

streetTRACKS GOLD TRUST  
Form 424B3  
August 23, 2006

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Registration No. 333-131598

PROSPECTUS

13,600,000

The streetTRACKS® Gold Trust, or the Trust, issues streetTRACKS® Gold Shares, or the Shares, which represent units of fractional undivided beneficial interest in and ownership of the Trust. World Gold Trust Services, LLC is the sponsor of the Trust, or the Sponsor. The Bank of New York is the trustee of the Trust, or the Trustee, HSBC Bank USA, N.A. is the custodian of the Trust, or the Custodian, and State Street Global Markets, LLC is the marketing agent of the Trust, or the Marketing Agent. The Trust intends to issue additional Shares on a continuous basis through its Trustee.

The Shares may be purchased from the Trust only in one or more blocks of 100,000 Shares (a block of 100,000 Shares is called a Basket). The Trust issues Shares in Baskets to certain authorized participants, or the Authorized Participants, on an ongoing basis. Baskets are offered continuously at the net asset value, or the NAV, for 100,000 Shares on the day that an order to create a Basket is accepted by the Trustee. It is expected that the Shares will be sold to the public at varying prices to be determined by reference to, among other considerations, the price of gold and the trading price of the Shares on the NYSE at the time of each sale.

The Shares trade on the New York Stock Exchange, or the NYSE, under the symbol “GLD.”

Investing in the Shares involves significant risks. See “Risk Factors” starting on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities offered in this prospectus, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Shares are neither interests in nor obligations of the Sponsor, the Trustee or the Marketing Agent.

streetTRACKS® is a registered service mark of State Street Corporation, an affiliate of the Marketing Agent.

The date of this prospectus is August 23, 2006.

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This prospectus contains information you should consider when making an investment decision about the Shares. You may rely on the information contained in this prospectus. The Trust and the Sponsor have not authorized any person to provide you with different information and, if anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell the Shares in any jurisdiction where the offer or sale of the

Shares is not permitted.

The Shares are not registered for public sale in any jurisdiction other than the United States.

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Authorized Participants may be required to deliver a prospectus when making transactions in the Shares.

The information contained in the sections of our Annual Report on Form 10-K, incorporated herein by reference, captioned “Overview of the Gold Industry,” “Operation of the Gold Bullion Market” and “Analysis of Movements in the Price of Gold” is based on information obtained from sources that the Sponsor believes are reliable. This prospectus summarizes certain documents and other information in a manner the Sponsor believes to be accurate. In making an investment decision, you must rely on your own examination of the Trust, the gold industry, the operation of the gold bullion market and the terms of the offering and the Shares, including the merits and risks involved. Although the Sponsor believes this information to be reliable, the accuracy and completeness of this information is not guaranteed and has not been independently verified.

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Statement Regarding Forward-Looking Statements

This prospectus includes “forward-looking statements” which generally relate to future events or future performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or the negative of these terms or other comparable terminology. statements (other than statements of historical fact) included in this prospectus that address activities, events or developments that will or may occur in the future, including such matters as changes in commodity prices and market conditions (for gold and the Shares), the Trust’s operations, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially. These statements are based upon certain assumptions and analyses the Sponsor made

based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. Whether or not actual results and developments will conform to the Sponsor's expectations and predictions, however, is subject to a number of risks and uncertainties, including the special considerations discussed in this prospectus, general economic, market and business conditions, changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies, and other world economic and political developments. See "Risk Factors." Consequently, all the forward-looking statements made in this prospectus are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust's operations or the value of the Shares. Moreover, neither the Sponsor nor any other person assumes responsibility for the accuracy or completeness of the 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 reflect a change in the Sponsor's expectations or predictions.

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## Prospectus Summary

You should read this entire prospectus and the material incorporated by reference herein, including "Risk Factors," before making an investment decision about the Shares.

## Trust Structure

The Trust is an investment trust, formed on November 12, 2004 under New York law pursuant to a trust indenture, or the Trust Indenture. The Trust holds gold and is expected from time to time to issue Baskets in exchange for deposits of gold and to distribute gold in connection with redemptions of Baskets. The investment objective of the Trust is for the Shares to reflect the performance of the price of gold bullion, less the Trust's expenses. The Sponsor believes that, for many investors, the Shares represent a cost-effective investment in gold. The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust and trade under the ticker symbol GLD on the NYSE.

The Trust's Sponsor is World Gold Trust Services, LLC or WGTS, which is wholly-owned by the World Gold Council, or WGC, a not-for-profit association registered under Swiss law. The Sponsor is a Delaware limited liability company and was formed on July 17, 2002. Under the Delaware Limited Liability Company Act and the governing documents of the Sponsor, the WGC, the sole member of the Sponsor, is not responsible for the debts, obligations and liabilities of the Sponsor solely by reason of being the sole member of the Sponsor.

The Sponsor established the Trust and generally oversees the performance of the Trustee and the Trust's principal service providers, but does not exercise day-to-day oversight over the Trustee and such service providers. The Sponsor may remove the Trustee and appoint a successor: (1) if the Trustee commits certain willful bad acts in performing its duties or willfully disregards its duties; (2) if the Trustee acts in bad faith in performing its duties; (3) if the Trustee's creditworthiness has materially deteriorated; or (4) if the Trustee's negligent acts or omissions have had a material adverse effect on the Trust or the interests of owners of beneficial interests in the Shares, or Shareholders, and the Trustee has not cured the material adverse effect within a certain period of time and established that the material adverse effect will not recur. The Sponsor will remove the Trustee if the Trustee does not meet the qualifications for a trustee under the Trust Indenture. The Sponsor may direct the Trustee to employ one or more other custodians in addition to or in replacement of the Custodian, provided that the Sponsor may not appoint a successor custodian without the consent of the Trustee if the appointment has a material adverse effect on the Trustee's ability to perform its duties. To assist the Sponsor in marketing the Shares, the Sponsor has entered into a marketing agent agreement with the Marketing Agent, or the Marketing Agent Agreement. The Sponsor maintains a public website on behalf of

the Trust, containing information about the Trust and the Shares. The internet address of the Trust's website is [www.streettracksgoldshares.com](http://www.streettracksgoldshares.com). This internet address is only provided here as a convenience to you, and the information contained on or connected to the Trust's website is not considered part of this prospectus.

The Trustee is The Bank of New York, or BNY. The Trustee is generally responsible for the day-to-day administration of the Trust. This includes (1) selling the Trust's gold as needed to pay the Trust's expenses (gold sales are expected to occur approximately monthly in the ordinary course), (2) calculating the NAV of the Trust and the NAV per Share, (3) receiving and processing orders from Authorized Participants to create and redeem Baskets and coordinating the processing of such orders with the Custodian and The Depository Trust Company, or the DTC and (4) monitoring the Custodian.

The Custodian is HSBC Bank USA, N.A., or HSBC. The Custodian is responsible for the safekeeping of the Trust's gold deposited with it by Authorized Participants in connection with the creation of Baskets. The Custodian also facilitates the transfer of gold in and out of the Trust through gold accounts it maintains for Authorized Participants and the Trust. The Custodian is a market maker, clearer and approved weigher under the rules of the London Bullion Market Association, or LBMA.

Detailed descriptions of certain specific rights and duties of the Sponsor, Marketing Agent, Trustee and the Custodian are set forth in our Annual Report on Form 10-K incorporated herein by reference.

