

United States 12 Month Oil Fund, LP  
Form 10-Q  
November 12, 2013

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2013.**

**OR**

**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: 001-33859**

**United States 12 Month Oil Fund, LP**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**26-0431897**  
(I.R.S. Employer  
Identification No.)

**1999 Harrison Street, Suite 1530**  
**Oakland, California 94612**  
(Address of principal executive offices) (Zip code)

**(510) 522-9600**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

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Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

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. Condensed Financial Statements.**

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*United States 12 Month Oil Fund, LP*  
*Condensed Statements of Financial Condition*  
*At September 30, 2013 (Unaudited) and December 31, 2012*

	September 30, 2013		December 31, 2012	
<b>Assets</b>				
Cash and cash equivalents (Notes 2 and 5)	\$	73,975,422	\$	86,708,443
Equity in UBS Securities LLC trading accounts:				
Cash and cash equivalents		477,584		11,533,441
Unrealized gain on open commodity futures contracts		3,569,720		1,556,910
Dividend receivable		1,285		2,669
Other assets		3,613		83,430
<b>Total assets</b>	<b>\$</b>	<b>78,027,624</b>	<b>\$</b>	<b>99,884,893</b>
<b>Liabilities and Partners' Capital</b>				
Professional fees payable	\$	242,084	\$	302,530
General Partner management fees payable (Note 3)		39,769		49,895
Brokerage commissions payable		2,762		3,642
Other liabilities		6,153		7,044
<b>Total liabilities</b>		<b>290,768</b>		<b>363,111</b>
<b>Commitments and Contingencies (Notes 3, 4 and 5)</b>				
<b>Partners' Capital</b>				
General Partner				
Limited Partners		77,736,856		99,521,782
<b>Total Partners' Capital</b>		<b>77,736,856</b>		<b>99,521,782</b>
<b>Total liabilities and partners' capital</b>	<b>\$</b>	<b>78,027,624</b>	<b>\$</b>	<b>99,884,893</b>
Limited Partners' units outstanding		1,800,000		2,500,000
Net asset value per unit	\$	43.19	\$	39.81
Market value per unit	\$	43.17	\$	39.67

*See accompanying notes to condensed financial statements.*

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*United States 12 Month Oil Fund, LP*  
*Condensed Schedule of Investments (Unaudited)*  
*At September 30, 2013*

	Number of Contracts	Unrealized Gain (Loss) on Open Commodity Contracts	% of Partners' Capital
Open Futures Contracts - Long			
United States Contracts			
NYMEX WTI Crude Oil Futures CL November 2013 contracts, expiring October 2013	67	\$536,190	0.69
NYMEX WTI Crude Oil Futures CL December 2013 contracts, expiring November 2013	66	594,130	0.77
NYMEX WTI Crude Oil Futures CL January 2014 contracts, expiring December 2013	66	520,580	0.67
NYMEX WTI Crude Oil Futures CL February 2014 contracts, expiring January 2014	66	349,700	0.45
NYMEX WTI Crude Oil Futures CL March 2014 contracts, expiring February 2014	66	158,740	0.20
NYMEX WTI Crude Oil Futures CL April 2014 contracts, expiring March 2014	66	498,800	0.64
NYMEX WTI Crude Oil Futures CL May 2014 contracts, expiring April 2014	66	354,690	0.46
NYMEX WTI Crude Oil Futures CL June 2014 contracts, expiring May 2014	66	282,110	0.36
NYMEX WTI Crude Oil Futures CL July 2014 contracts, expiring June 2014	66	278,970	0.36
NYMEX WTI Crude Oil Futures CL August 2014 contracts, expiring July 2014	66	110,310	0.14
NYMEX WTI Crude Oil Futures CL September 2014 contracts, expiring August 2014	66	25,680	0.03
NYMEX WTI Crude Oil Futures CL October 2014 contracts, expiring September 2014	67	(140,180)	(0.18)
Total Open Futures Contracts *	794	\$3,569,720	4.59
	Principal Amount	Market Value	
Cash Equivalents			
United States Treasury Obligation			
U.S. Treasury Bill, 0.06%, 11/21/2013	\$ 4,000,000	\$3,999,660	5.14
United States - Money Market Funds			
Fidelity Institutional Government Portfolio - Class I	161,900	161,900	0.21
Goldman Sachs Financial Square Funds - Government Fund - Class FS	6,455,360	6,455,360	8.30
Morgan Stanley Institutional Liquidity Fund - Government Portfolio	30,537,560	30,537,560	39.28
Wells Fargo Advantage Government Money Market Fund - Class I	25,001,244	25,001,245	32.16
Total Money Market Funds		62,156,065	79.96

Total Cash Equivalents	\$66,155,725	85.10
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\* Collateral amounted to \$7,521,974 on open futures contracts.

*See accompanying notes to condensed financial statements.*

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*United States 12 Month Oil Fund, LP*  
*Condensed Statements of Operations (Unaudited)*  
*For the three and nine months ended September 30, 2013 and 2012*

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
<b>Income</b>				
Gain (loss) on trading of commodity futures contracts:				
Realized gain (loss) on closed contracts	\$ 2,762,210	\$ 227,490	\$ 5,060,870	\$ (3,628,560)
Change in unrealized gain (loss) on open positions	3,124,410	8,554,180	2,012,810	(3,910,200)
Dividend income	3,978	5,988	14,407	20,398
Interest income	1,236	3,078	5,050	7,740
Other income	1,050	2,100	6,300	10,500
<b>Total income (loss)</b>	<b>5,892,884</b>	<b>8,792,836</b>	<b>7,099,437</b>	<b>(7,500,122)</b>
<b>Expenses</b>				
General Partner management fees (Note 3)	122,169	188,943	405,511	652,013
Professional fees	50,508	33,309	151,285	108,932
Registration fees	22,486	9,298	81,535	14,030
Brokerage commissions	2,066	6,319	8,337	17,663
Other expenses	7,799	10,836	25,872	37,080
<b>Total expenses</b>	<b>205,028</b>	<b>248,705</b>	<b>672,540</b>	<b>829,718</b>
Net income (loss)	\$ 5,687,856	\$ 8,544,131	\$ 6,426,897	\$ (8,329,840)
Net income (loss) per limited partnership unit	\$ 3.12	\$ 2.50	\$ 3.38	\$ (3.06)
Net income (loss) per weighted average limited partnership unit	\$ 3.05	\$ 2.76	\$ 2.92	\$ (2.46)
Weighted average limited partnership units outstanding	1,864,130	3,093,478	2,202,015	3,389,051

*See accompanying notes to condensed financial statements.*



*United States 12 Month Oil Fund, LP*  
*Condensed Statement of Changes in Partners' Capital (Unaudited)*  
*For the nine months ended September 30, 2013*

	General Partner	Limited Partners	Total
Balances, at December 31, 2012	\$	\$ 99,521,782	\$ 99,521,782
Addition of 500,000 partnership units		26,960,147	26,960,147
Redemption of 1,200,000 partnership units		(55,171,970)	(55,171,970)
Net income		6,426,897	6,426,897
Balances, at September 30, 2013	\$	\$ 77,736,856	\$ 77,736,856
Net Asset Value Per Unit:			
At December 31, 2012			\$ 39.81
At September 30, 2013			\$ 43.19

*See accompanying notes to condensed financial statements.*

*United States 12 Month Oil Fund, LP*  
*Condensed Statements of Cash Flows (Unaudited)*  
*For the nine months ended September 30, 2013 and 2012*

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash Flows from Operating Activities:		
Net income (loss)	\$ 6,426,897	\$ (8,329,840)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Decrease in commodity futures trading account		
- cash and cash equivalents	11,055,857	29,924,073
Unrealized (gain) loss on open futures contracts	(2,012,810)	3,910,200
(Increase) decrease in dividend receivable	1,384	(304)
Increase in interest receivable		(4)
Decrease in other assets	79,817	11,142
Decrease investment payable		(33)
Decrease in professional fees payable	(60,446)	(124,961)
Decrease in General Partner management fees payable	(10,126)	(28,244)
Decrease in brokerage commissions payable	(880)	(1,820)
Decrease in other liabilities	(891)	(4,119)
Net cash provided by operating activities	15,478,802	25,356,090
Cash Flows from Financing Activities:		
Addition of partnership units	26,960,147	84,188,154
Redemption of partnership units	(55,171,970)	(130,212,870)
Net cash used in financing activities	(28,211,823)	(46,024,716)
Net Decrease in Cash and Cash Equivalents	(12,733,021)	(20,668,626)
<b>Cash and Cash Equivalents</b> , beginning of period	86,708,443	123,736,412
<b>Cash and Cash Equivalents</b> , end of period	\$ 73,975,422	\$ 103,067,786

