Stock Exchange (AMEX) has filed with the AMEX its corporate governance certification regarding compliance with the AMEX s listing standards. All of the Trusts have filed with the Securities and Exchange Commission the certification of its chief executive officer and chief financial officer required by section 302 of the Sarbanes-Oxley Act.

The Trusts do not make available copies of their respective Statements of Additional Information because the Trusts share are not continuously offered, which means that the Statement of Additional Information of each Trust has not been updated after completion of such Trust s offering and the information contained in each Trust s Statement of Additional Information may have become outdated.

During the period, there were no material changes in the Trusts investment objective or policies or to their charters or by-laws that have not been approved by shareholders or in the principal risk factors associated with investment in the Trusts. There have been no changes in the persons who are primarily responsible for the day-to-day management of the Trusts portfolio.

Quarterly performance and other information regarding the Trusts may be found on BlackRock s website, which can be accessed at http://www.blackrock.com/indiv/products/closedendfunds/funds.html. This reference to BlackRock s website is intended to allow investors public access to information regarding the Trusts and does not, and is not intended, to incorporate BlackRock s website into this report.

Certain of the officers of the Trusts listed on the inside back cover of this Report to Shareholders are also officers of the Advisor or Sub-Advisor. They serve in the following capacities for the Advisor or Sub-Advisor: Robert S. Kapito Director and Vice Chairman of the Advisor and the Sub-Advisor, Henry Gabbay, Anne Ackerley and Bartholomew Battista Managing Directors of the Advisor and the Sub-Advisor, James Kong and Vincent Tritto Managing Directors of the Sub-Advisor, and Jeff Gary and Brian P. Kindelan Managing Director of the Advisor.

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## TAX INFORMATION (Unaudited)

The information set forth below is for the Trusts tax year as required by the Internal Revenue Service[1]. Shareholders, however, must report distributions on a calendar year basis for income tax purposes. Accordingly, the information needed by shareholders for income tax purposes will be sent to them in January 2006. Please consult your tax advisor for proper treatment of this information.

For the tax year ended October 31, 2005, the Trusts designated distributions paid during the year as follows:

| | Ordinary Income Per Share | Non-taxable Return of Capital Per Share | Long-term Capital Gains Per Share | Total |
|---|---|---|---|---|
| Broad Investment Grade (BCT) | $ 1.10624 | $ 0.00000 | $ 0.17756 | $ 1.28380 |
| High Yield (BHY) | 0.79352 | 0.00000 | 0.00000 | 0.79352 |
| Income Opportunity (BNA) | 0.82757 | 0.00000 | 0.25913 | 1.08670 |
| Income Trust (BKT) | 0.47961 | 0.07504 | 0.00000 | 0.55465 |
| Limited Duration (BLW) | 1.43827 | 0.00000 | 0.04446 | 1.48273 |
| Strategic Bond (BHD) | 1.12432 | 0.26893 | 0.00000 | 1.39325 |

Further, we wish to advise you that your income dividends received do not qualify for the corporate dividend received deduction and are not subject to the 15% rate entitled to qualified dividend income for taxable non-corporate shareholders.

[1] Core Bond Trust (BHK) has a December tax year end, therefore not required to be included in this notice.

## SECTION 19 NOTICES

Set forth below is a summary of notices sent by each Trust, if any, pursuant to Section 19 of the Investment Company Act of 1940. Section 19 requires each Trust to accompany dividend payments with a notice if any part of that payment is from a source other than accumulated net income, not including profits or losses from the sale of securities or other properties. These notices are not for tax reporting purposes and were provided only for informational purposes in order to comply with the requirements of Section 19 of the Investment Company Act of 1940. In January 2006, after the completion of each Trust s tax year, shareholders will receive a Form 1099-DIV which will reflect the amount of income, capital gain and return of capital paid by the Trust taxable in calendar year 2005 and reportable on your 2005 federal and other income tax returns.

