

iShares Silver Trust  
Form 10-Q  
November 13, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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- x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006.**
- .. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

Commission file number: 001-32863

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**iShares<sup>®</sup> Silver Trust**

(Exact name of registrant as specified in its charter)

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New York  
(State or other jurisdiction of  
incorporation or organization)

c/o Barclays Global Investors International Inc.

13-7474456  
(I.R.S. Employer

Identification No.)

45 Fremont Street

San Francisco, California 94105

Attn: BGI s Product Management Team

Intermediary Investor and Exchange-Traded Products Department

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(Address of principal executive offices)

(415) 597-2000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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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 preceding 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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**Part I Financial Information****Item 1. Financial Statements****iShares Silver Trust****Balance Sheets (Unaudited)**

at September 30, 2006 and

April 21, 2006 (Date of Inception)

(Dollar amounts in 000 s)	September 30, 2006	April 21, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Silver bullion inventory (Note 1A)	\$ 1,141,926	\$ 18,278
Total Assets	\$ 1,141,926	\$ 18,278
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Sponsor's fees payable	\$ 495	\$
Total Liabilities	495	
<b>Commitments and Contingent liabilities (Note 1F)</b>		
Redeemable capital shares, no par value, unlimited amount authorized (at redemption value) 10,450,000 issued and outstanding at September 30, 2006 and 150,000 issued and outstanding at April 21, 2006	1,204,443	18,278
Shareholder's Equity (Deficit)	(63,012)	
<b>TOTAL LIABILITIES, REDEEMABLE SHARES &amp; SHAREHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 1,141,926</b>	<b>\$ 18,278</b>

*See notes to the financial statements.*

## iShares Silver Trust

## Income Statement (Unaudited)

For the three months ended September 30, 2006 and the period from

April 21, 2006 (Date of Inception) to September 30, 2006

	Three months ended September 30, 2006	April 21, 2006 to September 30, 2006
<b>(Dollar amounts in 000 s except for Income (Loss) per share)</b>		
<b>Revenues</b>		
Proceeds from sales of silver to pay expenses	\$ 1,239	\$ 1,581
Cost of silver sold to pay expenses	(1,086)	(1,467)
Gain on sales of silver to pay expenses	153	114
Gain (loss) on silver distributed for the redemption of shares	2,907	(5,470)
Total gain (loss) on sales and distributions of silver	3,060	(5,356)
<b>Expenses</b>		
Sponsor s fees	(1,417)	(2,076)
Market value reserve		(183,090)
Total expenses	(1,417)	(185,166)
Net Income (Loss)	\$ 1,643	\$ (190,522)
Income (Loss) per share	\$ 0.17	\$ (23.90)
Weighted-average shares outstanding	9,640,761	7,970,859
<i>See notes to the financial statements.</i>		

**iShares Silver Trust**

**Statement of Changes in Shareholders' Equity (Deficit) (Unaudited)**

For the period from April 21, 2006 (Date of Inception)

to September 30, 2006

	April 21, 2006 to September 30, 2006
<b>(Dollar amounts in 000 s)</b>	
Shareholders' Equity (Deficit) - beginning balance	\$
Net Loss	(190,522)
Adjustment of Redeemable shares to redemption value	127,510
Shareholders' Equity (Deficit) - ending balance	\$ (63,012)

*See notes to the financial statements.*

**iShares Silver Trust**

**Statement of Cash Flows (Unaudited)**

For the period from April 21, 2006 (Date of Inception)

to September 30, 2006

	April 21, 2006 to September 30, 2006
<b>(Dollar amounts in 000 s)</b>	
Proceeds from sales of silver	\$ 1,581
Expenses Sponsor's fee paid	(1,581)
<b>Net cash provided by operating activities</b>	
Increase (decrease) in cash	
Cash, beginning of the period	
Cash, end of the period	\$
<b>Reconciliation of net income to net cash provided by operating activities:</b>	
Net Loss	\$ (190,522)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>	
Proceeds from sales of silver to pay expenses	1,581
Loss on silver distributed for the redemption of shares	5,470
Gain on sales of silver to pay expenses	(114)
Sponsor's fees payable	495
Market value reserve	183,090
<b>Net cash provided by operating activities</b>	<b>\$</b>
<i>Supplemental disclosure of non-cash information</i>	
Carrying value of silver received for creation of shares	\$ 1,430,215
Carrying value of silver distributed for redemption of shares at average cost	\$ 122,010
<i>See notes to the financial statements.</i>	

## NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2006 (Unaudited)

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The iShares Silver Trust (the *Trust*) was organized on April 21, 2006 as a New York Trust. The trustee is The Bank of New York (the *Trustee*) and is responsible for the day to day administration of the Trust. The Trust's sponsor is Barclays Global Investors International Inc. (the *Sponsor*), a Delaware corporation and a subsidiary of Barclays Bank PLC. The Trust is governed by the Depositary Trust Agreement executed at the time of organization of the Trust by the Trustee and the Sponsor (the *Trust Agreement*).

The objective of the Trust is for the value of the iShares to reflect, at any given time, the price of silver owned by the Trust at that time, less the Trust's expenses and liabilities. The Trust is designed to provide a vehicle for investors to own interests in silver.

The following is a summary of significant accounting policies consistently followed by the Trust in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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 those estimates.

The accompanying unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the *SEC*). In the opinion of management, all material adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the interim period financial statements have been made. Interim period results are not necessarily indicative of results for a full-year period. These financial statements and the notes thereto should be read in conjunction with the Trust's financial statements included in the registration statement on Form S-1 as filed with the SEC on September 27, 2006.

#### A. *Silver*

JPMorgan Chase Bank N.A., acting through its London Branch (the *Custodian*), is responsible for safekeeping the silver owned by the Trust.

For financial statement purposes, the silver held by the Trust is valued at the lower of cost or market, using the average cost method. Should the market value of the silver held be lower than its average cost during the interim periods of the same fiscal year, an adjustment of value below cost ( *market value reserve* ) is recorded by the Trust. Gain or loss on sales of silver is calculated on a trade date basis. Fair value of the silver is based on the price for an ounce of silver set each working day by three market making members of The London Bullion Market Association ( *The London Fix* ).

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The following table summarizes activity in silver during the three months ended September 30, 2006 (all balances in 000 s):

	Ounces	Cost	Market Value	Realized Gain (Loss)
Beginning balance	80,455.8	\$ 860,877	\$ 860,877	
Silver contributed	26,464.4	309,278	309,278	
Silver distributed (Avg. cost)	(2,495.9)	(27,143)	(30,050)	\$ 2,907
Silver sold (Avg. cost)	(100.6)	(1,086)	(1,239)	153
Adjustment for realized gain			3,060	
Adjustment for unrealized gain on Silver bullion			63,012	
<b>Ending balance</b>	<b>104,323.7</b>	<b>\$ 1,141,926</b>	<b>\$ 1,204,938</b>	<b>\$ 3,060</b>

The following table summarizes activity in silver during the period from April 21, 2006 (Date of Inception) through September 30, 2006 (all balances in 000 s):

	Ounces	Cost	Market Value	Realized Gain (Loss)
Beginning balance	1,500.0	\$ 18,278	\$ 18,278	
Silver contributed	112,445.0	1,430,215	1,430,215	
Silver distributed (Avg. cost)	(9,492.6)	(122,010)	(116,540)	\$ (5,470)
Silver sold (Avg. cost)	(128.7)	(1,467)	(1,581)	114
Adjustment for realized loss			(5,356)	
Adjustment for unrealized gain on Silver bullion			63,012	
Market value reserve		(183,090)	(183,090)	
<b>Ending balance</b>	<b>104,323.7</b>	<b>\$ 1,141,926</b>	<b>\$ 1,204,938</b>	<b>\$ (5,356)</b>

### B. Redeemable Capital Shares

Shares of the Trust are classified as redeemable for balance sheet purposes, since they are subject to redemption. Trust shares are issued and redeemed continuously in aggregations of 50,000 shares in exchange for silver rather than cash. Individual investors cannot purchase or redeem shares in direct transactions with the Trust. The Trust only transacts with registered broker-dealers eligible to settle securities transactions through the book-entry facilities of the Depository Trust Company and which have entered into a contractual arrangement with the Trust and the Sponsor governing, among other matters, the creation and redemption processes (such broker-dealers are the Authorized Participants). Holders of shares of the Trust may redeem their shares at any time acting through an Authorized Participant and in the prescribed aggregations of 50,000 shares; *provided*, that redemptions of shares may be suspended during any period while regular trading on the AMEX is suspended or restricted, or in which an emergency exists as a result of which delivery, disposal or evaluation of silver is not reasonably practicable.