*See accompanying notes to condensed financial statements.*

**United States 12 Month Oil Fund, LP**  
**Notes to Condensed Financial Statements**  
**For the period ended September 30, 2013 (Unaudited)**

**NOTE 1 ORGANIZATION AND BUSINESS**

The United States 12 Month Oil Fund, LP (“US12OF”) was organized as a limited partnership under the laws of the state of Delaware on June 27, 2007. US12OF is a commodity pool that issues limited partnership units (“units”) that may be purchased and sold on the NYSE Arca, Inc. (the “NYSE Arca”). Prior to November 25, 2008, US12OF’s units traded on the American Stock Exchange (the “AMEX”). US12OF will continue in perpetuity, unless terminated sooner upon the occurrence of one or more events as described in its Second Amended and Restated Agreement of Limited Partnership dated as of March 1, 2013 (the “LP Agreement”). The investment objective of US12OF is for the daily changes in percentage terms of its units’ per unit net asset value (“NAV”) to reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes in the average of the prices of the 12 futures contracts for light, sweet crude oil traded on the New York Mercantile Exchange (the “NYMEX”), consisting of the near month contract to expire and the contracts for the following 11 months for a total of 12 consecutive months’ contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months (the “Benchmark Futures Contracts”), less US12OF’s expenses. When calculating the daily movement of the average price of the 12 contracts, each contract month will be equally weighted. It is not the intent of US12OF to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. It is not the intent of US12OF to be operated in a fashion such that its per unit NAV will reflect the percentage change of the price of any particular futures contracts as measured over a time period greater than one day. United States Commodity Funds LLC (“USCF”), the general partner of US12OF, believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Oil Futures Contracts (as defined below) and Other Oil-Related Investments (as defined below). US12OF accomplishes its objective through investments in futures contracts for light, sweet crude oil and other types of crude oil, diesel-heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the NYMEX, ICE Futures or other U.S. and foreign exchanges (collectively, “Oil Futures Contracts”) and other oil related investments such as cash-settled options on Oil Futures Contracts, forward contracts for oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil, diesel-heating oil, gasoline, natural gas and other petroleum-based fuels, Oil Futures Contracts and indices based on the foregoing (collectively, “Other Oil-Related Investments”). As of September 30, 2013, US12OF held 794 Oil Futures Contracts for light, sweet crude oil traded on the NYMEX and did not hold any Oil Futures Contracts traded on the ICE Futures.

US12OF commenced investment operations on December 6, 2007 and has a fiscal year ending on December 31. USCF is responsible for the management of US12OF. USCF is a member of the National Futures Association (the “NFA”) and became a commodity pool operator registered with the Commodity Futures Trading Commission (the “CFTC”) effective December 1, 2005. USCF is also the general partner of the United States Oil Fund, LP (“USOF”), the United States Natural Gas Fund, LP (“USNG”), the United States Gasoline Fund, LP (“UGA”) and the United States Diesel-Heating Oil Fund, LP (formerly, the United States Heating Oil Fund, LP) (“USDHO”), which listed their limited partnership units on the AMEX under the ticker symbols “USO” on April 10, 2006, “UNG” on April 18, 2007, “UGA” on February 26, 2008 and “UHN” on April 9, 2008, respectively. As a result of the acquisition of the AMEX by NYSE Euronext, each of USOF’s, USNG’s, UGA’s and USDHO’s units commenced trading on the NYSE Arca on November 25, 2008. USCF is also the general partner of the United States Short Oil Fund, LP (“USSO”), the United States 12 Month Natural Gas Fund, LP (“US12NG”) and the United States Brent Oil Fund, LP (“USBO”), which listed their limited partnership units on the NYSE Arca under the ticker symbols “DNO” on September 24, 2009, “UNL” on November 18, 2009 and “BNO” on June 2, 2010, respectively. USCF is also the sponsor of the United States Commodity Index Fund (“USCI”), the United States Copper Index Fund (“CPER”), the United States Agriculture Index Fund (“USAG”) and the United States Metals Index Fund (“USMI”), each a series of the United States Commodity Index

Funds Trust. USCI, CPER, USAG and USMI listed their units on the NYSE Arca under the ticker symbol “USCI” on August 10, 2010, “CPER” on November 15, 2011, “USAG” on April 13, 2012 and “USMI” on June 19, 2012, respectively. All funds listed previously are referred to collectively herein as the “Related Public Funds.” USCF has also filed registration statements to register units of the United States Sugar Fund (“USSF”), the United States Natural Gas Double Inverse Fund (“UNGD”), the United States Gasoil Fund (“USGO”) and the United States Asian Commodities Basket Fund (“UAC”), each a series of the United States Commodity Funds Trust I, and the US Golden Currency Fund (“HARD”), a series of the United States Currency Funds Trust. USSF, UNGD, USGO and HARD are currently not available to the public, as such funds are still in the process of review by various regulatory agencies which have regulatory authority over USCF and such funds. UAC has been declared effective by the regulatory agencies which have regulatory authority over USCF and UAC, but at the time of the filing of this quarterly report on Form 10-Q, UAC has not been made available to the public.

Effective February 29, 2012, US12OF issues units to certain authorized purchasers (“Authorized Purchasers”) by offering baskets consisting of 50,000 units (“Creation Baskets”) through ALPS Distributors, Inc., as the marketing agent (the “Marketing Agent”). Prior to February 29, 2012, US12OF issued units to Authorized Purchasers by offering baskets consisting of 100,000 units through the Marketing Agent. The purchase price for a Creation Basket is based upon the NAV of a unit calculated shortly after the close of the core trading session on the NYSE Arca on the day the order to create the basket is properly received.

From July 1, 2011 through December 31, 2013 (and continuing at least through May 1, 2014), the applicable transaction fee paid by Authorized Purchasers is \$350 to US12OF for each order they place to create or redeem one or more baskets (“Redemption Baskets”); prior to July 1, 2011, this fee was \$1,000. Units may be purchased or sold on a nationally recognized securities exchange in smaller increments than a Creation Basket or Redemption Basket. Units purchased or sold on a nationally recognized securities exchange are not purchased or sold at the per unit NAV of US12OF but rather at market prices quoted on such exchange.

On December 4, 2007, US12OF initially registered 11,000,000 units on Form S-1 with the U.S. Securities and Exchange Commission (the “SEC”). On December 6, 2007, US12OF listed its units on the AMEX under the ticker symbol “USL”. On that day, US12OF established its initial per unit NAV by setting the price at \$50.00 and issued 300,000 units in exchange for \$15,000,000. US12OF also commenced investment operations on December 6, 2007, by purchasing Oil Futures Contracts traded on the NYMEX based on light, sweet crude oil. As of September 30, 2013, US12OF had registered a total of 100,000,000 units.

The accompanying unaudited condensed financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the SEC and, therefore, do not include all information and footnote disclosure required under generally accepted accounting principles (“GAAP”) in the United States of America. The financial information included herein is unaudited; however, such financial information reflects all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of USCF, necessary for the fair presentation of the condensed financial statements for the interim period.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Revenue Recognition**

Commodity futures contracts, forward contracts, physical commodities, and related options are recorded on the trade date. All such transactions are recorded on the identified cost basis and marked to market daily. Unrealized gains or losses on open contracts are reflected in the condensed statements of financial condition and represent the difference between the original contract amount and the market value (as determined by exchange settlement prices for futures contracts and related options and cash dealer prices at a predetermined time for forward contracts, physical commodities, and their related options) as of the last business day of the year or as of the last date of the condensed financial statements. Changes in the unrealized gains or losses between periods are reflected in the condensed statements of operations. US12OF earns interest on its assets denominated in U.S. dollars on deposit with the futures commission merchant at the 90-day Treasury bill rate. In addition, US12OF earns income on funds held at the custodian or futures commission merchant at prevailing market rates earned on such investments.

### **Brokerage Commissions**

Brokerage commissions on all open commodity futures contracts are accrued on a full-turn basis.



## **Income Taxes**

US12OF is not subject to federal income taxes; each partner reports his/her allocable share of income, gain, loss deductions or credits on his/her own income tax return.

In accordance with GAAP, US12OF is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any tax related appeals or litigation processes, based on the technical merits of the position. US12OF files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. US12OF is not subject to income tax return examinations by major taxing authorities for years before 2009. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in US12OF recording a tax liability that reduces net assets. However, US12OF's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of and changes to tax laws, regulations and interpretations thereof. US12OF recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in income tax fees payable, if assessed. No interest expense or penalties have been recognized as of and for the period ended September 30, 2013.