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## Trust Overview

The investment objective of the Trust is for the Shares to reflect the performance of the price of gold bullion, less the expenses of the Trust's operations. The Shares are designed for investors who want a cost-effective and convenient way to invest in gold. Advantages of investing in the Shares include:

**Ease and Flexibility of Investment.** The Shares trade on the NYSE and provide institutional and retail investors with indirect access to the gold bullion market. The Shares may be bought and sold on the NYSE like any other exchange-listed securities, except that the Shares regularly trade until 4:15 PM instead of 4:00 PM New York time.

**Expenses.** The Sponsor expects that, for many investors, costs associated with buying and selling the Shares in the secondary market and the payment of the Trust's ongoing expenses will be lower than the costs associated with buying and selling gold bullion and storing and insuring gold bullion in a traditional allocated gold bullion account.

Investing in the Shares does not insulate the investor from certain risks, including price volatility. See "Risk Factors."

## Principal Offices

The Trust's office is located at 444 Madison Avenue, 3<sup>d</sup> Floor, New York, New York 10022 and its telephone number is 212-317-3800. The Sponsor's office is located at 444 Madison Avenue, 3<sup>d</sup> Floor, New York, New York 10022. The Trustee has a trust office at 2 Hanson Place, Brooklyn, New York 11217. The Custodian is located at 8 Canada Square, London, E14 5HQ, United Kingdom. The Marketing Agent's office is located at State Street Financial Center, One Lincoln Street, Boston, Massachusetts 02111.

## The Offering

### Offering

The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust.

### Shares outstanding

As of August 21, 2006 125,900,000 Shares were outstanding and the estimated NAV per Share as determined by the Trust for August 18, 2006 was \$60.97.

### Use of proceeds

Proceeds received by the Trust from the issuance and sale of Baskets consist of gold deposits and, possibly from time to time, cash. Pursuant to the Trust Indenture, during the life of the Trust such proceeds will only be (1) held by the Trust, (2) distributed to Authorized Participants in connection with the redemption of Baskets or (3) disbursed or sold as needed to pay the Trust's ongoing expenses.

### New York Stock Exchange symbol

GLD

### CUSIP

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### Creation and redemption

The Trust creates and redeems the Shares from time to time, but only in one or more Baskets (a Basket equals a block of 100,000 Shares). The creation and redemption of Baskets requires the delivery to the Trust or the distribution by the Trust of the amount of gold and any cash represented by the Baskets being created or redeemed, the amount of which is based on the combined NAV of the number of Shares included in the Baskets being created or redeemed. The initial amount of gold required for deposit with the Trust to create Shares for the period from the formation of the Trust to the first day of trading of the Shares on the NYSE was 10,000 ounces per Basket. The number of ounces of gold required to create a Basket or to be delivered upon the redemption of a Basket will gradually decrease over time, due to the accrual of the Trust's expenses and the sale of the Trust's gold to pay the Trust's expenses. Baskets may be created or redeemed only by Authorized Participants, who pay a transaction fee for each order to create or redeem Baskets and may sell the Shares included in the Baskets they create to other investors.

### Net Asset Value

The NAV of the Trust is the aggregate value of the Trust's assets less its liabilities (which include estimated accrued but unpaid fees and expenses). In determining the NAV of the Trust, the Trustee values the gold held by the Trust on the basis of the price of an ounce of gold as set by the afternoon session of the twice daily fix of the price of an ounce of gold which starts at 3:00 PM London, England time and is performed by the five members of the London gold fix, or the London PM Fix. The Trustee determines the NAV of the Trust on each day the NYSE is open for regular trading, at the earlier of the London PM Fix for the day or 12:00 PM New York time. If no London PM Fix is made on a particular evaluation day or if the London PM Fix has not been announced by 12:00 PM

New York time on a particular evaluation day, the next most recent London gold price fix (AM or PM) is used in the determination of the NAV of the Trust, unless the Trustee, in consultation with the Sponsor, determines that such price is inappropriate to use as basis for such determination. The Trustee also determines the NAV per Share, which equals the NAV of the Trust, divided by the number of outstanding Shares.

#### Trust expenses

The Trust's ordinary operating expenses are accrued daily and are reflected in the NAV of the Trust. The Trust's expenses include fees and expenses of the Trustee (which include fees and expenses paid to the Custodian by the Trustee for the custody of the Trust's gold), the fees and expenses of the Sponsor, certain taxes, the fees of the Marketing Agent, printing and mailing costs, legal and audit fees, registration fees and NYSE listing fees. In order to pay the Trust's expenses, the Trustee sells gold held by the Trust on an as-needed basis. Each sale of gold by the Trust is a taxable event to Shareholders. For seven years from the date of the Trust Indenture or until the earlier termination of the Marketing Agent Agreement, if at the end of any month during this period the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily adjusted NAV, or ANAV, of the Trust for such month, the fees payable to the Sponsor and the Marketing Agent for such month will be reduced by the amount of such excess in equal shares up to the amount of their fees provided that the gross assets of the Trust exceed a certain minimum amount. See "Risk Factors — When the fee reduction terminates or expires . . ." For details on the calculation of the ANAV of the Trust, see the Trust's Annual Report on Form 10-K, incorporated herein by reference. The Trust pays on an ongoing basis the expenses of its operation.

#### Sponsor's and Marketing Agent's fees

The Sponsor's fee is payable monthly in arrears and is accrued daily at an annual rate equal to 0.15% of the daily ANAV of the Trust. The Marketing Agent's fee is payable monthly in arrears and is accrued daily at an annual rate equal to 0.15% of the daily ANAV of the Trust. If at the end of any month during the period ending seven years from the date of the Trust Indenture or upon the earlier termination of the Marketing Agent Agreement the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily ANAV of the Trust for such month, the Marketing Agent's fee and the Sponsor's fee are subject to reduction.

#### Termination events

The Sponsor may, and it is anticipated that the Sponsor will, direct the Trustee to terminate and liquidate the Trust at any time after the first anniversary of the Trust's formation when the NAV of the Trust is less than \$350 million (as adjusted for inflation). The Sponsor may also direct the Trustee to terminate the Trust if the Commodity Futures Trading Commission, or the CFTC, determines that the Trust is a commodities pool under the Commodity Exchange Act of 1936, as amended, or the CEA. The Trustee may also terminate the Trust upon the agreement of Shareholders owning at least 66 % of the outstanding Shares.

The Trustee will terminate and liquidate the Trust if one of the following events occurs:

DTC, the securities depository for the Shares, is unwilling or unable to perform its functions under the Trust Indenture and no suitable replacement is available;

The Shares are de-listed from the NYSE and are not listed for trading on another US national securities exchange or through the NASDAQ Stock Market within five business days from the date the Shares are de-listed;

The NAV of the Trust remains less than \$50 million for a period of 50 consecutive business days at any time after the first 90 days of the Shares being traded on the NYSE;

The Sponsor resigns or is unable to perform its duties or becomes bankrupt or insolvent and the Trustee has not appointed a successor and has not itself agreed to act as sponsor;

The Trustee resigns or is removed and no successor trustee is appointed within 60 days;

The Custodian resigns and no successor custodian is appointed within 60 days;

The sale of all of the Trust's assets;

The Trust fails to qualify for treatment, or ceases to be treated, for US federal income tax purposes, as a grantor trust;  
or

The maximum period for which the Trust is allowed to exist under New York law ends.

Upon the termination of the Trust, the Trustee will, within a reasonable time after the termination of the Trust, sell the Trust's gold and, after paying or making provision for the Trust's liabilities, distribute the proceeds to the Shareholders.

