

# Dreyfus Liquid Assets, Inc.

**SEMIANNUAL REPORT** June 30, 2006



**Dreyfus**

A Mellon Financial Company<sup>SM</sup>

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Available only to Dreyfus Liquid Assets, Inc., Class 1 shareholders

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Not FDIC-Insured • Not Bank-Guaranteed • May Lose Value
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## THE FUND

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## LETTER FROM THE CHAIRMAN

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Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Liquid Assets, Inc., covering the six-month period from January 1, 2006, through June 30, 2006.

Although yields on money market securities continued to rise steadily, other financial markets encountered heightened volatility during the first half of 2006. In the judgment of our Chief Economist, Richard Hoey, the recent turbulence among longer-term bonds reflects shifts in interest-rate and inflation expectations, while the correction in the stock market signals an adjustment among leveraged investors toward lower risk levels as the U.S. economy moves into a more mature phase with milder rates of growth. In our view, corrections such as these generally are healthy mechanisms that help wring speculative excesses from the financial markets, potentially setting the stage for future rallies.

While a recession currently appears unlikely, a number of economic uncertainties remain as investors look toward 2007. Indicators to watch in the months ahead include the outlook for inflation in the United States and overseas, the extent of softness in the U.S. housing market, the impact of slower economic growth on consumer spending, additional changes in short-term interest rates from the Fed and other central banks, and the strength of the U.S. dollar relative to other major currencies. As always, we encourage you to discuss these and other investment-related issues with your financial advisor, who can help you prepare for the challenges and opportunities that lie ahead.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
July 17, 2006



## DISCUSSION OF FUND PERFORMANCE

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Patricia A. Larkin, Senior Portfolio Manager

### **How did Dreyfus Liquid Assets perform during the period?**

During the six-month period ended June 30, 2006, the fund's Class 1 shares produced an annualized yield of 4.04% and its Class 2 shares produced an annualized yield of 4.19%. Taking into account the effects of compounding, the fund's Class 1 and Class 2 shares also provided annualized effective yields of 4.12% and 4.28%, respectively, for the same period.<sup>1,2</sup>

### **What is the fund's investment approach?**

The fund seeks as high a level of current income as is consistent with the preservation of capital. To pursue this goal, the fund invests in a diversified portfolio of high-quality, short-term debt securities, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, certificates of deposit, time deposits, bankers' acceptances, and other short-term securities issued by U.S. banks and foreign branches of U.S. banks, repurchase agreements, asset-backed securities, commercial paper and other short-term corporate obligations of U.S. issuers.

Normally, the fund invests at least 25% of its net assets in bank obligations.

### **What other factors influenced the fund's performance?**

Despite 13 rate hikes since June 2004 that had driven the overnight federal funds to 4.25%, the U.S. economy continued to show signs of strength at the start of 2006. Yet, a change in the language of the announcement accompanying the Federal Reserve Board's (the "Fed") December rate hike had convinced some investors that the Fed might pause in its tightening campaign at its January meeting. A lower-than-expected GDP growth rate of 1.7% for the fourth quarter of 2005 appeared to lend credence to this view.

Expectations of a pause soon dissipated, however, when the unemployment rate slid to 4.7%, a multi-year low. Indeed, the Fed raised the federal funds rate to 4.5% at its January meeting. Although a robust employment report for February helped to address fears of a potential economic slowdown, the U.S. Treasury yield curve continued to flatten. At times during the first quarter of 2006, the yield curve inverted, which in the past has been considered a harbinger of recession.

By the end of March, it had become apparent the inversion of the yield curve was more likely a result of robust demand for U.S. Treasury securities from overseas investors, and not necessarily a sign of impending economic weakness. Accordingly, the Fed increased the federal funds rate to 4.75% in late March. It later was announced that U.S. GDP grew at a robust 5.6% annualized rate during the first quarter.

After a sustained period in which long-term rates remained surprisingly stable in the recovering economy, the U.S. Treasury securities yield curve began to steepen in April as low unemployment, strong consumer confidence and brisk retail sales more than offset reports of a slowing housing market, fuelling inflation concerns. In addition, energy prices surged to new record highs in advance of the summer driving season and amid heightened geopolitical turmoil.