## **Creations and Redemptions**

Effective February 29, 2012, Authorized Purchasers may purchase Creation Baskets or redeem Redemption Baskets only in blocks of 50,000 units at a price equal to the NAV of the units calculated shortly after the close of the core trading session on the NYSE Arca on the day the order is placed. Prior to February 29, 2012, Authorized Purchasers could only purchase Creation Baskets or redeem Redemption Baskets in blocks of 100,000 units.

US12OF receives or pays the proceeds from units sold or redeemed within three business days after the trade date of the purchase or redemption. The amounts due from Authorized Purchasers are reflected in US12OF's condensed statements of financial condition as receivable for units sold, and amounts payable to Authorized Purchasers upon redemption are reflected as payable for units redeemed.

## **Partnership Capital and Allocation of Partnership Income and Losses**

Profit or loss shall be allocated among the partners of US12OF in proportion to the number of units each partner holds as of the close of each month. USCF may revise, alter or otherwise modify this method of allocation as described in the LP Agreement.

## **Calculation of Per Unit Net Asset Value**

US12OF's per unit NAV is calculated on each NYSE Arca trading day by taking the current market value of its total assets, subtracting any liabilities and dividing that amount by the total number of units outstanding. US12OF uses the closing price for the contracts on the relevant exchange on that day to determine the value of contracts held on such exchange.

## **Net Income (Loss) Per Unit**

Net income (loss) per unit is the difference between the per unit NAV at the beginning of each period and at the end of each period. The weighted average number of units outstanding was computed for purposes of disclosing net income (loss) per weighted average unit. The weighted average units are equal to the number of units outstanding at the end of the period, adjusted proportionately for units added and redeemed based on the amount of time the units were outstanding during such period. There were no units held by USCF at September 30, 2013.





### **Offering Costs**

Offering costs incurred in connection with the registration of additional units after the initial registration of units are borne by US12OF. These costs include registration fees paid to regulatory agencies and all legal, accounting, printing and other expenses associated with such offerings. These costs are accounted for as a deferred charge and thereafter amortized to expense over twelve months on a straight-line basis or a shorter period if warranted.

### **Cash Equivalents**

Cash equivalents include money market funds and overnight deposits or time deposits with original maturity dates of six months or less.

### **Reclassification**

Certain amounts in the accompanying condensed financial statements were reclassified to conform to the current presentation.

### **Use of Estimates**

The preparation of condensed financial statements in conformity with GAAP requires USCF to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements, and the reported amounts of the revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

## **NOTE 3 FEES PAID BY THE FUND AND RELATED PARTY TRANSACTIONS**

### **USCF Management Fee**

Under the LP Agreement, USCF is responsible for investing the assets of US12OF in accordance with the objectives and policies of US12OF. In addition, USCF has arranged for one or more third parties to provide administrative, custody, accounting, transfer agency and other necessary services to US12OF. For these services, US12OF is contractually obligated to pay USCF a fee, which is paid monthly, equal to 0.60% per annum of average daily total net assets.

### **Ongoing Registration Fees and Other Offering Expenses**

US12OF pays all costs and expenses associated with the ongoing registration of its units subsequent to the initial offering. These costs include registration or other fees paid to regulatory agencies in connection with the offer and sale of units, and all legal, accounting, printing and other expenses associated with such offer and sale. For the nine months ended September 30, 2013 and 2012, US12OF incurred \$81,535 and \$14,030, respectively, in registration fees and other offering expenses.

### **Directors' Fees and Expenses**

US12OF is responsible for paying its portion of the directors' and officers' liability insurance for US12OF and the Related Public Funds and the fees and expenses of the independent directors who also serve as audit committee members of US12OF and the Related Public Funds organized as limited partnerships and, as of July 8, 2011, the Related Public Funds organized as a series of a Delaware statutory trust. US12OF shares the fees and expenses on a pro rata basis with each Related Public Fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2013 are estimated to be a total of

\$560,625 for US12OF and the Related Public Funds.

## Licensing Fees

As discussed in Note 4 below, US12OF entered into a licensing agreement with the NYMEX on April 10, 2006, as amended on October 20, 2011. Pursuant to the agreement, through October 19, 2011, US12OF and the Related Public Funds, other than USBO, USCI, CPER, USAG and USMI, paid a licensing fee that was equal to 0.04% for the first \$1,000,000,000 of combined net assets of the funds and 0.02% for combined net assets above \$1,000,000,000. On and after October 20, 2011, US12OF and the Related Public Funds, other than USBO, USCI, CPER, USAG and USMI, pay a licensing fee that is equal to 0.015% on all net assets. During the nine months ended September 30, 2013 and 2012, US12OF incurred \$10,138 and \$16,300, respectively, under this arrangement.

## Investor Tax Reporting Cost

The fees and expenses associated with US12OF's audit expenses and tax accounting and reporting requirements are paid by US12OF. These costs are estimated to be \$200,000 for the year ending December 31, 2013.

## Other Expenses and Fees

In addition to the fees described above, US12OF pays all brokerage fees and other expenses in connection with the operation of US12OF, excluding costs and expenses paid by USCF as outlined in Note 4 below.

## NOTE 4 CONTRACTS AND AGREEMENTS

US12OF is party to a marketing agent agreement, dated as of November 13, 2007, as amended from time to time, with the Marketing Agent and USCF, whereby the Marketing Agent provides certain marketing services for US12OF as outlined in the agreement. The fee of the Marketing Agent, which is borne by USCF, is equal to 0.06% on US12OF's assets up to \$3 billion and 0.04% on US12OF's assets in excess of \$3 billion. In no event may the aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution related services exceed 10% of the gross proceeds of US12OF's offering.

The above fee does not include the following expenses, which are also borne by USCF: the cost of placing advertisements in various periodicals; website construction and development; or the printing and production of various marketing materials.

US12OF is also party to a custodian agreement, dated October 5, 2007, as amended from time to time, with Brown Brothers Harriman & Co. ("BBH&Co.") and USCF, whereby BBH&Co. holds investments on behalf of US12OF. USCF pays the fees of the custodian, which are determined by the parties from time to time. In addition, US12OF is party to an administrative agency agreement, dated October 5, 2007, as amended from time to time, with USCF and BBH&Co., whereby BBH&Co. acts as the administrative agent, transfer agent and registrar for US12OF. USCF also pays the fees of BBH&Co. for its services under such agreement and such fees are determined by the parties from time to time.

Currently, USCF pays BBH&Co. for its services, in the foregoing capacities, a minimum amount of \$75,000 annually for its custody, fund accounting and fund administration services rendered to US12OF and each of the Related Public Funds, as well as a \$20,000 annual fee for its transfer agency services. In addition, USCF pays BBH&Co. an asset-based charge of (a) 0.06% for the first \$500 million of US12OF's, USOF's, USNG's, UGA's, USDHO's, USSO's, US12NG's, USBO's, USCI's, CPER's, USAG's and USMI's combined net assets, (b) 0.0465% for US12OF's, USOF's, USNG's, UGA's, USDHO's, USSO's, US12NG's, USBO's, USCI's, CPER's, USAG's and USMI's combined net assets greater than \$500 million but less than \$1 billion, and (c) 0.035% once US12OF's, USOF's, USNG's, UGA's, USDHO's, USSO's, US12NG's, USBO's, USCI's, CPER's, USAG's and USMI's combined net assets exceed \$1 billion. The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds \$75,000. USCF

also pays transaction fees ranging from \$7 to \$15 per transaction.