#### Authorized Participants

Baskets may be created or redeemed only by Authorized Participants. Each Authorized Participant must (1) be a registered broker-dealer or other securities market participant such as a bank or other financial institution which is not required to register as a broker-dealer to engage in securities transactions, (2) be a participant in DTC, (3) have entered into an agreement with the Trustee and the Sponsor, or the Participant Agreement, and (4) have established an unallocated gold account with the Custodian, or the Authorized Participant Unallocated Account. The Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of gold and any cash required for such creations or redemptions. A list of the current Authorized Participants can be obtained from the Trustee or the Sponsor.

#### Clearance and settlement

The Shares are evidenced by global certificates that the Trustee issues to DTC. The Shares are available only in book-entry form. Shareholders may hold their Shares through DTC, if they are participants in DTC, or indirectly through entities that are participants in DTC.

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#### Risk Factors

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included or incorporated by reference in this prospectus, including the Trust's financial statements and the related notes.

The value of the Shares relates directly to the value of the gold held by the Trust and fluctuations in the price of gold could materially adversely affect an investment in the Shares.

The Shares are designed to mirror as closely as possible the performance of the price of gold bullion, and the value of the Shares relates directly to the value of the gold held by the Trust, less the Trust's liabilities (including estimated accrued but unpaid expenses). The price of gold has fluctuated widely over the past several years and since the beginning of 2005 it has ranged from a low of \$411.10 on February 8, 2005 to a high of \$725.00 on May 12, 2006, based on the London PM Fix. Several factors may affect the price of gold, including:



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Global gold supply and demand, which is influenced by such factors as forward selling by gold producers, purchases made by gold producers to unwind gold hedge positions, central bank purchases and sales, and production and cost levels in major gold-producing countries such as South Africa, the United States and Australia;

Investors' expectations with respect to the rate of inflation;

Currency exchange rates;

Interest rates;

Investment and trading activities of hedge funds and commodity funds; and

Global or regional political, economic or financial events and situations.

In addition, investors should be aware that there is no assurance that gold will maintain its long-term value in terms of purchasing power in the future. In the event that the price of gold declines, the Sponsor expects the value of an investment in the Shares to decline proportionately.

The Shares may trade at a price which is at, above or below the NAV per Share and any discount or premium in the trading price relative to the NAV per Share may widen as a result of non-concurrent trading hours between the COMEX and the NYSE.

The Shares may trade at, above or below the NAV per Share. The NAV per Share fluctuates with changes in the market value of the Trust's assets. The trading price of the Shares fluctuates in accordance with changes in the NAV per Share as well as market supply and demand. The amount of the discount or premium in the trading price relative to the NAV per Share may be influenced by non-concurrent trading hours between the COMEX division of the New York Mercantile Exchange and the NYSE. While the Shares trade on the NYSE until 4:15 PM New York time, liquidity in the global gold market will be reduced after the close of the COMEX division of the New York Mercantile Exchange at 1:30 PM New York time. As a result, during this time, trading spreads, and the resulting premium or discount, on the Shares may widen.

The sale of gold by the Trust to pay expenses will reduce the amount of gold represented by each Share on an ongoing basis irrespective of whether the trading price of the Shares rises or falls in response to changes in the price of gold.

Each outstanding Share represents a fractional, undivided interest in the gold held by the Trust. The Trust does not generate any income and as the Trust will regularly sell gold over time to pay for its ongoing expenses, the amount of gold represented by each Share will gradually decline over time. This is true even if additional Shares are issued in exchange for additional deposits of gold into the Trust, as the amount of gold required to create Shares will proportionately reflect the amount of gold represented by the Shares outstanding at the time of creation. Assuming a constant gold price, the trading price of the Shares is expected to gradually decline relative to the price of gold as the amount of gold represented by the Shares gradually declines. The Shares will only maintain their original price if the

price of gold increases.

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## Risk Factors

Investors should be aware that the gradual decline in the amount of gold represented by the Shares will occur regardless of whether the trading price of the Shares rises or falls in response to changes in the price of gold. The estimated ordinary operating expenses of the Trust, which accrue daily commencing after the first day of trading of the Shares on the NYSE, are described in the Trust's Annual Report on Form 10-K, incorporated herein by reference.

When the fee reduction terminates or expires, the estimated ordinary expenses payable by the Trust may increase, thus reducing the NAV of the Trust more rapidly and adversely affecting an investment in the Shares.

For seven years from the date of the Trust Indenture or until the earlier termination of the Marketing Agent Agreement, if at the end of any month during this period the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily ANAV of the Trust for such month, the fees payable to the Sponsor and the Marketing Agent from the assets of the Trust for such month will be reduced by the amount of such excess in equal shares up to the amount of their fees. Investors should be aware that, based on most recently audited expenses, if the gross value of the Trust's assets is less than approximately \$500 million, the ordinary expenses of the Trust will be accrued at a rate greater than 0.40% per year of the daily ANAV of the Trust, even after the Sponsor and the Marketing Agent have completely reduced their combined fees of 0.30% per year of the daily ANAV of the Trust. This amount is based on the estimated ordinary expenses of the Trust, which are described in the Trust's Annual Report on Form 10-K and incorporated herein by reference, and may be higher if the Trust's actual ordinary expenses exceed those estimates. Additionally, if the Trust incurs unforeseen expenses that cause the total ordinary expenses of the Trust to exceed 0.70% per year of the daily ANAV of the Trust, the ordinary expenses will accrue at a rate greater than 0.40% per year of the daily ANAV of the Trust, even after the Sponsor and the Marketing Agent have completely reduced their combined fees of 0.30% per year of the daily ANAV of the Trust.

Upon the end of the seven year period or the earlier termination of the Marketing Agent Agreement, the fee reduction will expire and the estimated ordinary expenses of the Trust which are payable from the assets of the Trust each month may be more than they would have been during the period when the fee reduction is in effect, thus reducing the NAV of the Trust more rapidly than if the fee reduction was in effect and adversely affecting the value of the Shares.

The estimated ordinary operating expenses of the Trust, which accrue daily and details on the calculation of the ANAV of the Trust are provided in our Annual Report on Form 10-K, incorporated herein by reference.

The sale of the Trust's gold to pay expenses at a time of low gold prices could adversely affect the value of the Shares.

The Trustee sells gold held by the Trust to pay Trust expenses on an as-needed basis irrespective of then-current gold prices. The Trust is not actively managed and no attempt will be made to buy or sell gold to protect against or to take advantage of fluctuations in the price of gold. Consequently, the Trust's gold may be sold at a time when the gold price is low, resulting in a negative effect on the value of the Shares.

Purchasing activity in the gold market associated with the purchase of Baskets from the Trust may cause a temporary increase in the price of gold. This increase may adversely affect an investment in the Shares.

Purchasing activity associated with acquiring the gold required for deposit into the Trust in connection with the creation of Baskets may temporarily increase the market price of gold, which will result in higher prices for the

Shares. Temporary increases in the market price of gold may also occur as a result of the purchasing activity of other market participants. Other market participants may attempt to benefit from an increase in the market price of gold that may result from increased purchasing activity of gold connected with the issuance of Baskets. Consequently, the market price of gold may decline immediately after Baskets are created. If the price of gold declines, the trading price of the Shares will also decline.

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## Risk Factors

The Sponsor and its management have a limited history of operating an investment vehicle like the Trust.

The Sponsor was expressly formed to be the sponsor of the Trust and the past performances of the Sponsor's management in other positions are no indication of their ability to manage an investment vehicle such as the Trust. If the experience of the Sponsor and its management is not adequate or suitable to manage an investment vehicle such as the Trust, the operations of the Trust may be adversely affected.