| | | Total distributions | Net Investment Income | Distributions from proceeds from the sale of securities | Distributions from return of capital |
|---|---|---|---|---|---|
| **BlackRock High Yield Trust** | Jan-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Feb-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Mar-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Apr-05 | ($0.06833) | ($0.06833) | $ | $ |
| | May-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Jun-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Jul-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Aug-05 | ($0.06833) | ($0.06833) | $ | $ |
| | Sep-05 | ($0.05530) | ($0.05530) | $ | $ |
| | Oct-05 | ($0.05530) | ($0.05530) | $ | $ |
| **BlackRock Core Bond Trust** | Jan-05 | ($0.30790) | ($0.08750) | ($ 0.22040) | $ |
| | Sep-05 | ($0.12939) | $ | ($ 0.12939) | $ |
| **BlackRock Strategic Bond Trust** | Jan-05 | ($0.13000) | ($0.07387) | $ | ($ 0.05613) |
| | Feb-05 | ($0.13000) | ($0.08424) | $ | ($ 0.04576) |
| | Mar-05 | ($0.11500) | ($0.08953) | $ | ($ 0.02547) |
| | Apr-05 | ($0.11500) | ($0.09282) | $ | ($ 0.02218) |
| | May-05 | ($0.11500) | ($0.09046) | $ | ($ 0.02454) |
| | Jun-05 | ($0.11500) | ($0.09198) | $ | ($ 0.02302) |
| | Jul-05 | ($0.10875) | ($0.08398) | $ | ($ 0.02477) |
| | Aug-05 | ($0.10875) | ($0.08152) | $ | ($ 0.02723) |
| | Sep-05 | ($0.10875) | ($0.08907) | $ | ($ 0.01968) |
| | Oct-05 | ($0.08800) | ($0.08764) | $ | ($ 0.00036) |
| **BlackRock Income Trust** | Jan-05 | ($0.05104) | ($0.05104) | $ | $ |
| | Feb-05 | ($0.05104) | ($0.04314) | $ | ($ 0.00790) |
| | Mar-05 | ($0.05104) | ($0.02296) | $ | ($ 0.02808) |
| | Apr-05 | ($0.05104) | ($0.04072) | $ | ($ 0.01032) |
| | May-05 | ($0.05104) | ($0.03806) | $ | ($ 0.01298) |
| | Jun-05 | ($0.05104) | ($0.04484) | $ | ($ 0.00620) |
| | Jul-05 | ($0.03710) | ($0.03292) | $ | ($ 0.00418) |
| | Aug-05 | ($0.03710) | ($0.03373) | $ | ($ 0.00337) |
| | Sep-05 | ($0.03710) | ($0.03509) | $ | ($ 0.00201) |
| **BlackRock Income Opportunity Trust** | Jan-05 | ($0.34910) | ($0.07000) | ($ 0.27910) | ($ 0.00000) |
| | Jul-05 | ($0.06190) | ($0.04976) | ($ 0.01214) | ($ 0.00000) |
| **BlackRock Limited Duration** | Jan-05 | ($0.12500) | ($0.08054) | ($ 0.04446) | $ |
| | Jun-05 | ($0.11670) | ($0.01164) | ($ 0.10506) | $ |
| **BlackRock Broad Investment Grade Trust** | Oct-05 | $0.38380 | $0.20624 | $ 0.17756 | $ |

# BlackRock Closed-End Funds


## Directors/Trustees
Ralph L. Schlosstein, *Chairman*
Andrew F. Brimmer
Richard E. Cavanagh
Kent Dixon
Frank J. Fabozzi
R. Glenn Hubbard
Robert S. Kapito
James Clayburn La Force, Jr.
Walter F. Mondale


## Officers
Robert S. Kapito, *President*
Henry Gabbay, *Treasurer*
Bartholomew Battista, *Chief Compliance Officer*
Anne Ackerley, *Vice President*
Jeff Gary, *Vice President*
James Kong, *Assistant Treasurer*
Vincent B. Tritto, *Secretary*
Brian P. Kindelan, *Assistant Secretary*

## Investment Advisor
BlackRock Advisors, Inc.
100 Bellevue Parkway
Wilmington, DE 19809
(800) 227-7BFM

## Sub-Advisor[1]
BlackRock Financial Management, Inc.
40 East 52nd Street
New York, NY 10022

## Accounting Agent and Custodian
State Street Bank and Trust Company
2 Avenue de Lafayette
Boston, MA 02111

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1 For Core Bond, Limited Duration and Strategic Bond.

## Transfer Agent
EquiServe Trust Company, N.A.
c/o Computershare Investor Services
250 Royall Street
Canton, MA 02021
(800) 699-1BFM

## Independent Registered Public Accounting Firm
Deloitte & Touche LLP
200 Berkeley Street
Boston, MA 02116

## Legal Counsel
Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square

New York, NY 10036

Legal Counsel Independent Trustees
Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022

This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of Trust shares. Statements and other information contained in this report are as dated and are subject to change.

BlackRock Closed-End Funds
c/o BlackRock Advisors, Inc.
100 Bellevue Parkway
Wilmington, DE 19809
(800) 227-7BFM

The Trusts will mail only one copy of shareholder documents, including annual and semi-annual reports and proxy statements, to shareholders with multiple accounts at the same address. This practice is commonly called householding and is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded indefinitely unless you instruct us otherwise. If you do not want the mailing of these documents to be combined with those for other members of your household, please contact the Trusts at (800) 699-1BFM.

The Trusts have delegated to the Advisor the voting of proxies relating to their voting securities pursuant to the Advisor s proxy voting policies and procedures. You may obtain a copy of these proxy voting policies and procedures, without charge, by calling (800) 699-1BFM. These policies and procedures are also available on the website of the Securities and Exchange Commission (the Commission ) at http://www.sec.gov.