On October 8, 2013, US12OF entered into a brokerage agreement with RBC Capital Markets, LLC (“RBC Capital” or “RBC”) to serve as US12OF’s futures commission merchant (“FCM”), effective October 10, 2013. Prior to October 10, 2013, the FCM was UBS Securities LLC (“UBS Securities”). The agreements require RBC Capital and UBS Securities to provide services to US12OF in connection with the purchase and sale of Oil Futures Contracts and Other Oil-Related Investments that may be purchased and sold by or through RBC Capital and/or UBS Securities for US12OF’s account. In accordance with each agreement, RBC Capital and UBS Securities charge US12OF commissions of approximately \$7 to \$15 per round-turn trade, including applicable exchange and NFA fees for Oil Futures Contracts and options on Oil Futures Contracts. Such fees include those incurred when purchasing Oil Futures Contracts and options on Oil Futures Contracts when US12OF issues units as a result of a Creation Basket, as well as fees incurred when selling Oil Futures Contracts and options on Oil Futures Contracts when US12OF redeems units as a result of a Redemption Basket. Such fees are also incurred when Oil Futures Contracts and options on Oil Futures Contracts are purchased or redeemed for the purpose of rebalancing the portfolio. US12OF also incurs commissions to brokers for the purchase and sale of Oil Futures Contracts, Other Oil-Related Investments or short-term obligations of the United States of two years or less (“Treasuries”). During the nine months ended September 30, 2013, total commissions accrued to brokers amounted to \$8,337. Of this amount, approximately \$3,825 was a result of rebalancing costs and approximately \$4,512 was the result of trades necessitated by creation and redemption activity. By comparison, during the nine months ended September 30, 2012, total commissions accrued to brokers amounted to \$17,663. Of this amount, approximately \$5,692 was a result of rebalancing costs and approximately \$11,971 was the result of trades necessitated by creation and redemption activity. The decrease in the total commissions accrued to brokers for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was primarily a function of decreased brokerage fees due to a lower number of futures contracts being held and traded as a result of the decrease in US12OF’s total net assets during the nine months ended September 30, 2013. The decrease in total net assets required US12OF to purchase a fewer number of Oil Futures Contracts and incur a lower amount of broker commissions during the nine months ended September 30, 2013. As an annualized percentage of average daily total net assets, the figure for the nine months ended September 30, 2013 represents approximately 0.01% of average daily total net assets. By comparison, the figure for the nine months ended September 30, 2012 represented approximately 0.01% of average daily total net assets. However, there can be no assurance that commission costs and portfolio turnover will not cause commission expenses to rise in future quarters.

US12OF and the NYMEX entered into a licensing agreement on April 10, 2006, as amended on October 20, 2011, whereby US12OF was granted a non-exclusive license to use certain of the NYMEX’s settlement prices and service marks. Under the licensing agreement, US12OF and the Related Public Funds, other than USBO, USCI, CPER, USAG and USMI, pay the NYMEX an asset-based fee for the license, the terms of which are described in Note 3. US12OF expressly disclaims any association with the NYMEX or endorsement of US12OF by the NYMEX and acknowledges that “NYMEX” and “New York Mercantile Exchange” are registered trademarks of the NYMEX.

#### **NOTE 5 FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES**

US12OF engages in the trading of futures contracts, options on futures contracts and cleared swaps (collectively, “derivatives”). US12OF is exposed to both market risk, which is the risk arising from changes in the market value of the contracts, and credit risk, which is the risk of failure by another party to perform according to the terms of a contract. US12OF may enter into futures contracts and options on futures contracts to gain exposure to changes in the value of an underlying commodity. A futures contract obligates the seller to deliver (and the purchaser to accept) the future delivery of a specified quantity and type of a commodity at a specified time and place. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The contractual obligations of a buyer or seller may generally be satisfied by taking or making physical delivery of the underlying commodity or by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of delivery.

The purchase and sale of futures contracts, options on futures contracts and cleared swaps require margin deposits with a futures commission merchant. Additional deposits may be necessary for any loss on contract value. The Commodity Exchange Act requires a futures commission merchant to segregate all customer transactions and assets from the futures commission merchant's proprietary activities.

Futures contracts and cleared swaps involve, to varying degrees, elements of market risk (specifically commodity price risk) and exposure to loss in excess of the amount of variation margin. The face or contract amounts reflect the extent of the total exposure US12OF has in the particular classes of instruments. Additional risks associated with the use of futures contracts are an imperfect correlation between movements in the price of the futures contracts and the market value of the underlying securities and the possibility of an illiquid market for a futures contract.

All of the futures contracts held by US12OF were exchange-traded through September 30, 2013. The risks associated with exchange-traded contracts are generally perceived to be less than those associated with over-the-counter transactions since, in over-the-counter transactions, a party must rely solely on the credit of its respective individual counterparties. However, in the future, if US12OF were to enter into non-exchange traded contracts, it would be subject to the credit risk associated with counterparty non-performance. The credit risk from counterparty non-performance associated with such instruments is the net unrealized gain, if any, on the transaction. US12OF has credit risk under its futures contracts since the sole counterparty to all domestic and foreign futures contracts is the clearinghouse for the exchange on which the relevant contracts are traded. In addition, US12OF bears the risk of financial failure by the clearing broker.

US12OF's cash and other property, such as Treasuries, deposited with a futures commission merchant are considered commingled with all other customer funds, subject to the futures commission merchant's segregation requirements. In the event of a futures commission merchant's insolvency, recovery may be limited to a pro rata share of segregated funds available. It is possible that the recovered amount could be less than the total of cash and other property deposited. The insolvency of a futures commission merchant could result in the complete loss of US12OF's assets posted with that futures commission merchant; however, the majority of US12OF's assets are held in Treasuries, cash and/or cash equivalents with US12OF's custodian and would not be impacted by the insolvency of a futures commission merchant. The failure or insolvency of US12OF's custodian, however, could result in a substantial loss of US12OF's assets.

USCF invests a portion of US12OF's cash in money market funds that seek to maintain a stable per unit NAV. US12OF is exposed to any risk of loss associated with an investment in such money market funds. As of September 30, 2013 and December 31, 2012, US12OF held investments in money market funds in the amounts of \$62,156,065 and \$86,156,064, respectively. US12OF also holds cash deposits with its custodian. Pursuant to a written agreement with BBH&Co., uninvested overnight cash balances are swept to offshore branches of U.S. regulated and domiciled banks located in Toronto, Canada, London, United Kingdom, Grand Cayman, Cayman Islands and Nassau, Bahamas, which are subject to U.S. regulation and regulatory oversight. As of September 30, 2013 and December 31, 2012, US12OF held cash deposits and investments in Treasuries in the amounts of \$12,296,941 and \$12,085,820, respectively, with the custodian and futures commission merchant. Some or all of these amounts may be subject to loss should US12OF's custodian and/or futures commission merchant cease operations.

For derivatives, risks arise from changes in the market value of the contracts. Theoretically, US12OF is exposed to market risk equal to the value of futures contracts purchased and unlimited liability on such contracts sold short. As both a buyer and a seller of options, US12OF pays or receives a premium at the outset and then bears the risk of unfavorable changes in the price of the contract underlying the option.

US12OF's policy is to continuously monitor its exposure to market and counterparty risk through the use of a variety of financial, position and credit exposure reporting controls and procedures. In addition, US12OF has a policy of requiring review of the credit standing of each broker or counterparty with which it conducts business.

The financial instruments held by US12OF are reported in its condensed statements of financial condition at market or fair value, or at carrying amounts that approximate fair value, because of their highly liquid nature and short-term maturity.

## **NOTE 6 FINANCIAL HIGHLIGHTS**

The following table presents per unit performance data and other supplemental financial data for the nine months ended September 30, 2013 and 2012 for the unitholders. This information has been derived from information presented in the condensed financial statements.

	For the nine months ended September 30, 2013 (Unaudited)	For the nine months ended September 30, 2012 (Unaudited)		
Per Unit Operating Performance:				
Net asset value, beginning of period	\$ 39.81	\$ 43.46		
Total income (loss)	3.69	(2.82)		
Net expenses	(0.31)	(0.24)		
Net increase (decrease) in net asset value	3.38	(3.06)		
Net asset value, end of period	\$ 43.19	\$ 40.40		
Total Return	8.49	% (7.04)		%
Ratios to Average Net Assets				
Total income (loss)	7.86	% (5.17)		%
Expenses excluding management fees*	0.40	% 0.16		%
Management fees*	0.60	% 0.60		%
Net income (loss)	7.11	% (5.74)		%

\* Annualized

Total returns are calculated based on the change in value during the period. An individual unitholder's total return and ratio may vary from the above total returns and ratios based on the timing of contributions to and withdrawals from US12OF.

## NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

US12OF values its investments in accordance with Accounting Standards Codification 820 Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. The changes to past practice resulting from the application of ASC 820 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurement. ASC 820 establishes a fair value hierarchy that distinguishes between: (1) market participant assumptions developed based on market data obtained from sources independent of US12OF (observable inputs) and (2) US12OF's own assumptions about market participant assumptions developed based on the best information available under the circumstances (unobservable inputs). The three levels defined by the ASC 820 hierarchy are as follows:

**Level I** Quoted prices (unadjusted) in active markets for *identical* assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level II** Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II assets include the following: quoted prices for *similar* assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

**Level III** Unobservable pricing input at the measurement date for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In some instances, the inputs used to measure fair value might fall within different levels of the fair value hierarchy.