The Shares are a relatively new securities product and their value could decrease if unanticipated operational or trading problems arise.

The mechanisms and procedures governing the creation, redemption and offering of the Shares have been developed specifically for this securities product. Consequently, there may be unanticipated problems or issues with respect to the mechanics of the Trust's operations and the trading of the Shares that could have a material adverse effect on an investment in the Shares. In addition, although the Trust is not actively "managed" by traditional methods, to the extent that unanticipated operational or trading problems or issues arise, the Sponsor's past experience and qualifications may not be suitable for solving these problems or issues.

Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act of 1940 or the protections afforded by the Commodity Exchange Act of 1936, or CEA.

The Trust is not registered as an investment company under the Investment Company Act of 1940 and is not required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies. The Trust will not hold or trade in commodity futures contracts regulated by the CEA, as administered by the Commodity Futures Trading Commission, or CFTC. Furthermore, the Trust is not a commodity pool for purposes of the CEA, and none of the Sponsor, the Trustee or the Marketing Agent is subject to regulation by the CFTC as a commodity pool operator or a commodity trading advisor in connection with the Shares. Consequently, Shareholders do not have the regulatory protections provided to investors in CEA-regulated instruments or commodity pools.

The Trust may be required to terminate and liquidate at a time that is disadvantageous to Shareholders.

If the Trust is required to terminate and liquidate, such termination and liquidation could occur at a time which is disadvantageous to Shareholders, such as when gold prices are lower than the gold prices at the time when Shareholders purchased their Shares. In such a case, when the Trust's gold is sold as part of the Trust's liquidation, the resulting proceeds distributed to Shareholders will be less than if gold prices were higher at the time of sale. See the section of the Trust's Annual Report on Form 10-K, incorporated herein by reference, captioned "Description of the Trust Indenture — Termination of the Trust" for more information about the termination of the Trust, including when the termination of the Trust may be triggered by events outside the direct control of the Sponsor, the Trustee or the

Shareholders.

Redemption orders are subject to postponement, suspension or rejection by the Trustee under certain circumstances.

The Trustee may, in its discretion, and will when directed by the Sponsor, suspend the right of redemption or postpone the redemption settlement date, (1) for any period during which the NYSE is closed other than customary weekend or holiday closings, or trading on the NYSE is suspended or restricted, (2) for any period during which an emergency exists as a result of which the delivery, disposal or evaluation of gold is not reasonably practicable, or (3) for such other period as the Sponsor determines to be necessary for the protection of Shareholders. In addition, the Trustee will reject a redemption order if the order is not in proper form as described in the Participant Agreement or if the fulfillment of the order, in the opinion of its counsel, might be unlawful. Any such postponement, suspension or rejection could adversely affect a redeeming Shareholder. For example, the resulting delay may adversely affect the value of the Shareholder's redemption distribution if the

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## Risk Factors

price of the Shares declines during the period of the delay. See the Trust's Annual Report on Form 10-K, incorporated herein by reference. Under the Trust Indenture, the Sponsor and the Trustee disclaim any liability for any loss or damage that may result from any such suspension or postponement.

The operations of the Trust and the Sponsor have been dependent on support from the WGC. This support may not be available in the future and, if such support is not available, the operations of the Trust may be adversely affected.

The Sponsor is a subsidiary of the WGC, a not-for-profit association that represents members of the gold mining industry through international marketing programs directed at stimulating demand for gold in all forms. Prior to the inception of the Trust, the expenses of the Sponsor, including expensed associated with the establishment of the Trust and the initial offering of the Shares, were underwritten by WGC.

The WGC's members determine the financial plan of the WGC and the WGC has provided \$3 million in funding to cover the estimated ordinary expenses of the Sponsor for 2006. The WGC's members may not fund the WGC or the Sponsor thereafter or such funding may not be adequate. If the WGC limits or ends its support of the Sponsor for any reason, the operations of the Trust and an investment in the Shares may be adversely affected. The lack of such funding could adversely affect the ability of the Sponsor to support the Trust.

Shareholders do not have the rights enjoyed by investors in certain other vehicles.

As interests in an investment trust, the Shares have none of the statutory rights normally associated with the ownership of shares of a corporation (including, for example, the right to bring "oppression" or "derivative" actions). In addition, the Shares have limited voting and distribution rights (for example, Shareholders do not have the right to elect directors and will not receive dividends). See "Description of the Shares" for a description of the limited rights of holders of Shares.

An investment in the Shares may be adversely affected by competition from other methods of investing in gold.

The Trust has been in existence since November 2004, and thus is a relatively new type of investment vehicle. It competes with other financial vehicles, including traditional debt and equity securities issued by companies in the gold industry and other securities backed by or linked to gold, direct investments in gold and investment vehicles similar to

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the Trust. Market and financial conditions, and other conditions beyond the Sponsor's control, may make it more attractive to invest in other financial vehicles or to invest in gold directly, which could limit the market for the Shares and reduce the liquidity of the Shares.

Crises may motivate large-scale sales of gold which could decrease the price of gold and adversely affect an investment in the Shares.

The possibility of large-scale distress sales of gold in times of crisis may have a short-term negative impact on the price of gold and adversely affect an investment in the Shares. For example, the 1998 Asian financial crisis resulted in significant sales of gold by individuals which depressed the price of gold. Crises in the future may impair gold's price performance which would, in turn, adversely affect an investment in the Shares.

Substantial sales of gold by the official sector could adversely affect an investment in the Shares.

The official sector consists of central banks, other governmental agencies and multi-lateral institutions that buy, sell and hold gold as part of their reserve assets. The official sector holds a significant amount of gold, most of which is static, meaning that it is held in vaults and is not bought, sold, leased or swapped or otherwise mobilized in the open market. A number of central banks have sold portions of their gold over the past 10 years, with the result that the official sector, taken as a whole, has been a net supplier to the open market. Since 1999, most sales have been made in

	<b>2004</b>	<b>2003</b>
Audit Fees		
\$		73
\$		60
Audit-related Fees (1)		0
		95
Tax Fees (2)		12
		10
All Other Fees		0
		13



**The Board Of Directors Recommends  
A Vote In Favor Of Proposal 2.**

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**Security Ownership Of  
Certain Beneficial Owners And Management**

The following table sets forth certain information regarding the ownership of the Company's common stock as of January 10, 2005 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its common stock. The address for each of the persons and entities set forth below is c/o SBE, Inc., 2305 Camino Ramon, Suite 200, San Ramon, California 94583.

Beneficial Owner	Beneficial Ownership (1)	
	Number of Shares	Percent of Total(2)
AIGH Investment Partners LLC 6006 Berkeley Avenue Baltimore, MD 21209	293,120	5.7%
Meadowbrook Opportunity Fund LLC 520 Lake Cook Road, Suite 690 Deerfield, IL 60015	289,800	5.6%
Mr. Daniel Grey (3)	375,001	6.7%
Mr. William B. Heye, Jr. (3)(4)	416,763	7.5%
Mr. John Reardon (3)	25,000	*
Mr. Ronald J. Ritchie (3)	35,000	*
Mr. Marion M. (Mel) Stuckey (3)	25,000	*
Mr. Kirk Anderson (3)	137,001	2.6%
Mr. David Brunton (3)	264,000	4.9%
Ms. Yee-Ling Chin (3)	50,000	1.0%
Mr. Ignacio Munio (3)	299,825	5.5%
All executive officers and directors as a group (9 persons) (3)	1,627,500	24.4%

\* Less than one percent.