Inflation-related worries continued to mount in May, sparking sharp declines in both stocks and U.S. Treasury securities. Although it was later announced that a lower-than-expected number of jobs was created during the month, the unemployment rate fell to 4.6%, stoking additional concerns that wage inflation might accelerate. Accordingly, the Fed's rate hike in May, to 5%, was widely anticipated. The Fed's post-meeting statement left open the possibility that further rate increases might be needed to address inflation risks.

June saw a greater shift in market sentiment, as investors became increasingly risk-averse due to signs of intensifying inflationary pressures and potential economic weakness. U.S. and global equity markets continued to correct sharply for much of the month and bond yields across the yield curve moved higher as investors revised upward their inflation and interest-rate expectations. Although investors widely

expected the Fed's June 29 rate hike to 5.25%, the outlook for future action became cloudier as investors alternately worried that the Fed might become too aggressive, possibly triggering a recession by choking off economic growth, or too lenient, potentially allowing inflation to take firmer root in the economy.

In this rising interest-rate environment, most money market investors continued to focus primarily on securities with maturities of six months or less. We have maintained a similar strategy, generally keeping the fund's weighted average maturity shorter than industry averages, especially in advance of Fed meetings.

### **What is the fund's current strategy?**

It appears to us that monetary policy is now in the neutral range, and any further changes in interest rates are likely to depend on incoming economic data, in our view. A substantial slowdown in economic growth could preclude further rate increases, but additional gains in global commodity prices might make the Fed more inclined to tighten. Therefore, while we have maintained the fund's relatively short weighted average maturity, we are prepared to adjust our strategy when we become convinced that short-term interest rates have peaked.

July 17, 2006

*An investment in the fund is not insured or guaranteed by the FDIC or any other government agency. Although the portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.*

- <sup>1</sup> *Annualized effective yield is based upon dividends declared daily and reinvested monthly. Past performance is no guarantee of future results. Yields fluctuate. Yields provided for the fund's Class 1 shares reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to any undertaking in effect until December 31, 2006, at which time it may be extended, modified or terminated.*
- <sup>2</sup> *Annualized effective yield is based upon dividends declared daily and reinvested monthly. Past performance is no guarantee of future results. Yields fluctuate. Yields provided for the fund's Class 2 shares reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an agreement in which shareholders will be given at least 90 days' notice prior to the time such absorption may be terminated. Class 2 shares of the fund are available only to certain eligible financial institutions.*

# UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.*

## Review your fund's expenses

The table below shows the expenses you would have paid on a \$1,000 investment in Dreyfus Liquid Assets, Inc. from January 1, 2006 to June 30, 2006. It also shows how much a \$1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

Expenses and Value of a \$1,000 Investment		
assuming actual returns for the six months ended June 30, 2006		
	Class 1 Shares	Class 2 Shares
Expenses paid per \$1,000†	\$ 3.51	\$ 2.76
Ending value (after expenses)	\$1,020.20	\$1,021.00

## COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a \$1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

Expenses and Value of a \$1,000 Investment		
assuming a hypothetical 5% annualized return for the six months ended June 30, 2006		
	Class 1 Shares	Class 2 Shares
Expenses paid per \$1,000†	\$ 3.51	\$ 2.76
Ending value (after expenses)	\$1,021.32	\$1,022.07

† Expenses are equal to the fund's annualized expense ratio of .70% for Class 1 shares, and .55% for Class 2 shares; multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).



# STATEMENT OF INVESTMENTS

June 30, 2006 (Unaudited)