The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

The following table summarizes the valuation of US12OF's securities at September 30, 2013 using the fair value hierarchy:

At September 30, 2013	Total	Level I	Level II	Level III
Short-Term Investments	\$ 66,155,725	\$ 66,155,725	\$	\$
Exchange-Traded Futures Contracts				
United States Contracts	3,569,720	3,569,720		

During the nine months ended September 30, 2013, there were no transfers between Level I and Level II.

The following table summarizes the valuation of US12OF's securities at December 31, 2012 using the fair value hierarchy:

At December 31, 2012	Total	Level I	Level II	Level III
Short-Term Investments	\$ 92,755,785	\$ 92,755,785	\$	\$
Exchange-Traded Futures Contracts				
United States Contracts	1,556,910	1,556,910		

During the year ended December 31, 2012, there were no transfers between Level I and Level II.

Effective January 1, 2009, US12OF adopted the provisions of Accounting Standards Codification 815 Derivatives and Hedging, which require presentation of qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivatives.

### Fair Value of Derivative Instruments

Derivatives not Accounted for as Hedging Instruments	Condensed Statements of Financial Condition	Fair Value	
		At September 30, 2013	At December 31, 2012
Futures - Commodity Contracts	Assets	\$ 3,569,720	\$ 1,556,910

### The Effect of Derivative Instruments on the Condensed Statements of Operations

Derivatives not Accounted for as Hedging Instruments	Location of Gain or (Loss) on Derivatives Recognized in Income	For the nine months ended September 30, 2013		For the nine months ended September 30, 2012	
		Realized Gain or (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain or (Loss) on Derivatives Recognized in Income	Realized Gain or (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain or (Loss) on Derivatives Recognized in Income
Futures - Commodity Contracts	Realized gain (loss) on closed positions	\$ 5,060,870		\$ (3,628,560)	
	Change in unrealized gain (loss) on		\$ 2,012,810		\$ (3,910,200)

open positions

**NOTE 8 SUBSEQUENT EVENTS**

US12OF has performed an evaluation of subsequent events through the date the condensed financial statements were issued. The subsequent events, which did not necessitate disclosures and/or adjustments to the financial statements, were as follows:

On October 8, 2013, USCF entered into a Futures and Cleared Derivatives Transactions Customer Account Agreement with RBC Capital to serve as US12OF's FCM, effective October 10, 2013. Prior to October 10, 2013, UBS Securities was US12OF's FCM. This agreement requires RBC Capital to provide services to US12OF, as of October 10, 2013, in connection with the purchase and sale of Futures Contracts and Other Crude Oil-Related Investments that may be purchased or sold by or through RBC Capital for US12OF's account. For the period October 10, 2013 and after, US12OF pays RBC Capital commissions for executing and clearing trades on behalf of US12OF. Prior to October 10, 2013, and therefore the entire period of this quarterly report on Form 10-Q for the period ended September 30, 2013, US12OF paid UBS Securities commissions for executing and clearing trades on behalf of US12OF.

RBC Capital's primary address is 500 West Madison Street, Suite 2500, Chicago, Illinois 60661. UBS Securities' principal business address is 677 Washington Blvd., Stamford, CT 06901. From US12OF's commencement of trading to October 10, 2013, UBS Securities was a futures clearing broker for US12OF. Effective October 10, 2013, RBC Capital became the futures clearing broker for US12OF. Both RBC Capital and UBS Securities are registered in the U.S. with the Financial Industry Regulatory Authority as a broker-dealer and with the CFTC as a FCM. RBC Capital and UBS Securities are members of various U.S. futures and securities exchanges.

RBC is a large broker-dealer subject to many different complex legal and regulatory requirements. As a result, certain of RBC's regulators may from time to time conduct investigations, initiate enforcement proceedings and/or enter into settlements with RBC with respect to issues raised in various investigations. RBC complies fully with its regulators in all investigations being conducted and in all settlements it reaches. In addition, RBC is and has been subject to a variety of civil legal claims in which various jurisdictions, a variety of settlement agreements and a variety of orders, awards and judgments made against it by courts and tribunals, both in regard to such claims and investigations. RBC complies fully with all settlements it reaches and all orders, awards and judgments made against it.

RBC has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation including those described below, arising in connection with its activities as a broker-dealer. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. RBC is also involved, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding RBC's business, including among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

RBC contests liability and/or the amount of damages, as appropriate, in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, RBC cannot predict the loss or range of loss, if any, related to such matters; how or if such matters will be resolved; when they will ultimately be resolved; or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, RBC believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of RBC.

On March 11, 2013, the New Jersey Bureau of Securities entered a consent order settling an administrative complaint against RBC, which alleged that RBC failed to follow its own procedures with respect to monthly account reviews and failed to maintain copies of the monthly account reviews with respect to certain accounts that James Hankins Jr. maintained at the firm in violation of N.J.S.A. 49:3-58(a)(2)(xi) and 49:3-59(b). Without admitting or denying the findings of fact and conclusions of law, RBC consented to a civil monetary penalty of \$150,000 (of which \$100,000 was suspended as a result of the firm's cooperation) and to pay disgorgement of \$300,000.

On May 2, 2012, the Massachusetts Securities Division entered a consent order settling an administrative complaint against RBC, which alleged that RBC recommended unsuitable products to its brokerage and advisory clients and

failed to supervise its registered representatives' sales of inverse and leveraged ETFs in violation of Section 204(a)(2) of the Massachusetts Uniform Securities Act ("MUSA"). Without admitting or denying the allegations of fact, RBC consented to permanently cease and desist from violations of MUSA, pay restitution of \$2.9 million to the investors who purchased the inverse and leveraged ETFs and pay a civil monetary penalty of \$250,000.

On September 27, 2011, the SEC commenced and settled an administrative proceeding against RBC for willful violations of Sections 17(a)(2) and 17(a)(3) of the 1933 Act for negligently selling the collateralized debt obligations to five Wisconsin school districts despite concerns about the suitability of the product. The firm agreed to pay disgorgement of \$6.6 million, prejudgment interest of \$1.8 million, and a civil monetary penalty of \$22 million.

On February 24, 2009, the SEC commenced and settled an administrative proceeding against RBC for willful violations of Section 15B(c)(1) of the 1934 Act and Municipal Securities Rulemaking Board Rules G-17, G-20 and G-27, related to municipal expenses in connection with ratings agency trips. The firm was censured and paid a civil monetary penalty of \$125,000.

On June 9, 2009, the SEC commenced and settled a civil action against RBC for willful violations of Section 15(c) of the 1934 Act, in connection with auction rate securities (ARS). The firm agreed to repurchase ARS owned by certain retail customers and to use best efforts to provide ineligible customers opportunities to liquidate ARS, and other ancillary relief.

Please see RBC's Form BD for more details.

RBC Capital will only act as a clearing broker for US12OF and as such will be paid commissions for executing and clearing trades on behalf of US12OF. Prior to October 10, 2013, UBS Securities acted only as a clearing broker for US12OF and as such was paid commissions for executing and clearing trades on behalf of US12OF. Neither RBC Capital nor UBS Securities has passed upon the adequacy or accuracy of this quarterly report on Form 10-Q. Neither RBC Capital nor UBS Securities will act in any supervisory capacity with respect to USCF or participate in the management of USCF or US12OF.

Neither RBC Capital nor UBS Securities is affiliated with US12OF or USCF. Therefore, neither USCF nor US12OF believe that there are any conflicts of interest with RBC Capital and UBS Securities or their trading principals arising from their acting as US12OF's FCM.

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

The following discussion should be read in conjunction with the condensed financial statements and the notes thereto of the United States 12 Month Oil Fund, LP ("US12OF") included elsewhere in this quarterly report on Form 10-Q.

### *Forward-Looking Information*

This quarterly report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors that may cause US12OF's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe US12OF's future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project," the negative words, other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and US12OF cannot assure investors that the projections included in these forward-looking statements will come to pass. US12OF's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

US12OF has based the forward-looking statements included in this quarterly report on Form 10-Q on information available to it on the date of this quarterly report on Form 10-Q, and US12OF assumes no obligation to update any such forward-looking statements. Although US12OF undertakes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, investors are advised to consult any additional disclosures that US12OF may make directly to them or through reports that US12OF in the future files with the U.S. Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

### **Introduction**

US12OF, a Delaware limited partnership, is a commodity pool that issues units that may be purchased and sold on the NYSE Arca, Inc. (the "NYSE Arca"). The investment objective of US12OF is for the daily changes in percentage terms of its units' per unit net asset value ("NAV") to reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes in the average of the prices of 12 futures contracts for light, sweet crude oil traded on the New York Mercantile Exchange (the "NYMEX") that is the near month contract to expire and the contracts for the following 11 months for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months (the "Benchmark Futures Contracts"), less US12OF's expenses. "Near month contract" means the next contract traded on the NYMEX due to expire. "Next month contract" means the first contract traded on the NYMEX due to expire after the near month contract. When calculating the daily movement of the average price of the 12 contracts, each contract month will be equally weighted. It is not the intent of US12OF to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. It is not the intent of US12OF to be operated in a fashion such that its per unit NAV will reflect the percentage change of the price of any particular futures contract as measured over a time period greater than one day. The general partner of US12OF, United States Commodity Funds LLC ("USCF"), believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Oil Futures Contracts (as defined below) and Other Oil-Related Investments (as defined below).