(1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G, if any, filed with the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.



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- (2) Applicable percentages are based on 5,159,722 shares outstanding on January 10, 2005, adjusted as required by rules promulgated by the SEC.
  - (3) Includes 375,001, 415,000, 25,000, 20,000, 25,000, 137,001, 195,000, 50,000, and 278,945 shares that Messrs. Grey, Heye, Reardon, Ritchie, Stuckey, Anderson and Brunton, Ms. Chin and Mr. Munio, respectively, have the right to acquire within 60 days after the date of this table under the Company's option plans.
  - (4) Includes 50 shares held by Joan G. Heye, the wife of Mr. Heye.
-

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended October 31, 2004, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

### **Compensation of Directors**

Each non-employee director of the Company receives an annual retainer of \$30,000, payable monthly in arrears. The Chairman of the Board receives an annual retainer of \$45,000, payable monthly in arrears. No director has been entitled to receive a per-meeting fee since March 2004, when the Company's director compensation policy was revised to eliminate such fees and replace them with the annual retainers described above. In the fiscal year ended October 31, 2004, the total compensation paid to non-employee directors was \$131,017. The members of the Board are also eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with Company policy.

Each non-employee director of the Company also receives stock option grants under the 2001 Non-Employee Directors' Stock Option Plan (which shall be referred to as the "Directors' Plan"). Only non-employee directors of the Company are eligible to receive options under the Directors' Plan. Options granted under the Directors' Plan do not qualify as incentive stock options under the Internal Revenue Code. Option grants under the Directors' Plan are non-discretionary. Upon a non-employee director's initial appointment or election to the Board, he or she is automatically granted an option to purchase 15,000 shares of common stock of the Company under the Directors' Plan. On April 1 of each year (or the next business day if that date is a legal holiday), each non-employee director is automatically granted an additional option to purchase 10,000 shares of common stock of the Company under the Directors' Plan. No other options may be granted at any time under the Directors' Plan. The exercise price of options granted under the Directors' Plan is 100% of the fair market value of the common stock subject to the option on the date of the option grant. Options granted under the Directors' Plan may not be exercised until the date upon which the optionee (or the affiliate of the optionee) has provided one year of continuous service as a non-employee director following the date of grant of such option, at which point 100% of the option becomes exercisable. The options will fully vest upon a change of control, as defined in the Directors' Plan, unless the acquiring company assumes the options or substitutes similar options. The term of options granted under the Directors' Plan is seven years.

During the last fiscal year, the Company granted options covering 60,000 shares to non-employee directors of the Company, at an exercise price per share of \$5.50. The fair market value of such common stock on the date of grant was \$5.50 per share (based on the closing sales price reported on the Nasdaq National Market for the date of grant). As of the date of this proxy statement, no options had been exercised under the Directors' Plan.

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## Compensation of Executive Officers

### Summary of Compensation

The following table shows for the fiscal years ended October 31, 2002, 2003 and 2004, compensation awarded or paid to, or earned by, the Company's Chief Executive Officer and its other four most highly compensated executive officers at October 31, 2004 (the "Named Executive Officers"):

### Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			All Other Compensation (\$)(2)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Restricted Stock Awards (\$)	Securities Underlying Options (#)		
Mr. William B. Heye, Jr. President and Chief Executive Officer(3)	2004	250,000	--	4,968	--	125,000	6,000	
	2003	238,028	1,000	4,968	--	--	5,100	
	2002	233,861	171,013	(1,425)	--	100,000	5,000	
Mr. David Brunton Vice President, Finance and Chief Financial Officer	2004	167,500	--	541	--	25,000	4,875	
	2003	140,000	--	444	--	--	4,200	
	2002	140,000	--	151	--	170,000	4,200	
Mr. Ignacio C. Munio Vice President, Engineering	2004	175,000	25,000	1,099	85,800 <sup>(4)</sup>	--	5,250	
	2003	70,335	62,000	245	--	50,000	2,110	
	2002	--	--	--	--	--	--	
Mr. Daniel Grey Vice President, Sales(5)	2004	200,904	--	4,052	--	25,000	6,000	
	2003	200,004	--	4,051	--	--	3,500	
	2002	200,004	30,000	3,994	--	170,000	5,100	
Mr. Kirk Anderson Vice President, Operations	2004	130,000	--	263	--	--	3,828	
	2003	110,297	--	175	--	--	3,500	
	2002	108,598	--	327	--	100,000	5,100	

(1) Includes \$4,968, \$541, \$269, \$452 and \$263 attributable in fiscal 2004 to Messrs. Heye, Brunton, Munio, Grey and Anderson, \$4,968, \$444, \$245, \$451 and \$175 attributable in fiscal 2003 to Messrs. Heye, Brunton, Munio, Grey and Anderson, and \$1,007, \$151, \$394 and \$327 attributable in fiscal 2002 to Messrs. Heye, Brunton, Grey and Anderson, respectively, for premiums paid by the Company for group term life insurance. Also includes \$2,431 paid to the Company by Mr. Heye in fiscal 2002 for group term life insurance. Also includes \$3,600 attributable in each of fiscal 2004, 2003 and 2002 to Mr. Grey for an automobile allowance.

(2) The sum for each Named Executive Officer was paid by the Company as matching and profit sharing contributions to the Company's Savings and Investment Plan and Trust.

- (3) Mr. Heye retired on December 31, 2004.
- (4) See "Certain Transactions" for a description of the agreement under which Mr. Munio received shares of the Company's Common Stock.
- (5) Mr. Grey became President and Chief Executive Officer effective January 1, 2005.

### Stock Option Grants And Exercises

The Company grants options to its executive officers under its 1996 Stock Option Plan (the "1996 Plan"). As of January 1, 2005, options to purchase a total of 1,534,666 shares were outstanding under the 1996 Plan and 538,516 shares remained available for grant under the plan. Options granted under the 1996 Plan during the year ended October 31, 2004 vest over a 3 to 4 year period, 25% to 33% after one year and 2% to 3% monthly thereafter. The options will fully vest upon a change of control, as defined in the 1996 Plan, unless the acquiring company assumes the options or substitutes similar options. The term of options granted under the 1996 Plan is generally seven years. The following tables show for the fiscal year ended October 31, 2004, certain information regarding options granted to, exercised by and held at year end by the Named Executive Officers:

#### Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
		% of Total Options Granted to Employees in Fiscal Year(2)	Exercise Or Base Price (\$/Sh)	Expiration Date	5% (\$)	10% (\$)
Mr. William Heye	125,000	15%	4.45	4/12/2011	226,450	527,724
Mr. David Brunton	25,000	3%	4.45	4/12/2011	45,289	105,545
Mr. Ignacio C. Munio	50,000	6%	7.13	12/9/2010	145,131	338,218
Mr. Daniel Grey	25,000	3%	4.45	4/12/2011	45,289	105,545
Mr. Kirk Anderson	--	--%	--	--	--	--

(1) The potential realizable value is based on the term of the option at the time of grant. It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. These amounts represent certain assumed rates of appreciation only, in accordance with the rules of the SEC, and do not reflect the Company's estimate or projection of future stock price performance or take into account any taxes that may be payable in connection with the transaction. Actual gains, if any, are dependent on the actual future performance of the Company's common stock and no gain to the optionee is possible unless the stock price increases after the date of grant, which increase, if any, would benefit all stockholders.