<b>Negotiable Bank Certificates of Deposit—9.5%</b>	Principal Amount (\$)	Value (\$)
Bank of America N.A. 5.32%, 3/21/07	200,000,000 <sup>a</sup>	200,000,000
First Tennessee Bank N.A. Memphis 5.37%, 8/29/06	200,000,000	200,000,000
Wilmington Trust Co., DE (Yankee) 4.63%, 7/3/06	100,000,000	100,000,000
<b>Total Negotiable Bank Certificates of Deposit</b> (cost \$500,000,000)		<b>500,000,000</b>
<b>Commercial Paper—62.4%</b>		
Atlantic Asset Securitization LLC 5.08%, 7/7/06	107,215,000 <sup>b</sup>	107,124,998
Atlantis One Funding Corp. 4.71%–5.34%, 7/3/06–8/21/06	250,000,000 <sup>b</sup>	249,573,958
Bear Stearns Cos. Inc. 4.73%–5.37%, 7/5/06–8/22/06	161,000,000	160,479,693
Beta Finance Inc. 4.63%, 7/6/06	56,500,000 <sup>b</sup>	56,464,530
BHP Billiton Finance (USA) Ltd. 5.09%, 7/6/06	30,202,000 <sup>b</sup>	30,180,817
BNP Paribas Finance Inc. 5.27%, 7/3/06	100,000,000	99,970,722
CHARTA LLC 5.44%, 9/18/06	150,000,000 <sup>b</sup>	148,230,729
Citigroup Funding Inc. 5.35%, 8/23/06	70,000,000	69,453,806
Citigroup Global Markets Holdings Inc. 5.10%, 8/2/06–8/3/06	170,000,000	169,225,170
CRC Funding LLC 5.07%, 7/7/06–7/10/06	200,000,000 <sup>b</sup>	199,790,500
Credit Suisse (USA) Inc. 4.62%–5.34%, 7/5/06–8/22/06	68,000,000	67,787,401
Cullinan Finance Ltd. 5.36%, 8/23/06–8/30/06	209,453,000 <sup>b</sup>	207,626,114
Danske Corp., Delaware 4.72%, 7/3/06	155,000,000	154,960,174
Deutsche Bank Financial LLC 5.30%, 7/3/06	100,000,000	99,970,556

Commercial Paper (continued)	Principal Amount (\$)	Value (\$)
FCAR Owner Trust, Ser. I 5.10%, 8/2/06	180,000,000	179,194,400
FCAR Owner Trust, Ser. II 5.11%, 8/2/06	43,000,000	42,807,360
General Electric Capital Corp. 5.33%, 8/22/06	250,000,000	248,093,333
Grampian Funding Ltd. 4.73%–5.35%, 7/3/06–8/22/06	230,000,000 <sup>b</sup>	229,200,933
Harrier Finance Funding Ltd. 5.33%, 8/21/06	20,000,000 <sup>b</sup>	19,850,400
Kredietbank N.A. Finance Corp. 5.10%, 8/2/06	100,000,000	99,552,444
Sigma Finance Inc. 4.63%–5.34%, 7/5/06–8/21/06	220,000,000 <sup>b</sup>	219,190,317
Societe Generale N.A. Inc. 4.73%, 7/3/06	175,000,000	174,954,889
Toyota Motor Credit Corp. 5.36%, 8/31/06	150,000,000 <sup>b</sup>	148,650,375
UBS Finance Delaware LLC 5.27%, 7/3/06	100,000,000	99,970,722
<b>Total Commercial Paper</b> (cost \$3,282,304,341)		<b>3,282,304,341</b>
<b>Corporate Notes—7.6%</b>		
Bank of America Corp. 5.31%, 5/25/07	25,000,000 <sup>a</sup>	25,000,000
Harrier Finance Funding Ltd. 5.32%, 11/15/06–5/18/07	225,000,000 <sup>a,b</sup>	224,991,887
Morgan Stanley 5.15%, 7/3/06	150,000,000 <sup>a</sup>	150,000,000
<b>Total Corporate Notes</b> (cost \$399,991,887)		<b>399,991,887</b>
<b>Promissory Note—3.3%</b>		
Goldman Sachs Group Inc. 5.45%, 7/1/06 (cost \$175,000,000)	175,000,000	<b>175,000,000</b>

<b>Time Deposits—16.9%</b>	Principal Amount (\$)	Value (\$)
Branch Banking & Trust Co. (Grand Cayman) 5.25%, 7/3/06	142,000,000	142,000,000
Fifth Third Bank (Grand Cayman) 5.27%, 7/3/06	250,000,000	250,000,000
M&I Marshall & Ilsley Bank Milwaukee, WI (Grand Cayman) 5.25%, 7/3/06	250,000,000	250,000,000
SunTrust Bank (Grand Cayman) 5.25%, 7/3/06	250,000,000	250,000,000
<b>Total Time Deposits</b> (cost \$892,000,000)		<b>892,000,000</b>
<b>Total Investments</b> (cost \$5,249,296,228)	<b>99.7%</b>	<b>5,249,296,228</b>
<b>Cash and Receivables (Net)</b>	<b>.3%</b>	<b>14,015,842</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>5,263,312,070</b>

<sup>a</sup> Variable rate security—interest rate subject to periodic change.