US12OF invests in futures contracts for light, sweet crude oil, other types of crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the NYMEX, ICE Futures or other U.S. and foreign exchanges

(collectively, “Oil Futures Contracts”) and other oil interests such as cash-settled options on Oil Futures Contracts, forward contracts for oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil, other petroleum-based fuels, Oil Futures Contracts and indices based on the foregoing (collectively, “Other Oil-Related Investments”). For convenience and unless otherwise specified, Oil Futures Contracts and Other Oil-Related Investments collectively are referred to as “Oil Interests” in this quarterly report on Form 10-Q.



US12OF seeks to achieve its investment objective by investing in a combination of Oil Futures Contracts and Other Oil-Related Investments such that daily changes in its per unit NAV, measured in percentage terms, will closely track the daily changes in the average of the prices of the Benchmark Oil Futures Contracts, also measured in percentage terms. USCF believes the daily changes in the average of the prices of the Benchmark Oil Futures Contracts have historically exhibited a close correlation with the daily changes in the spot price of light, sweet crude oil. It is not the intent of US12OF to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. It is not the intent of US12OF to be operated in a fashion such that its per unit NAV will reflect the percentage change of the price of any particular futures contract as measured over a time period greater than one day. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Oil Futures Contracts and Other Oil-Related Investments.

## Regulatory Disclosure

*Impact of Accountability Levels, Position Limits and Price Fluctuation Limits.* Futures contracts include typical and significant characteristics. Most significantly, the Commodity Futures Trading Commission (the “CFTC”) and the futures exchanges have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by US12OF is not) may hold, own or control. The net position is the difference between an individual’s or firm’s open long contracts and open short contracts in any one commodity. In addition, most U.S.-based futures exchanges, such as the NYMEX, limit the daily price fluctuation for futures contracts. Currently, the ICE Futures imposes position and accountability limits that are similar to those imposed by U.S.-based futures exchanges and also limits the maximum daily price fluctuation, while some other non-U.S. futures exchanges have not adopted such limits.

The accountability levels for the Benchmark Futures Contracts and other Oil Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor’s positions. The current accountability level for investments for any one month in the Benchmark Futures Contracts is 10,000 contracts. In addition, the NYMEX imposes an accountability level for all months of 20,000 net futures contracts for light, sweet crude oil. In addition, ICE Futures maintains accountability levels, position limits and monitoring authority for its futures contracts for light, sweet crude oil. If US12OF and the Related Public Funds (as defined below) exceed these accountability levels for investments in the futures contract for light, sweet crude oil, the NYMEX and ICE Futures will monitor such exposure and may ask for further information on their activities including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of US12OF and the Related Public Funds. If deemed necessary by the NYMEX and/or ICE Futures, US12OF could be ordered to reduce its position back to the accountability level. As of September 30, 2013, US12OF held 794 futures contracts for light, sweet crude oil traded on the NYMEX and did not hold any Oil Futures Contracts traded on the ICE Futures. For the nine months ended September 30, 2013, US12OF did not exceed accountability levels imposed by the NYMEX or ICE Futures.

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express CFTC authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and the ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that US12OF will run up against such position limits because US12OF’s investment strategy is to close out its positions and “roll” from the near month contract to expire and the eleven following months to the next month contract to expire and the eleven following months during one day each month. For the nine months ended September 30, 2013, US12OF did not exceed any position limits imposed by the NYMEX and ICE Futures.

The regulation of commodity interest trading in the United States and other countries is an evolving area of the law, as exemplified by the various discussions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The various statements made in this summary are subject to modification by legislative action and changes in the rules and regulations of the CFTC, the National Futures Association (the “NFA”), the futures exchanges, clearing organizations and other regulatory bodies. Pending final resolution of all applicable regulatory requirements, some specific examples of how the new Dodd-Frank Act provisions and rules adopted thereunder could impact US12OF are discussed below.

### ***Futures Contracts and Position Limits***

The CFTC is prohibited by statute from regulating trading on non-U.S. futures exchanges and markets. The CFTC, however, has adopted regulations relating to the marketing of non-U.S. futures contracts in the United States. These regulations permit certain contracts on non-U.S. exchanges to be offered and sold in the United States.

In October 2011, the CFTC adopted rules that impose new position limits on Referenced Contracts (as defined below) involving 28 energy, metals and agricultural commodities (the “Position Limit Rules”). The Position Limit Rules were scheduled to become effective on October 12, 2012. However, on September 28, 2012, the United States District Court for the District of Columbia vacated these regulations on the basis of ambiguities in the provisions of the Commodity Exchange Act (“CEA”) (as modified by the Dodd-Frank Act) upon which the regulations were based. In its September 28, 2012 decision, the court remanded the Position Limit Rules to the CFTC with instructions to use its expertise and experience to resolve the ambiguities in the statute. On November 15, 2012, the CFTC indicated that it will move forward with an appeal of the District Court’s decision to vacate the Position Limit Rules. At this time, it is not possible to predict how the CFTC’s appeal could affect US12OF, but it may be substantial and adverse. Furthermore, until such time as the appeal is resolved or, if applicable revisions to the Position Limit Rules are proposed and adopted, the regulatory architecture in effect prior to the enactment of the Position Limit Rules will govern transactions in commodities and related derivatives (collectively, “Referenced Contracts”). Under that system, the CFTC enforces federal limits on speculation in agricultural products (e.g., corn, wheat and soy), while futures exchanges enforce position limits and accountability levels for agricultural and certain energy products (e.g., oil and natural gas). As a result, US12OF may be limited with respect to the size of its investments in any commodities subject to these limits. Finally, subject to certain narrow exceptions, the vacated Position Limit Rules would have required the aggregation, for purposes of the position limits, of all positions in the 28 Referenced Contracts held by a single entity and its affiliates, regardless of whether such position existed on U.S. futures exchanges, non-U.S. futures exchanges, in cleared swaps or in over-the-counter swaps. The CFTC is presently considering new aggregation rules, under a rulemaking proposal that is distinct from the Position Limit Rules. At this time, it is unclear how any modified aggregation rules may affect US12OF, but it may be substantial and adverse. By way of example, the aggregation rules in combination with any potential revised Position Limit Rules may negatively impact the ability of US12OF to meet its investment objectives through limits that may inhibit USCF’s ability to sell additional Creation Baskets of US12OF.

Based on its current understanding of the final position limit regulations, USCF does not anticipate significant negative impact on the ability of US12OF to achieve its investment objective.

### ***“Swap” Transactions***

The Dodd-Frank Act imposes new regulatory requirements on certain “swap” transactions that US12OF is authorized to engage in that may ultimately impact the ability of US12OF to meet its investment objective. On August 13, 2012, the CFTC and the SEC published joint final rules defining the terms “swap” and “security-based swap.” The term “swap” is broadly defined to include various types of over-the-counter derivatives, including swaps and options. The effective date of these final rules was October 12, 2012.

The Dodd-Frank Act requires that certain transactions ultimately falling within the definition of “swap” be executed on organized exchanges or “swap execution facilities” and cleared through regulated clearing organizations (which are referred to in the Dodd-Frank Act as “derivative clearing organizations” (“DCOs”)), if the CFTC mandates the central clearing of a particular contract. On November 28, 2012, the CFTC issued its final clearing determination requiring that certain credit default swaps and interest rate swaps be cleared by registered DCOs. This is the CFTC’s first clearing determination under the Dodd-Frank Act and became effective on February 11, 2013. Beginning on March 11, 2013, “swap dealers,” “major swap participants” and certain active funds were required to clear certain credit default swaps and interest rate swaps; and beginning on June 10, 2013, commodity pools, certain private funds and entities

predominantly engaged in financial activities were required to clear the same types of swaps. As a result, if US12OF enters into or has entered into certain interest rate and credit default swaps on or after June 10, 2013, such swaps will be required to be centrally cleared. Determination on other types of swaps are expected in the future, and, when finalized, could require US12OF to centrally clear certain over-the-counter instruments presently entered into and settled on a bi-lateral basis. If a swap is required to be cleared, the initial margin will be set by the clearing organization, subject to certain regulatory requirements and guidelines. Initial and variation margin requirements for swap dealers and major swap participants who enter into uncleared swaps and capital requirements for swap dealers and major swap participants who enter into both cleared and uncleared trades will be set by the CFTC, the SEC or the applicable Prudential Regulator.