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The per-share amount of silver exchanged for a purchase or redemption is calculated daily by the Trustee, using the London Fix to calculate the silver amount in respect of any liabilities for which covering silver sales have not yet been made, and represents the per-share amount of silver held by the Trust, after giving effect to its liabilities, sales to cover expenses and liabilities and any losses that may have occurred.

When silver is exchanged in settlement of a redemption, it is considered a sale of silver for financial statement purposes.

Due to the expected continuing sales and redemption of capital stock and the three-day period for share settlement the Trust reflects capital shares sold as a receivable, rather than as contra equity. Shares redeemed are reflected as a liability on the trade date. Outstanding Trust shares are reflected at redemption value, which is the net asset value per share at the period ended date. Adjustments to redemption value are reflected in retained earnings.

Net asset value is computed by deducting all accrued fees, expenses and other liabilities of the Trust, including the Sponsor's fees, from the fair value of the silver held by the Trust.

Activity in redeemable capital shares is as follows (all balances in 000's):

	Three months		April 21, 2006*	
	ended		to	
	September 30, 2006		September 30, 2006	
	Shares	Amount	Shares	Amount
Beginning balance	8,300	\$ 887,285	150	\$ 18,278
Shares Issued	2,400	283,351	11,250	1,430,215
Shares Redeemed	(250)	(30,050)	(950)	(116,540)
Redemption value adjustment		63,857		(127,510)
Ending balance	10,450	\$ 1,204,443	10,450	\$ 1,204,443

\* Date of Inception

### C. Federal Income Taxes

The Trust is treated as a grantor trust for federal income tax purposes and, therefore, no provision for federal income taxes is required. Any interest and gains and losses are deemed passed through to the holders of shares of the Trust.

### D. Expenses

The Trust pays to the Sponsor a Sponsor's fee that accrues daily at an annualized rate equal to 0.50% of the adjusted daily net asset value of the Trust, paid monthly in arrears. The Sponsor has agreed to assume the following administrative and marketing expenses incurred by the Trust: the Trustee's monthly fee, the custodian's fee, AMEX listing fees, SEC registration fees, printing and mailing costs, audit fees and expenses, and up to \$100,000 per annum in legal fees and expenses. For the fiscal year ending December 31, 2006, the Sponsor has agreed to pay all legal fees and expenses over the \$100,000 per annum limit. The Sponsor has also paid the costs of the Trust's organization and the initial sales of the shares, including applicable SEC registration fees.

*E. Related Parties*

The Sponsor and the Trustee are considered to be related parties to the Trust. The Trustee's fee is paid by the Sponsor and is not a separate expense of the Trust.

*F. Indemnifications*

Under the Trust's organizational documents, the Sponsor is indemnified against liabilities or expenses it incurs without negligence, bad faith or willful misconduct on its part. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred.

**2. CONCENTRATION RISK**

Substantially all of the Trust's assets are holdings of silver, which creates a concentration risk associated with fluctuations in the price of silver. Accordingly, a decline in the price of silver will have an adverse effect on the value of the shares of the Trust. Factors that may have the effect of causing a decline in the price of silver include, a change in economic conditions (such as a recession) an increase in the hedging activities of silver producers, and changes in the attitude towards silver of speculators, investors and other market participants.

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

*This information should be read in conjunction with the financial statements and notes to the financial statements included in Item 1 of Part I of this Form 10-Q. The discussion and analysis that follows may contain statements that relate to future events or future performance. In some cases, such forward-looking statements can be identified by terminology such as may, should, expect, plan, anticipate, believe, estimate, predict, potential or the negative of these terms or other comparable terminology. Neither the sponsor, nor any other person assumes responsibility for the accuracy or completeness of forward-looking statements. Neither the trust nor the sponsor is under a duty to update any of the forward-looking statements to conform such statements to actual results or to a change in the sponsor's expectations or predictions.*

### *Introduction*

The Trust is a grantor trust formed under the laws of the State of New York. The Trust does not have any officers, directors, or employees, and is administered by The Bank of New York (the Trustee) acting as trustee pursuant to a Depositary Trust Agreement between the Trustee and Barclays Global Investors International Inc., the sponsor of the Trust (the Sponsor). The Trust issues shares representing fractional undivided beneficial interests in its net assets. The assets of the Trust consist primarily of silver held by a custodian as an agent of the Trust and responsible only to the Trustee.