Information on how proxies relating to the Trusts voting securities were voted (if any) by the Advisor during the most recent 12-month period ended June 30th is available without charge, upon request, by calling (800) 699-1BFM or on the website of the Commission at http://www.sec.gov.

The Trusts file their complete schedule of portfolio holdings for the first and third quarters of their respective fiscal years with the Commission on Form N-Q. Each Trust s Form N-Q will be available on the Commission s website at http://www.sec.gov. Each Trust s Form N-Q may be reviewed and copied at the Commission s Public Reference Room in Washington, D.C. Information regarding the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Each Trust s Form N-Q may also be obtained, upon request, by calling (800) 699-1BFM.

This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of Trust shares. Statements and other information contained in this report are as dated and are subject to change.

CEF-ANN-3

**Item 2. Code of Ethics.**

(a) The Registrant has adopted a code of ethics (the "Code of Ethics") that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

(b) Not applicable.

(c) The Registrant has not amended its Code of Ethics during the period covered by the shareholder report presented in Item 1 hereto.

(d) The Registrant has not granted a waiver or an implicit waiver from a provision of its Code of Ethics during the period covered by the shareholder report presented in Item 1 hereto.

(e) Not applicable.

(f) The Registrant's Code of Ethics is attached as an Exhibit hereto.

**Item 3. Audit Committee Financial Expert.**

The Registrant's Board of Trustees has determined that it has three audit committee financial experts serving on its audit committee, each of whom is an "independent" Trustee: Dr. Andrew F. Brimmer, Kent Dixon and Frank Fabozzi. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an "expert" for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification.

**Item 4. Principal Accountant Fees and Services.**

(a) Audit Fees. The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the Registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were $57,235 for the fiscal year ended October 31, 2005 and $52,500 for the fiscal year ended October 31, 2004.

(b) Audit-Related Fees. The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the Registrant□s financial statements and are not reported above in Item 4(a) were $5,784 for the fiscal year ended October 31, 2005 and

$0 for the fiscal year ended October 31, 2004. The nature of these services was attest services not required by statute or regulation, overhead and out-of-pocket expenses.

(c) Tax Fees. The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning were $7,500 for the fiscal year ended October 31, 2005 and $10,500 for the fiscal year ended October 31, 2004. The nature of these services was federal, state and local income and excise tax return preparation and related advice and planning and miscellaneous tax advice.

(d) All Other Fees. There were no fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above in Items 4(a) through (c).

(e) Audit Committee Pre-Approval Policies and Procedures.

(1) The Registrant has polices and procedures (the "Policy") for the pre-approval by the Registrant's Audit Committee of Audit, Audit-Related, Tax and Other Services (as each is defined in the Policy) provided by the Registrants independent auditor (the "Independent Auditor") to the Registrant and other "Covered Entities" (as defined below). The term of any such pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The amount of any such pre-approval is set forth in the appendices to the Policy (the "Service Pre-Approval Documents"). At its first meeting of each calendar year, the Audit Committee will approve or re-approve the Service Pre-Approval Documents for that year, together with any changes deemed necessary or desirable by the Audit Committee. The Audit Committee may, from time to time, modify the nature of the services pre-approved, the aggregate level of fees pre-approved or both.

For the purposes of the Policy, "Covered Services" means (A) all engagements for audit and non-audit services to be provided by the Independent Auditor to the Registrant and (B) all engagements for non-audit services that directly impacted the operations and financial reporting or the Registrant to be provided by the Independent Auditor to any Covered Entity. "Covered Entities" means (1) BlackRock Advisors, Inc. (the Advisor) or (2) any entity controlling, controlled by or under common control with the Advisor that provides ongoing services to the Registrant.

In the intervals between the scheduled meetings of the Audit Committee, the Audit Committee delegates pre-approval authority under this Policy to the Chairman of the Audit Committee (the "Chairman"). The Chairman shall report any pre-approval decisions under this Policy to the Audit Committee at its next scheduled meeting. At each scheduled meeting, the Audit Committee will review with the Independent Auditor the Covered Services pre-approved by the Chairman pursuant to delegated authority, if any, and the fees related thereto. Based on these reviews, the Audit Committee can modify, at its discretion, the pre-approval originally granted by the Chairman pursuant to delegated authority. This modification can be to the nature of services pre-approved, the aggregate level of fees approved, or both. Audit Committee may modify or withdraw this delegated authority at any time the Audit Committee determines that it is appropriate to do so.

Fee levels for all Covered Services to be provided by the Independent Auditor and pre-approved under this Policy will be established annually by the Audit Committee and set forth in the Service Pre-Approval Documents. Any increase in pre-approved fee levels will require specific pre-approval by the Audit Committee (or the Chairman pursuant to delegated authority).