<sup>b</sup> Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2006, these securities amounted to \$1,840,875,558 or 35.0% of net assets.

<b>Portfolio Summary (Unaudited)<sup>†</sup></b>			
	Value (%)		Value (%)
Banking	49.5	Asset-Backed/Securities	
Asset-Backed/Structured		Arbitrage Vehicles	4.4
Investment Vehicles	13.8	Asset-Backed/Single Seller	4.2
Brokerage Firms	9.2	Mining	.6
Finance	8.9	Asset-Backed/Certificates-Other	.5
Asset-Backed/Multi-Seller Programs	8.6		<b>99.7</b>

<sup>†</sup> Based on net assets.

See notes to financial statements.

# STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006 (Unaudited)

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities-See Statement of Investments	5,249,296,228	5,249,296,228
Interest receivable		6,191,632
Cash		11,020,258
Prepaid expenses		277,378
		<b>5,266,785,496</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates-Note 2(b)		2,466,180
Payable for shares of Common Stock redeemed		501,843
Accrued expenses		505,403
		<b>3,473,426</b>
<b>Net Assets (\$)</b>		<b>5,263,312,070</b>
<b>Composition of Net Assets (\$):</b>		
Paid-in capital		5,263,362,852
Accumulated net realized gain (loss) on investments		(50,782)
<b>Net Assets (\$)</b>		<b>5,263,312,070</b>

<b>Net Asset Value Per Share</b>		
	Class 1 Shares	Class 2 Shares
Net Assets (\$)	1,781,393,977	3,481,918,093
Shares Outstanding	1,782,311,829	3,481,920,188
<b>Net Asset Value Per Share (\$)</b>	<b>1.00</b>	<b>1.00</b>

See notes to financial statements.

# STATEMENT OF OPERATIONS

Six Months Ended June 30, 2006 (Unaudited)

<b>Investment Income (\$):</b>	
<b>Interest Income</b>	<b>117,566,531</b>
<b>Expenses:</b>	
Management fee–Note 2(a)	11,645,659
Shareholder servicing costs–Note 2(b)	3,129,240
Registration fees	131,282
Prospectus and shareholders' reports	125,497
Custodian fees	87,119
Professional fees	44,193
Miscellaneous	13,357
<b>Total Expenses</b>	<b>15,176,347</b>
Less–waiver of fees due to undertakings–Note 2(a)	(220,562)
<b>Net Expenses</b>	<b>14,955,785</b>
<b>Investment Income–Net, representing net increase in net assets resulting from operations</b>	<b>102,610,746</b>

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005
<b>Operations (\$):</b>		
Investment Income—net	102,610,746	125,170,518
Net realized gain (loss) from investments	—	(3,351)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>102,610,746</b>	<b>125,167,167</b>
<b>Dividends to Shareholders from (\$):</b>		
Investment income—net:		
Class 1 shares	(35,989,963)	(65,221,738)
Class 2 shares	(66,620,783)	(59,948,780)
<b>Total Dividends</b>	<b>(102,610,746)</b>	<b>(125,170,518)</b>
<b>Capital Stock Transactions (\$1.00 per share):</b>		
Net proceeds from shares sold:		
Class 1 shares	547,719,667	1,944,487,685
Class 2 shares†	2,221,082,506	4,658,844,422
Dividends reinvested:		
Class 1 shares	35,033,193	45,968,994
Class 2 shares	1,404,824	27
Cost of shares redeemed:		
Class 1 shares†	(595,440,788)	(5,019,901,516)
Class 2 shares	(1,466,914,479)	(1,932,490,241)
<b>Increase (Decrease) in Net Assets from Capital Stock Transactions</b>	<b>742,884,923</b>	<b>(303,090,629)</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>742,884,923</b>	<b>(303,093,980)</b>
<b>Net Assets (\$):</b>		
Beginning of Period	4,520,427,147	4,823,521,127
<b>End of Period</b>	<b>5,263,312,070</b>	<b>4,520,427,147</b>

† On April 29, 2005, 3,019,000 Class 1 shares were designated as Class 2 shares.  
See notes to financial statements.

# FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund’s financial statements.

Class 1 Shares	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31,				
		2005	2004	2003	2002	2001
<b>Per Share Data (\$):</b>						
Net asset value, beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Investment Operations:						
Investment income–net	.020	.026	.007	.006	.015	.039
Distributions:						
Dividends from investment income–net	(.020)	(.026)	(.007)	(.006)	(.015)	(.039)
Net asset value, end of period	1.00	1.00	1.00	1.00	1.00	1.00
<b>Total Return (%)</b>	4.07 <sup>a</sup>	2.62	.72	.60	1.47	4.01
<b>Ratios/Supplemental Data (%):</b>						
Ratio of total expenses to average net assets	.72 <sup>a</sup>	.71	.70	.68	.64	.66
Ratio of net expenses to average net assets	.70 <sup>a</sup>	.70	.70	.68	.64	.66
Ratio of net investment income to average net assets	4.03 <sup>a</sup>	2.32	.71	.60	1.47	3.87
Net Assets, end of period (\$ x 1,000)	1,781,394	1,794,075	4,823,521	5,047,571	6,232,615	6,603,335

<sup>a</sup> Annualized.  
See notes to financial statements.

	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005 <sup>a</sup>
<b>Class 2 Shares</b>		
<b>Per Share Data (\$):</b>		
Net asset value, beginning of period	1.00	1.00
Investment Operations:		
Investment income-net	.021	.022
Distributions:		
Dividends from investment income-net	(.021)	(.022)
Net asset value, end of period	1.00	1.00
<b>Total Return (%)</b>	4.23 <sup>b</sup>	3.07 <sup>b</sup>
<b>Ratios/Supplemental Data (%):</b>		
Ratio of total expenses to average net assets	.55 <sup>b</sup>	.57 <sup>b</sup>
Ratio of net expenses to average net assets	.55 <sup>b</sup>	.55 <sup>b</sup>
Ratio of net investment income to average net assets	4.20 <sup>b</sup>	3.05 <sup>b</sup>
Net Assets, end of period (\$ x 1,000)	3,481,918	2,726,352

<sup>a</sup> From April 18, 2005 (commencement of initial offering) to December 31, 2005.

<sup>b</sup> Annualized.

See notes to financial statements.



### **NOTE 1—Significant Accounting Policies:**

Dreyfus Liquid Assets, Inc. (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a diversified open-end management investment company. The fund’s investment objective is to provide investors with as high a level of current income as is consistent with the preservation of capital. The Dreyfus Corporation (the “Manager” or “Dreyfus”) serves as the fund’s investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation (“Mellon Financial”).

Dreyfus Service Corporation (the “Distributor”), a wholly-owned subsidiary of the Manager, is the distributor of the fund’s shares. The fund is authorized to issue 30 billion shares of \$.001 par value of Common Stock. The fund currently offers two classes of shares: Class 1 (23.5 billion shares authorized) and Class 2 (6.5 billion shares authorized). Class 1 and Class 2 shares are identical except for the services offered to and the expenses borne by each class and certain voting rights. Class 2 shares are offered only to certain eligible financial institutions. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

It is the fund’s policy to maintain a continuous net asset value per share of \$1.00; the fund has adopted certain investment, portfolio valuation and dividend and distribution policies to enable it to do so. There is no assurance, however, that the fund will be able to maintain a stable net asset value of per share \$1.00.

The fund’s financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** Investments in securities are valued at amortized cost in accordance with Rule 2a-7 of the Act, which has been determined by the fund's Board of Directors to represent the fair value of the fund's investments.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Interest income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and is recognized on the accrual basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Cost of investments represents amortized cost.