The Trust is a passive investment vehicle, and the objective of the Trust is merely for the value of each share approximately to reflect, at any given time, the price of silver owned by the Trust less the Trust's liabilities (anticipated to be principally for accrued operating expenses) divided by the number of outstanding shares. The Trust does not engage in any activities designed to obtain a profit from, or ameliorate losses caused by, changes in the price of silver.

The Trust issues and redeems shares only in exchange for silver, only in aggregations of 50,000 shares or integral multiples thereof, and only in transactions with registered broker-dealers that have previously entered into an agreement with the Trust governing the terms and conditions of such issuance (such dealers, the Authorized Participants). A list of current Authorized Participants is available from the Sponsor or the Trustee.

Shares of the Trust trade on the AMEX under the symbol SLV.

### *Valuation of Silver; Computation of Net Asset Value.*

On each business day, as soon as practicable after 4:00 p.m. (New York time), the Trustee evaluates the silver held by the Trust and determines the net asset value of the Trust and the net asset value per share. The Trustee values the silver held by the Trust using the announced London Fix. Having valued the silver held by the Trust, the Trustee then subtracts all accrued fees (other than the fees to be computed by reference to the value of the Trust or its assets), expenses and other liabilities of the Trust from the value of the silver and other assets of the Trust. The result is the adjusted net asset value of the Trust, which is used to compute all fees (including the Trustee's fee and the Sponsor's fee), which are calculated from the value of the Trust's assets. To determine the net asset value of the Trust, the Trustee subtracts from the adjusted net asset value of the Trust the amount of accrued fees computed from the value of the Trust's assets. The Trustee also computes the net asset value per share, by dividing the net asset value of the Trust by the number of shares outstanding on the date the computation is made.

### *Liquidity*

The Trust is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to its liquidity needs. In exchange for a fee (the Sponsor's fee) the Sponsor has agreed to assume most of the expenses incurred by the Trust. As a result, the only ordinary expense of the Trust during the period covered by this report was the Sponsor's fee. The Trust's only source of liquidity is its sales of silver.

*Critical Accounting Estimates*

The financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements relies on estimates and assumptions that impact the Trust's financial position and results of operations. These estimates and assumptions affect the Trust's application of accounting policies. Below we describe the valuation of silver, a critical accounting policy that we believe is important to understanding our results of operations and financial position. In addition, please refer to Note 1 to the financial statements for further discussion of our accounting policies.

*Valuation of Silver*

Silver held by the Trust is recorded at the lower of cost or market. For purposes of this calculation, market values are based on the London Fix. Should the market value of the silver held be lower than its average cost, impairment to the carrying value of the silver will be recorded and the London Fix will be used as the value for financial statement purposes. As indicated above, the London Fix is also used to value silver held for purposes of calculating the net asset value of the Trust, which in turn is used for the calculation of the redemption value of outstanding Trust shares.

There are other indicators of the value of silver that are available that could be different than that chosen by the Trust. The London Fix is used since it is commonly used by the U.S. silver market as an indicator of the value of silver, and is required by the Depositary Trust Agreement. The use of an indicator of value of silver other than the London Fix could result in materially different fair value pricing of the silver in the Trust, and as such, could result in different lower of cost or market adjustments or in different redemption value adjustments of the outstanding redeemable capital shares.

*The Quarter Ended September 30, 2006*

The Trust's net asset value grew from \$887,285,023 at June 30, 2006 to \$1,204,443,295 at September 30, 2006, a 35.74% increase. The increase in the Trust's net asset value resulted primarily from an increase in outstanding shares, which rose from 8,300,000 at June 30, 2006 to 10,450,000 at September 30, 2006 as a consequence of 2,400,000 shares (48 baskets, each basket consisting of 50,000 shares) being created and 250,000 shares (5 baskets, each basket consisting of 50,000 shares) being redeemed during the quarter.

A positive change in the London Fix price, which increased 7.94% from \$10.70 at June 30, 2006 to \$11.55 at September 30, 2006, directly relates to the 7.82% increase in the Trust's net asset value per outstanding share from \$106.90 at June 30, 2006 to \$115.26 at September 30, 2006.