**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

<b>Name</b>	<b>Shares Acquired on Exercise (#)</b>	<b>Value Realized (\$)(1)</b>	<b>Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/Unexercisable(2)(3)</b>	<b>Value of Unexercised In-the-Money Options at Fiscal Year-End (\$) Exercisable/Unexercisable(2)(4)</b>
Mr. William Heye	35,000	212,450	250,000/125,000	203,100/--
Mr. David Brunton	--	--	170,000/25,000	383,700/--
Mr. Ignacio C. Munio	--	--	--/50,000	--/--
Mr. Daniel Grey	--	--	240,310/34,690	308,977/5,523
Mr. Kirk Anderson	16,000	80,674	138,167/334	237,100/--

(1) Value realized is based on the fair market value of the Company's common stock on the date of exercise minus the exercise price without taking into account any taxes that may be payable in connection with the transaction.

(2) Reflects shares vested and unvested at October 31, 2004.

(3) Includes both "in the money" and "out of the money" options. "In the money" options are options with exercise prices below the market price of the Company's common stock at October 31, 2004 (\$3.19).

(4) Fair market value of the Company's common stock at October 31, 2004 (\$3.19) minus the exercise price of the options.

**Severance and Change of Control Agreements**

Effective December 31, 2004, William B. Heye, Jr. resigned from his position as President and Chief Executive Officer of the Company. In connection with Mr. Heye's retirement, and Mr. Heye's execution of a customary release of claims, the Company agreed to pay him severance in the amount of \$250,000, less legally required withholdings and deductions, and to grant him an option to purchase 75,000 shares of the Company's common stock at an exercise price of \$4.00 per share, which option shall vest on a monthly basis from February 1, 2005 through March 31, 2006 (or the date of the 2006 annual meeting of stockholders, if earlier). The severance amount will be paid in the form of continuing base salary payments, paid in equal semi-monthly installments over a twelve month period on the Company's customary payroll payment dates.

The Company has entered into an Executive Severance Benefits Agreement with Messrs. Grey, Brunton, Munio and Anderson. Each agreement provides that if the Company engaged in a change in control transaction (as defined in such agreement) and the individual's employment with the Company or its successor is terminated by the employer without cause (as defined in such agreement), or the individual resigns for good reason (as defined in such agreement) within six months after such change in control, the vesting of such individual's options to purchase Company common stock will vest in full, subject to execution of a customary release of claims. In addition, in such event, also subject to execution of a customary release of claims, Messrs. Grey, Brunton and Munio would be entitled to receive (1) an amount equal to six months of the executive's base salary (as then in effect) paid in equal monthly installments over the six months following the termination and (2) the pro-rata share of any bonus to which that executive would have been entitled had that executive's employment with the Company continued. The Company has entered into an agreement with Ms. Yee-Ling Chin pursuant to which the Company agreed to pay Ms. Chin an amount equal to four

months of her salary as severance for any termination of her employment other than for cause.

**Report of the Compensation Committee of the Board of Directors on Executive Compensation<sup>2</sup>**

The Compensation Committee of the Board is responsible for the administration of the compensation programs in effect for the Company's executive officers. The Compensation Committee currently consists of John Reardon, Ronald J. Ritchie and Marion M. (Mel) Stuckey, none of whom is an employee of the Company. The compensation programs have been designed to ensure that the compensation paid to the executive officers is substantially linked to both Company and individual performance. Accordingly, a significant portion of the compensation for which an executive officer is eligible is comprised of variable components based upon individual achievement and Company performance measures.

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<sup>2</sup>The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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*Executive Compensation Principles*

The design and implementation of the Company's executive compensation programs are based on a series of general principles. These principles may be summarized as follows:

- Align the interests of management and stockholders to build stockholder value by the encouragement of consistent, long-term Company growth.
  - Attract and retain key executive officers essential to the long-term success of the Company;
- Reward executive officers for long-term corporate success by facilitating their ability to acquire an ownership interest in the Company;
- Provide direct linkage between the compensation payable to executive officers and the Company's attainment of annual and long-term financial goals and targets; and
  - Emphasize reward for performance at the individual and corporate level.

*Components of Executive Compensation in Fiscal 2004*

For fiscal 2004, the Company's executive compensation programs included the following components:

- Base Salary;
- Cash Bonus;
- Long-Term Incentives; and
- Benefits and Perquisites

*Base Salary*

The base salary for each executive officer is determined on the basis of individual performance, the functions performed by the executive officer and the scope of the executive officer's ongoing responsibilities, and the salary levels in effect for comparable positions based on information provided by the compensation surveys referenced above and comparator information. The weight given to each of these factors varies from individual to individual. In general, base salary is designed primarily to be competitive within the relevant industry and geographic market.

Each executive officer's base salary is reviewed annually to ensure appropriateness, and increases to base salary are made to reflect competitive market increases and individual factors. Company performance does not play a significant role in the determination of base salary.

*Cash Bonus*

The Company's Management Incentive Plan provides for the funding of a bonus pool based upon a predetermined increase in cash flow from operations. Executive officers are eligible to receive cash performance bonuses ranging from 30% to 50% of their salary. In fiscal 2005, no executive officer received a cash bonus under this plan. Additionally, each officer is eligible to participate in the Company's Savings and Investment Plan and Trust and receive matching and profit sharing contributions as determined by the Board.

*Long-Term Incentives*

Long-term incentives are provided through stock option grants. These option grants are intended to motivate the executive officers to manage the business to improve long-term Company performance. Customarily, option grants are made with exercise prices equal to the market price of the shares on the date of grant and will be of no value unless the market price of the Company's outstanding common shares appreciates, thereby aligning a substantial part of the executive officer's compensation package with the return realized by the stockholders.

The size of each option grant is designed to create a meaningful opportunity for stock ownership and is based upon several factors, including relevant information contained in the compensation surveys described above, an assessment of the option grants of comparable companies and the individual performance of each executive officer. Each option grant allows the executive officer to acquire shares of the Company's common stock at a fixed price per share (customarily the market price on the grant date) over a specified period of time (customarily seven years). The option generally vests in equal installments over a period of three to four years, contingent upon the executive officer's continued employment with the Company. Accordingly, the option will provide a return to the executive officer only if the executive officer remains employed by the Company and the market price of the underlying shares appreciates over the option term.

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In fiscal 2004, the committee granted stock options to the Named Executive Officers as set forth in the table above entitled "Option Grants in Last Fiscal Year." The committee believes that stock options, particularly incentive stock options, encourage long-term Company stock ownership, and therefore that such grants are in the best interests of the Company and its stockholders.

*Benefits and Perquisites*

The benefits and perquisites component of executive compensation is generally similar to that which is offered to all of the Company's employees or that are typical in the industry for an executive's position or circumstances.

*Chief Executive Officer (CEO) Compensation*

In setting the compensation payable to the Chief Executive Officer, the goal is to provide compensation competitive with other companies in the industry while at the same time making a significant percentage of the Chief Executive Officer's potential earnings subject to consistent, positive, long-term Company performance. In general, the factors utilized in determining the Chief Executive Officer's compensation were similar to those applied to the other executive officers in the manner described in the preceding paragraphs.

Members of the Compensation Committee

John Reardon (Chairman)  
Ronald J. Ritchie  
Marion M. (Mel) Stuckey

**Compensation Committee Interlocks and Insider Participation**

As noted above, during the fiscal year ended October 31, 2004, the Compensation Committee consisted of Messrs. Reardon, Ritchie and Stuckey. None of these non-employee directors has any interlocking or other type of relationship that would call into question his independence as a Compensation Committee member.