The fund has an arrangement with the custodian bank whereby the fund receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits, if any, as an expense offset in the Statement of Operations.

The fund may enter into repurchase agreements with financial institutions, deemed to be creditworthy by the Manager, subject to the seller's agreement to repurchase and the fund's agreement to resell such securities at a mutually agreed upon price. Securities purchased subject to repurchase agreements are deposited with the fund's custodian and, pursuant to the terms of the repurchase agreement, must have an aggregate market value greater than or equal to the repurchase price plus accrued interest at all times. If the value of the underlying securities falls below the value of the repurchase price plus accrued interest, the fund will require the seller to deposit additional collateral by the next business day. If the request for additional collateral is not met, or the seller defaults on its repurchase obligation, the fund maintains the right to sell the underlying securities at market value and may claim any resulting loss against the seller.

(c) **Dividends to shareholders:** It is the policy of the fund to declare dividends daily from investment income-net. Such dividends are paid monthly. Dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the “Code”). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain.

(d) **Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

The fund has an unused capital loss carryover of \$50,782 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to December 31, 2005. If not applied, \$5,642 of the carryover expires in fiscal 2008, \$9,111 expires in fiscal 2009, \$24,768 expires in fiscal 2010, \$7,910, expires in fiscal 2011 and \$3,351 expires in fiscal 2013.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2005 were all ordinary income. The tax character of current year distributions will be determined at the end of the current fiscal year.

At June 30, 2006, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

## **NOTE 2—Management Fee and Other Transactions with Affiliates:**

(a) Pursuant to a management agreement (“Agreement”) with the Manager, the management fee is based on the value of the fund’s average daily net assets and is computed at the following annual rates: .50% of the first \$1.5 billion; .48% of the next \$500 million; .47% of the next

\$500 million; and .45% over \$2.5 billion. The fee is payable monthly. The Manager has contractually agreed to waive receipt of its fees and/or assume the expenses of the fund's Class 1 shares, until December 31, 2006, so that annual fund operating expenses for Class 1 shares, exclusive of certain expenses as described above, do not exceed .70%. The Manager has undertaken to waive its fees and or assume the expenses of the fund's Class 2 shares, so that the expenses for Class 2 shares, exclusive of certain expenses as described above, does not exceed .55%. The Manager may terminate this undertaking upon at least 90 days, prior notice to investors. The reduction in management fee, pursuant to the undertaking, amounted to \$220,562 during the period ended June 30, 2006.

(b) Under the Shareholder Services Plan, Class 1 and Class 2 shares reimburses the Distributor an amount not to exceed an annual rate of .25% of the value of the fund's average daily net assets for certain allocated expenses of providing personal services and/or maintaining shareholder accounts. The services provided may include personal services relating to shareholder accounts, such as answering shareholder inquiries regarding the fund and providing reports and other information, and services related to the maintenance of shareholder accounts. During the period ended June 30, 2006, Class 1 shares were charged \$1,194,541 and Class 2 shares were charged 790,834 pursuant to the Shareholder Services Plan.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended June 30, 2006, the fund was charged \$706,584 pursuant to the transfer agency agreement.

During the period ended June 30, 2006, the fund was charged \$1,926 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: management fees \$2,048,370, shareholder services fee of \$32,287, chief compliance officer fees \$1,926 and transfer agency per account fees \$395,790, which are offset against an expense reimbursement currently in effect in the amount of 12,193.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.



# For More Information

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**Dreyfus Liquid Assets, Inc.**

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**Manager**

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

**Custodian**

The Bank of New York  
One Wall Street  
New York, NY 10286

**Transfer Agent &  
Dividend Disbursing Agent**

Dreyfus Transfer, Inc.  
200 Park Avenue  
New York, NY 10166

**Distributor**

Dreyfus Service Corporation  
200 Park Avenue  
New York, NY 10166

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**E-mail** Send your request to [info@dreyfus.com](mailto:info@dreyfus.com)

**Internet** Information can be viewed online or downloaded at: <http://www.dreyfus.com>

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-202-551-8090.

Information regarding how the fund voted proxies relating to portfolio securities for the 12-month period ended June 30, 2006, is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-645-6561.