The terms and fees of the annual Audit services engagement for the Registrant are subject to the specific pre-approval of the Audit Committee. The Audit Committee (or the Chairman pursuant to delegated authority) will approve, if necessary, any changes in terms, conditions or fees resulting from changes in audit scope, Registrant structure or other matters.

In addition to the annual Audit services engagement specifically approved by the Audit Committee, any other Audit services for the Registrant not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

Audit-Related services are assurance and related services that are not required for the audit, but are reasonably related to the performance of the audit or review of the financial statements of the Registrant and, to the extent they are Covered Services, the other Covered Entities or that are traditionally performed by the Independent Auditor. Audit-Related services that are Covered Services and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

The Audit Committee believes that the Independent Auditor can provide Tax services to the Registrant and Covered Entities such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the Independent Auditor in connection with a transaction, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. Tax services that are Covered Services and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

All Other services that are covered and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

Requests or applications to provide Covered Services that require approval by the Audit Committee (or the Chairman pursuant to delegated authority) must be submitted to the Audit Committee or the Chairman, as the case may be, by both the Independent Auditor and the Chief Financial Officer of the Registrant or the respective Covered Entity, and must include a joint statement as to whether, in their view, (a) the request or application is consistent with the rules of the Securities and Exchange Commission ("SEC") on auditor independence and (b) the requested service is or is not a non-audit service prohibited by the SEC. A request or application submitted to the Chairman between scheduled meetings of the Audit Committee should include a discussion as to why approval is being sought prior to the next regularly scheduled meeting of the Audit Committee.

(2) None of the services described in each of Items 4(b) through (d) were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) The aggregate non-audit fees billed by the Registrant's accountant for services rendered to the Registrant, the Advisor (except for any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) or any entity controlling, controlled by, or under common control with the Advisor that provides ongoing services to the Registrant for each of the last two fiscal years were $1,341,450 for the fiscal year ended October 31, 2005 and $835,100 for the fiscal year ended October 31, 2004.

(h) The Registrant's Audit Committee of the Board of Trustees has considered whether the provision of non-audit services that were rendered to the Registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

**Item 5. Audit Committee of Listed Registrants.**
The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee of the Registrant is comprised of: Dr. Andrew F. Brimmer; Richard E. Cavanagh; Kent Dixon and Frank J. Fabozzi.

**Item 6. Schedule of Investments.**
The Registrant's Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this form.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**
The Registrant has delegated the voting of proxies relating to its voting securities to its investment advisor, BlackRock Advisors, Inc. (the "Advisor") and its sub-advisor, BlackRock Financial Management, Inc. (the "Sub-Advisor"). The Proxy Voting Policies and Procedures of the Advisor and Sub-Advisor (the "Proxy Voting Policies") are attached as an Exhibit 99.PROXYPOL hereto.

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

**Item 9. Purchases of Equity Securities by Closed-End Management Companies and Affiliated Purchasers.**
Not applicable.

**Item 10. Submission of Matters to a Vote of Security Holders.**
The Registrant□s Nominating Committee will consider nominees to the Board of Trustees recommended by shareholders when a vacancy becomes available. Shareholders who wish to recommend a nominee should send nominations which include biographical information and sets forth the qualifications of the proposed nominee to the Registrant□s Secretary. There have been no material changes to these procedures.

**Item 11. Controls and Procedures.**
(a) The Registrant's principal executive officer and principal financial officer have evaluated the Registrant's disclosure controls and procedures within 90 days of this filing and have concluded, as of that date, that the Registrant□s disclosure controls and procedures were reasonably designed to ensure that information required to be disclosed by the Registrant in this Form N-CSR was recorded, processed, summarized, and reported within the required time periods and that information required to be disclosed by the Registrant in this Form N-CSR was accumulated and communicated to the Registrant□s management, including its principle executive and principle financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a -3(d)) that occurred during the Registrant's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

(a) (1) Code of Ethics attached as EX-99.CODE ETH.

(a) (2) Certifications of Principal Executive and Financial Officers pursuant to Rule 30a-2(a) under the 1940 Act attached as EX-99.CERT.

(b) Certification of Principal Executive and Financial Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished as EX-99.906CERT.

Proxy Voting Policies attached as EX-99.PROXYPOL.

**SIGNATURES**

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.

(Registrant) BlackRock Income Trust, Inc.

By: /s/ Henry Gabbay

Name: Henry Gabbay
Title: Treasurer and Principal Financial Officer
Date: January 9, 2006

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

By: /s/ Robert S. Kapito

Name: Robert S. Kapito
Title: President and Principal Executive Officer
Date: January 9, 2006

By: /s/ Henry Gabbay

Name: Henry Gabbay
Title: Treasurer and Principal Financial Officer
Date: January 9, 2006