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### **Performance Measurement Comparison<sup>3</sup>**

The following graph shows the total stockholder return of an investment of \$100 in cash on October 31, 1999 for (i) the Company's common stock, (ii) the Total Return for the Nasdaq Stock Market (United States companies) ("Nasdaq Stock Market") and (iii) the Nasdaq Telecommunications Index ("Nasdaq Telecommunications"). All values assume reinvestment of the full amount of all dividends and are calculated as of October 31 of each year:

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<sup>3</sup>The material in this section is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### Certain Transactions

In November 1998, the Company amended a stock option that entitled William B. Heye, Jr., the Company's President and Chief Executive Officer, to acquire 139,400 shares of the Company's common stock at \$4.25 per share to provide that such option could be exercised pursuant to a deferred payment alternative. Thereafter, Mr. Heye exercised such option pursuant to the deferred payment alternative, with a net value realized (the difference between the exercise price and the fair market value of such shares, based on the closing sales price reported on the Nasdaq National Market for the date of exercise) of \$331,075. In connection with such exercise, Mr. Heye borrowed \$743,950 from the Company, an amount equal to the sum of the exercise price for such option and certain taxes payable by Mr. Heye upon such exercise. Such loan was evidenced by a full recourse promissory note in the amount of \$743,950, the payment of which is secured by all shares of the Company's common stock (including after-acquired shares) held by Mr. Heye. In October 2000, the Board extended the term of the note to November 2001. In December 2001, the Board amended, restated and consolidated the note to extend the term of the note to December 2003 and to require certain mandatory repayments of principal of between \$25,000 to \$100,000 each year while the note is outstanding. Such loan bore interest at a rate of 2.48% per annum, with interest payments due annually and the entire principal amount due in December 2003. Such loan was repaid in full by Mr. Heye prior to the due date.

The Company has entered into indemnity agreements with certain officers and directors that provide, among other things, that the Company will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he may be required to pay in actions or proceedings to which he is or may be made a party by reason of his position as a director, officer or other agent of the Company, and otherwise to the full extent permitted under Delaware law and the Company's Certificate of Incorporation, as amended, and the Company's By-Laws.

The Company compensates its directors as described under "Compensation of Directors" above. The Company compensated its named executive officers in fiscal 2004 as described under "Compensation of Executive Officers" above. Yee-Ling Chin, the Company's only other executive officer, received a salary of \$120,000 in respect of fiscal 2004. The Company's executive officers currently receive annual salaries at the following rates:

Daniel Grey	\$ 200,000
David Brunton	\$ 170,000
Ignacio Munio	\$ 175,000
Kirk Anderson	\$ 130,000
Yee-Ling Chin	\$ 120,000

In addition to salary, each of the Company's executive officers is eligible to receive a bonus pursuant to the Company's Management Incentive Plan, which is described under "Report of the Compensation Committee of the Board of Directors on Executive Compensation" above, and stock option and other grants as may be made in the sole discretion of the Compensation Committee. Mr. Grey was granted an option to purchase 100,000 shares, effective January 1, 2005, in connection with his promotion to Chief Executive Officer. Mr. Munio was also granted an option to purchase 200,000 shares, effective January 1, 2005. The options vest over four years, have a term of seven years and have an exercise price of \$4.00 per share, the fair market value of one share of the Company's common stock on the date of grant. The Company has entered into severance and change in control arrangements with its executive officers as described under "Severance and Change in Control Arrangements" above.

Mr. Munio was hired by the Company in connection with the Company's acquisition of assets of Antares Microsystems, Inc. In connection with such acquisition, the Company entered into a letter agreement with Mr. Munio providing that Mr. Munio would be entitled to: (a) a total cash incentive bonus of \$105,000, \$80,000 of which was paid in August 2003 and \$25,000 of which was paid in January 2004; (b) a total of 98,945 shares of the Company's common stock, 30,000 of which was issued in fiscal 2004, 20,000 of which was issued in December 2004 and 30,000

of which will be issued during the remainder of fiscal 2005; (c) after the fiscal quarter in which the Company has shipped an aggregate of \$200,000 of the TCP/IP offload product acquired in the Antares transaction (the "TOE Product"), \$15,833 for each quarter in which the Company ships at least \$150,000 of the TOE Product, up to a maximum aggregate payment to Mr. Munio of \$190,000; and (d) for each \$1,000,000 of TOE Products shipped, a payment of either \$47,500 in cash or a stock bonus of 22,511 shares of the Company's Common Stock, to be determined by the Company, up to a maximum aggregate payment of \$237,500. To date, the Company has not shipped any TOE Product.

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### **Householding of Proxy Materials**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are SBE, Inc. stockholders will be "householding" our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your broker or direct your written request to the Secretary of the Company at 2305 Camino Ramon, Suite 200, San Ramon, California 94583. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request "householding" of their communications should contact their broker.

### **Other Matters**

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

**/s/ David W. Brunton**

David W. Brunton  
Secretary

February 15, 2005

**A copy of the Company's Annual Report filed with the SEC on Form 10-K for the fiscal year ended October 31, 2004 is available without charge upon written request to: Corporate Secretary, SBE, Inc., 2305 Camino Ramon, Suite 200, San Ramon, California 94583.**

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**Appendix A**

**SBE, INC.**

**CHARTER OF THE AUDIT COMMITTEE**

**OF THE BOARD OF DIRECTORS**

**STATEMENT OF POLICY**

This Charter specifies the scope of the responsibilities of the Audit Committee (the "*Committee*") of the Board of Directors (the "*Board*") of SBE, Inc. (the "*Company*") and the manner in which those responsibilities shall be performed, including its structure, processes and membership requirements.

The primary purpose of the Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the Company's financial statements, and otherwise assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to any governmental body or to the public. The Committee will also review the qualifications, independence and performance, and approve the terms of engagement, of the Company's independent auditor, and prepare any reports required of the Committee under applicable law, the rules and regulations of the Securities and Exchange Commission ("*SEC*") or the listing requirements of the Nasdaq Stock Market (collectively, "*Applicable Law*"). Further, the Committee will recommend codes of conduct and codes of ethics applicable to the Company and will oversee the performance of the Company's internal audit function and legal compliance requirements.

The Company will provide appropriate funding, as determined by the Committee, to permit the Committee to perform its duties under this Charter, to compensate its advisors and to compensate any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Committee, at its discretion, has the authority to initiate special investigations and hire special legal, accounting or other outside advisors or experts to assist the Committee, as it deems necessary, in fulfilling its duties under this Charter. The Committee may also perform such other activities consistent with this Charter, the Company's Bylaws and Applicable Law, as the Committee or the Board deems necessary or appropriate.

**ORGANIZATION AND MEMBERSHIP REQUIREMENTS**

The Committee will be comprised of three or more directors, each of whom will satisfy the independence, experience and financial literacy requirements of any Applicable Law. In addition, the Committee will not include any member who:

- directly or indirectly accepts any consulting, advisory, or other compensatory fee from the Company, other than in his or her capacity as a member of the Committee, the Board, or any other committee of the Board; or
- (i) is an executive officer of the Company, (ii) beneficially owns or controls, directly or indirectly, 10% or more of any class of the Company's equity securities, or (iii) otherwise is an affiliated person of the Company or any subsidiary of the Company, other than a director who meets the independence requirements of any Applicable Law.

Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement, to the extent required by Applicable Law. In addition, for so long as required by Applicable Law, at least one member shall have past employment experience in finance or accounting, professional certification in accounting, or other comparable experience or background resulting in the

individual being financially sophisticated, which may include being or having been a chief executive, chief financial or other senior officer with financial oversight responsibilities.