The Dodd-Frank Act also requires that certain swaps determined to be available to trade on a swap execution facility (“SEF”) must be executed over such a facility. On June 5, 2013, the CFTC published a final rule regarding the obligations of SEFs, including the obligation for facilities offering multiple person execution services to register as a SEF by October 2, 2013. On September 27 and 30, 2013, the CFTC’s Division of Market Oversight granted no-action relief to SEFs from compliance with certain regulatory and reporting requirements. The no-action relief granted on September 27, 2013 included relief, in effect until November 1, 2013, from a requirement that a SEF enforce its own rulebooks and compel its participants to consent to the jurisdiction of the SEF. Based upon applications filed by several SEFs with the CFTC in the second half of October 2013, it is expected that the CFTC will determine that certain interest rate swaps will be determined to be available to trade on those SEFs in the first quarter of 2014.

On April 11, 2013, the CFTC published a final rule to exempt swaps between certain affiliated entities within a corporate group from the clearing requirement. The rule permits affiliated counterparties to elect not to clear a swap subject to the clearing requirement if, among other things, the counterparties are majority-owned affiliates whose financial statements are included in the same consolidated financial statements and whose swaps are documented and subject to a centralized risk management program. However, the exemption does not apply to swaps entered into by affiliated counterparties with unaffiliated counterparties.

On November 14, 2012, the CFTC proposed new regulations that would require enhanced customer protections, risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures and auditing and examination programs for futures commission merchants (“FCMs”). The proposed rules are intended to afford greater assurances to market participants that customer segregated funds and secured amounts are protected, customers are provided with appropriate notice of the risks of futures trading and of the FCMs with which they may choose to do business, FCMs are monitoring and managing risks in a robust manner, the capital and liquidity of FCMs are strengthened to safeguard their continued operations and the auditing and examination programs of the CFTC and the self-regulatory organizations are monitoring the activities of FCMs in a thorough manner. The final regulations have not yet been adopted.

Additionally, the CFTC published rules on February 17, 2012 and April 3, 2012 that require “swap dealers” and “major swap participants” to: 1) adhere to business conduct standards, 2) implement policies and procedures to ensure compliance with the CEA and 3) maintain records of such compliance. These new requirements may impact the documentation requirements for both cleared and non-cleared swaps and cause swap dealers and major swap participants to face increased compliance costs that, in turn, may be passed along to counterparties (such as US12OF) in the form of higher fees and expenses that related to trading swaps.

On April 5, 2013, the CFTC’s Division of Clearing and Risk issued a letter granting no-action relief from certain swap data reporting requirements for swaps entered into between affiliated counterparties. In general, the letter grants relief from, among others: real-time, historical and regular swap reporting (under Part 43, Part 45 and Part 46 of the CFTC’s regulations, respectively).

On April 9, 2013, the CFTC’s Division of Market Oversight issued a letter granting time-limited no-action relief to non-swap dealer, non-major swap participant counterparties from the real-time, regular and historical swap reporting requirements (under Part 43, Part 45 and Part 46 of the CFTC’s regulations, respectively). The regular reporting requirements (Part 45 of the CFTC regulations) for interest rate and credit swaps of a financial entity (including a commodity pool such as US12OF) began on April 10, 2013. The letter delays implementation of the reporting requirements based upon the asset class underlying the swap and the classification of the reporting counterparty. For a financial entity (including a commodity pool such as US12OF), regular reporting requirements for equity, foreign exchange and other commodity swaps (including swaps on oil) began on May 29, 2013 and reporting of all historical swaps for all asset classes begins on September 30, 2013.



In addition to the rules and regulations imposed under the Dodd-Frank Act, swap dealers that are European banks may also be subject to European Market Infrastructure Regulation (“EMIR”). These regulations have not yet been fully implemented.

### ***General Regulation Applicable to US12OF***

On August 12, 2013, the CFTC issued final rules establishing compliance obligations for commodity pool operators (“CPOs”) of investment companies registered under the Investment Company Act of 1940 (the “Investment Company Act”) that are required to register due to recent changes to CFTC Regulation 4.5. The final rules were issued in a CFTC release entitled “Harmonization of Compliance Obligations for Registered Investment Companies Required to Register as Commodity Pool Operators.” For entities that are registered with both the CFTC and the SEC, the CFTC will accept the SEC’s disclosure, reporting and recordkeeping regime as substituted compliance for substantially all of Part 4 of the CFTC’s regulations, so long as they comply with comparable requirements under the SEC’s statutory and regulatory compliance regime. Thus, the final rules (the “Harmonization Rules”) allow dually registered entities to meet certain CFTC regulatory requirements for CPOs by complying with SEC rules to which they are already subject. Although US12OF is not a registered investment company under the Investment Company Act, the Harmonization Rules amended certain CFTC disclosure rules to make the requirements for all CPOs to periodically update their disclosure documents consistent with those of the SEC. This change will decrease the burden to US12OF and USCF of having to comply with inconsistent regulatory requirements. It is not known whether the CFTC will make additional amendments to its disclosure, reporting and recordkeeping rules to further harmonize these obligations with those of the SEC as they apply to US12OF and USCF, but any such further rule changes could result in additional operating efficiencies for US12OF and USCF.

With regard to any other rules that the CFTC may adopt in the future, the effect of any such regulatory changes on US12OF is impossible to predict, but it could be substantial and adverse.

USCF, which is registered as a CPO and as a swaps firm with the CFTC, is authorized by the Second Amended and Restated Agreement of Limited Partnership of US12OF (the “LP Agreement”) to manage US12OF. USCF is authorized by US12OF in its sole judgment to employ and establish the terms of employment for, and termination of, commodity trading advisors or FCMs.

### **Price Movements**

Crude oil futures prices were volatile during the nine months ended September 30, 2013 and exhibited moderate daily swings along with a slight upward trend during the period. The average price of the Benchmark Oil Futures Contracts started the period at \$93.19 per barrel. Average prices hit a peak on August 28, 2013 at \$102.96 per barrel. The low of the period was on April 17, 2013 when prices reached \$86.46 per barrel. The period ended with the average price of the Benchmark Oil Futures Contracts at \$97.91 per barrel, up approximately 5.06% over the period. US12OF’s per unit NAV started the period at \$39.81 and ended the period at \$43.19 on September 30, 2013, an increase of approximately 8.49% over the period. US12OF’s per unit NAV reached its high for the period on August 28, 2013 at \$44.90 and reached its low for the period on April 17, 2013 at \$36.90. The average Benchmark Oil Futures Contract prices listed above began with the February 2013 to January 2014 contracts and ended with the November 2013 to October 2014 contracts. The increase of approximately 5.06% on the average price of the Benchmark Oil Futures Contracts listed above is a hypothetical return only and could not actually be achieved by an investor holding Oil Futures Contracts. An investment in Oil Futures Contracts would need to be rolled forward during the time period described in order to simulate such a result. Furthermore, the change in the nominal price of these differing crude Oil Futures Contracts, measured from the start of the period to the end of the period, does not represent the actual benchmark results that US12OF seeks to track, which are more fully described below in the section titled “*Tracking US12OF’s Benchmark.*”





During the nine months ended September 30, 2013, crude oil moved into a mild state of backwardation, meaning that the price of the near month crude Oil Futures Contract was greater than the price of the next month crude Oil Futures Contract, and contracts further away from expiration. Crude oil inventories, which reached historic levels in January 2009 and February 2009 and which appeared to be the primary cause of the steep level of contango, began to drop in March 2009 and continued to drop for the remainder of 2009 and the beginning of 2010. During the year ended December 31, 2011, crude oil inventories began to climb higher, which contributed to the crude oil futures market remaining in contango through the end of December 2011. During the nine months ended September 30, 2013, crude oil inventories began to draw down from present levels which contributed to the crude oil futures market moving into backwardation through the end of September 2013. For a discussion of the impact of backwardation and contango on total returns, see “*Term Structure of Crude Oil Prices and the Impact on Total Returns*” below.