The Trust's net asset value per share rose slightly less than the price of silver on a percentage basis due to Sponsor's fees, which were \$1,417,346 for the quarter, or 0.13% of the Trust's average weighted assets of \$1,126,131,184 during the quarter. The net asset value per share of \$131.27 at September 5, 2006 was the highest during the quarter, compared with a low of \$105.08 at July 19, 2006. The net asset value of the Trust is obtained by subtracting the Trust's expenses and liabilities on any day from the value of the silver owned by the Trust on that day; the net asset value per share is obtained by dividing the net asset value of the Trust on a given day by the number of shares outstanding on that date.

Net income for the quarter ended September 30, 2006 was \$1,643,306, resulting from a net gain of \$153,388 on the sale of silver to pay expenses and a net gain of \$2,907,264 on silver distributed for the redemption of shares, offset by Sponsor's fees of \$1,417,346. Other than the Sponsor's fees, the Trust had no other ordinary or extraordinary expenses during the quarter.

*The Period April 21, 2006 (Date of Inception) through September 30, 2006*

Cumulatively for the fiscal year to date, the Trust's net asset value grew from \$18,277,500 at April 21, 2006 to \$1,204,443,295 at September 30, 2006. The net asset value per share of the Trust declined 5.41% from \$121.85 at April 21, 2006 to \$115.26 at September 30, 2006 as a direct result of the London Fix decrease of 5.21% from \$12.185 at April 21, 2006 to \$11.55 at September 30, 2006, less Sponsor's fees, which were \$2,076,345 for the period, or 0.22% of the Trust's average weighted assets of \$939,136,895 during the period.

Net loss for the period from April 21, 2006 through September 30, 2006 was \$190,522,854, resulting from a net gain of \$113,925 on the sale of silver to pay expenses, offset by a net loss of \$5,470,110 on silver distributed for the redemption of shares, Sponsor's fees of \$2,076,345 and a market value reserve of \$183,090,324. Other than the Sponsor's fees, the Trust had no other ordinary or extraordinary expenses during the period.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

The duly authorized officers of the Sponsor performing functions equivalent to those a principal executive officer and principal financial officer of the Trust would perform if the Trust had any officers, and with the participation of the Trustee, have evaluated the effectiveness of the Trust's disclosure controls and procedures, and have concluded that the disclosure controls and procedures of the Trust have been effective as of the end of the period covered by this quarterly report.

There were no changes in the Trust's internal control over financial reporting that occurred during the Trust's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

Not applicable.

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

a) None.

b) Not applicable.

c) For the quarter ended September 30, 2006, 48 Baskets (2,400,000 shares) have been created, and 5 Baskets (250,000 shares) have been redeemed as follows:

Period	Total Number of Shares Redeemed	Average Price Per Share (ounces of silver)
07/01/06 to 07/31/06	50,000	0.0999
08/01/06 to 08/31/06		
09/01/06 to 09/30/06	200,000	0.0999



**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 4.1 Form of Depositary Trust Agreement \*
- 4.2 Form of Authorized Participant Agreement \*
- 10.1 Form of Custodian Agreement\*
- 10.2 Form of Sub-license Agreement\*
- 10.3 Amendment No. 1 to Custodian Agreement\*\*
- 31.1 Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification by Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Incorporated by reference to the Exhibit identified with the same number and filed with Pre-Effective Amendment No. 3 to Registration Statement No. 333-125920 on April 24, 2006.

\*\* Incorporated by reference to the Exhibit identified with the same number and filed with Pre-Effective Amendment No. 4 to Registration Statement No. 333-125920 on September 27, 2006.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned in the capacities\* indicated thereunto duly authorized.

Barclays Global Investors International Inc.

Sponsor of the iShares Silver Trust  
(Registrant)

/s/ Lee T. Kranefuss  
Lee T. Kranefuss  
Chief Executive Officer  
(Principal executive officer)  
Date: November 13, 2006

/s/ Michael A. Latham  
Michael A. Latham  
Chief Financial Officer  
(Principal financial officer)  
Date: November 13, 2006

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\* The Registrant is a trust and the persons are signing in their capacities as officers of Barclays Global Investors International Inc., the Sponsor of the Registrant.