If deemed necessary or appropriate from time to time by the Board, at least one member will be an audit committee financial expert as determined by the Board in accordance with the rules and regulations of the SEC.

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The members of the Committee will be appointed by the Board on the recommendation of the Nominating and Governance Committee and will serve until their successors are duly elected and qualified or their earlier resignation or removal. Any member of the Committee may be removed or replaced by the Board on the recommendation of the Nominating and Governance Committee. Unless a chairman is elected by the full Board, the members of the Committee may designate a chairman by majority vote of the full Committee membership.

## **MEETINGS**

The Committee will meet as often as it determines, but not less frequently than quarterly or as required by Applicable Law. The Committee may form and delegate authority to subcommittees, or to one or more members of the Committee, when appropriate. The Committee will meet with management and the independent auditor in separate executive sessions, in each case as appropriate. The Committee will meet with the independent auditor and management on a quarterly basis to review the Company's financial statements and financial reports. The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

A majority of the members will represent a quorum of the Committee, and, if a quorum is present, any action approved by a majority of the members present will represent the valid action of the Committee.

## **COMMITTEE AUTHORITY AND RESPONSIBILITIES**

To fulfill its responsibilities and duties, the Committee will, in each case to the extent required by Applicable Law or otherwise deemed advisable by the Committee:

### **Oversight of the Company's Independent Auditor**

Be directly and solely responsible for the appointment, compensation, retention and oversight of any independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) engaged by the Company for the purpose of preparing or issuing an audit report or related work, with each such auditor reporting directly to the Committee.

Periodically review and discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as amended.

Annually review and discuss any formal written statements received from the independent auditor consistent with and in satisfaction of Independence Standards Board Standard No. 1, as amended, including without limitation, descriptions of (x) all relationships between the auditor and the Company, (y) any disclosed relationships or services that may impact the independent auditor's objectivity and independence, and (z) whether any of the Company's senior finance personnel were recently employed by the independent auditor.

Approve in advance the engagement of the independent auditor for all audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement; *provided, however*, that, except as otherwise required by Applicable Law, (i) the Committee may establish pre-approval policies and procedures for any engagement to render such services, provided that such policies and procedures (x) are detailed as to particular services, (y) do not involve delegation to management of the Committee's responsibilities hereunder, and (z) provide that, at its next scheduled meeting, the Committee is informed as to each such service for which the independent auditor is engaged pursuant to such policies and procedures, and (ii) the Committee may delegate to one or more members of the Committee the authority to grant pre-approvals for such services, provided that (a) the decisions of such member(s) to grant any such pre-approvals shall be presented to the Committee at its next scheduled meeting, and (b) the Committee has established policies and procedures for such



pre-approval of services consistent with the requirements of subsections (x) and (y) above.

Meet with the independent auditor prior to the audit to discuss the planning of the audit.

Approve as necessary the termination of the engagement of the independent auditor.

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Review with the independent auditor any significant difficulties encountered during the course of the audit or otherwise, as appropriate, any restrictions on the scope of work or access to required information and any significant disagreement among management and the independent auditor in connection with the preparation of the financial statements, in each case as reported by the independent auditor. Receive from and review with the independent auditor any accounting adjustments that were noted or proposed by the auditor but that were "passed" (as immaterial or otherwise), any "management" or "internal control" letter or schedule of unadjusted differences issued, or proposed to be issued, by the auditor to the Company, or any other material written communication provided by the auditor to the Company's management.

Review with the independent auditor the critical accounting policies and practices used by the Company, all alternative treatments of financial information within generally accepted accounting principles ("*GAAP*") that the independent auditor has discussed with management, and the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.

### **Review of Financial Reporting, Policies and Processes**

Review and, to the extent deemed appropriate by the Committee, discuss with management and the independent auditor the Company's annual audited financial statements and any certification, report, opinion or review rendered by the independent auditor.

Review and, to the extent deemed appropriate by the Committee, discuss with management and the independent auditor the Company's quarterly financial statements.

Review and, to the extent deemed appropriate by the Committee, discuss earnings press releases and other press releases that contain material financial information.

Periodically meet separately with management and with the independent auditor, as deemed appropriate by the Committee.

Review with management on a quarterly basis its assessment of the effectiveness and adequacy of the Company's internal control structure and procedures for financial reporting ("*Internal Controls*").

Review annually with the independent auditor any attestation to and report on the assessment made by management, and consider with management and the independent auditor whether any changes to the Internal Controls are appropriate in light of management's assessment or any such independent auditor's attestation.

Receive reports from the independent auditor concerning, and review with management to the extent deemed appropriate by the Committee, the effect of regulatory and accounting initiatives on the financial statements of the Company.

Consider and approve, if deemed appropriate by the Committee, changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor or management.

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**Risk Management, Related Party Transactions, Legal Compliance and Ethics**

Review with the chief executive officer and principal financial officer of the Company any report on significant deficiencies in the design or operation of the Internal Controls that could adversely affect the Company's ability to record, process, summarize or report financial data, any material weaknesses in Internal Controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's Internal Controls.

As requested by the Board or to the extent required by Applicable Law, review and approve any "related-party transactions."

Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Adopt, as necessary, appropriate remedial measures or actions with respect to such complaints or concerns.

Receive from and discuss with management and the independent auditor any correspondence with regulators or governmental agencies that raises material issues regarding the Company's financial statements or accounting policies.

Prepare the audit committee report required by the rules of the SEC to be included in the Company's annual proxy statement.

Report to the Board on the Committee's activities, recommendations and conclusions, as deemed appropriate by the Committee.

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**ANNUAL MEETING OF STOCKHOLDERS OF**

**SBE, INC.**

**March 22, 2005**

**Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.**

Please detach along perforated line and mail in the envelope provided.

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES FOR DIRECTOR  
LISTED BELOW AND FOR PROPOSAL 2.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE  
MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

1. To elect two directors to hold office until the  FOR  AGAINST  ABSTAIN  
2008 Annual Meeting of Stockholders and until 2. To ratify selection of BDO  o  o  
their successors are elected and duly qualified. Seidman, LLP as the Company's  
independent auditors for the fiscal  
year ending October 31, 2005.

**NOMINEES:**

FOR ALL  mRonald R. Ritchie  
NOMINEES  
 WITHHOLD  mDaniel Grey

AUTHORITY FOR  
ALL  
NOMINEES

FOR ALL EXCEPT  
(See instructions below)

**INSTRUCTION:** To withhold authority to vote  
for any individual nominee(s), mark "**FOR ALL  
EXCEPT**" and fill in the circle next to each  
nominee you wish to withhold, as shown here:

To change the address on your account, please  
check the box at right and indicate your new  
address in the address space above. Please note

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that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of  
Stockholder

Date

Signature of  
Stockholder

Date

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**PROXY**

**SBE, INC.**

**PROXY SOLICITED BY THE BOARD OF DIRECTORS  
FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MARCH 22, 2005**

The undersigned hereby appoints DAN GREY and DAVID W. BRUNTON, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of SBE, Inc. that the undersigned may be entitled to vote at the Annual Meeting of Stockholders of SBE, Inc. to be held at 2305 Camino Ramon, Suite 200, San Ramon, California, on Tuesday, March 22, 2005 at 9:00 a.m. (local time), and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, with discretionary authority as to any and all other matters that may properly come before the meeting. **UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2, AS MORE SPECIFICALLY DESCRIBED IN THE PROXY STATEMENT. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.**

**(Continued and to be signed on the reverse side)**

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