### **Valuation of Oil Futures Contracts and the Computation of the Per Unit NAV**

The per unit NAV of US12OF’s units is calculated once each NYSE Arca trading day. The per unit NAV for a particular trading day is released after 4:00 p.m. New York time. Trading during the core trading session on the NYSE Arca typically closes at 4:00 p.m. New York time. US12OF’s administrator uses the NYMEX closing price (determined at the earlier of the close of the NYMEX or 2:30 p.m. New York time) for the contracts held on the NYMEX, but calculates or determines the value of all other US12OF investments, including ICE Futures contracts or other futures contracts, as of the earlier of the close of the NYSE Arca or 4:00 p.m. New York time.

### **Results of Operations and the Crude Oil Market**

*Results of Operations.* On December 6, 2007, US12OF listed its units on the American Stock Exchange (the “AMEX”) under the ticker symbol “USL.” On that day, US12OF established its initial offering price at \$50.00 per unit and issued 300,000 units to the initial authorized purchaser in exchange for \$15,000,000 in cash. As a result of the acquisition of the AMEX by NYSE Euronext, US12OF’s units no longer trade on the AMEX and commenced trading on the NYSE Arca on November 25, 2008.

Since its initial offering of 11,000,000 units, US12OF has registered one subsequent offering of its units: 100,000,000 units which were registered with the SEC on March 31, 2009. Units offered by US12OF in the subsequent offerings were sold by it for cash at the units’ per unit NAV as described in the applicable prospectus. As of September 30, 2013, US12OF had issued 14,200,000 units, 1,800,000 of which were outstanding. As of September 30, 2013, there were 96,800,000 units registered but not yet issued.

More units may have been issued by US12OF than are outstanding due to the redemption of units. Unlike funds that are registered under the Investment Company Act of 1940, as amended, units that have been redeemed by US12OF cannot be resold by US12OF. As a result, US12OF contemplates that additional offerings of its units will be registered with the SEC in the future in anticipation of additional issuances and redemptions.

As of September 30, 2013, US12OF had the following authorized purchasers: Citadel Securities LLC, Citigroup Global Markets Inc., JP Morgan Securities Inc., Merrill Lynch Professional Clearing Corp., Morgan Stanley & Company Inc., NewEdge Group LLC, Nomura Securities International Inc., RBC Capital Markets Corporation, SG Americas Securities LLC and Virtu Financial Capital Markets.

### **For the Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012**

As of September 30, 2013, the total unrealized gain on Oil Futures Contracts owned or held on that day was \$3,569,720 and US12OF established cash deposits and investments in short-term obligations of the United States of two years or less (“Treasuries”) and money market funds that were equal to \$74,453,006. US12OF held 99.39% of its cash assets in overnight deposits and investments in money market funds at its custodian bank, while 0.64% of the

cash balance was held as investments in Treasuries and margin deposits for the Oil Futures Contracts purchased at the FCM. The ending per unit NAV on September 30, 2013 was \$43.19.

By comparison, as of September 30, 2012, the total unrealized gain on Oil Futures Contracts owned or held on that day was \$91,920 and US12OF established cash deposits and investments in Treasuries and money market funds that were equal to \$115,280,262. US12OF held 89.41% of its cash assets in overnight deposits and investments in money market funds at its custodian bank, while 10.59% of the cash balance was held as investments in Treasuries and margin deposits for the Oil Futures Contracts purchased at the FCM. The decrease in cash assets in overnight deposits and investments in Treasuries and money market funds for September 30, 2013, as compared to September 30, 2012, was the result of US12OF's smaller size as measured by total net assets during the nine months ended September 30, 2013. The ending per unit NAV on September 30, 2012 was \$40.40. The increase in the per unit NAV for September 30, 2013, as compared to September 30, 2012, was primarily a result of higher prices for crude oil and the related increase in the value of the Oil Futures Contracts in which US12OF had invested between the period ended September 30, 2012 and the period ended September 30, 2013.

*Portfolio Expenses.* US12OF's expenses consist of investment management fees, brokerage fees and commissions, certain offering costs, licensing fees, the fees and expenses of the independent directors of USCF and expenses relating to tax accounting and reporting requirements. The management fee that US12OF pays to USCF is calculated as a percentage of the total net assets of US12OF. US12OF pays USCF a management fee of 0.60% of its average daily total net assets. The fee is accrued daily and paid monthly.

During the nine months ended September 30, 2013, the average daily total net assets of US12OF were \$90,361,029. The management fee incurred by US12OF during the period amounted to \$405,511. By comparison, during the nine months ended September 30, 2012, the average daily total net assets of US12OF were \$145,156,304. The management fee paid by US12OF during the period amounted to \$652,013.

In addition to the management fee, US12OF pays all brokerage fees and other expenses, including tax reporting costs, licensing fees for the use of intellectual property, ongoing registration or other fees paid to the SEC, the Financial Industry Regulatory Authority ("FINRA") and any other regulatory agency in connection with offers and sales of its units subsequent to the initial offering and all legal, accounting, printing and other expenses associated therewith. The total of these fees and expenses for the nine months ended September 30, 2013 was \$267,029, as compared to \$177,705 for the nine months ended September 30, 2012. The increase in total expenses excluding management fees for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, was primarily due to a higher amortization rate of registration fees and expenses and increased audit and tax reporting expenses during the nine months ended September 30, 2013. For the nine months ended September 30, 2013, US12OF incurred \$81,535 in ongoing registration fees and other expenses relating to the registration and offering of additional units. By comparison, for the nine months ended September 30, 2012, US12OF incurred \$14,030 in ongoing registration fees and other expenses relating to the registration and offering of additional units. The increase in registration fees and expenses incurred by US12OF for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was due to a higher amortization rate of registration fees and expenses during the nine months ended September 30, 2013.

US12OF is responsible for paying its portion of the directors' and officers' liability insurance of US12OF and the United States Oil Fund, LP, the United States Natural Gas Fund, LP, the United States Gasoline Fund, LP, the United States Diesel-Heating Oil Fund, LP (formerly, the United States Heating Oil Fund, LP), the United States Short Oil Fund, LP, the United States 12 Month Natural Gas Fund, LP, the United States Brent Oil Fund, LP, the United States Commodity Index Fund, the United States Copper Index Fund, the United States Agriculture Index Fund and the United States Metals Index Fund (collectively, the "Related Public Funds") and the fees and expenses of the independent directors who also serve as audit committee members of US12OF and the Related Public Funds organized as limited partnerships and, as of July 8, 2011, the Related Public Funds organized as a series of a Delaware statutory trust. US12OF shares the fees and expenses on a pro rata basis with each Related Public Fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2013 are estimated to be a total of \$560,625 for US12OF and the Related Public Funds. By

comparison, for the year ended December 31, 2012, these fees and expenses amounted to a total of \$540,586 for US12OF and the Related Public Funds. US12OF's portion of such fees and expenses for the year ended December 31, 2012 was \$25,332.

US12OF also incurs commissions to brokers for the purchase and sale of Oil Futures Contracts, Other Oil-Related Investments or Treasuries. During the nine months ended September 30, 2013, total commissions accrued to brokers amounted to \$8,337. Of this amount, approximately \$3,825 was a result of rebalancing costs and approximately \$4,512 was the result of trades necessitated by creation and redemption activity. By comparison, during the nine months ended September 30, 2012, total commissions accrued to brokers amounted to \$17,663. Of this amount, approximately \$5,692 was a result of rebalancing costs and approximately \$11,971 was the result of trades necessitated by creation and redemption activity. The decrease in the total commissions accrued to brokers for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was primarily a function of decreased brokerage fees due to a lower number of futures contracts being held and traded as a result of the decrease in US12OF's total net assets during the nine months ended September 30, 2013. The decrease in total net assets required US12OF to purchase a fewer number of Oil Futures Contracts and incur a lower amount of broker commissions during the nine months ended September 30, 2013. As an annualized percentage of average daily total net assets, the figure for the nine months ended September 30, 2013 represents approximately 0.01% of average daily total net assets. By comparison, the figure for the nine months ended September 30, 2012 represented approximately 0.01% of average daily total net assets. However, there can be no assurance that commission costs and portfolio turnover will not cause commission expenses to rise in future quarters.

The fees and expenses associated with US12OF's audit expenses and tax accounting and reporting requirements are paid by US12OF. These costs are estimated to be \$200,000 for the year ending December 31, 2013.

*Dividend and Interest Income.* US12OF seeks to invest its assets such that it holds Oil Futures Contracts and Other Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require US12OF to pay the full amount of the contract value at the time of purchase, but rather require US12OF to post an amount as a margin deposit against the eventual settlement of the contract. As a result, US12OF retains an amount that is approximately equal to its total net assets, which US12OF invests in Treasuries, cash and/or cash equivalents. This includes both the amount on deposit with the FCM as margin, as well as unrestricted cash and cash equivalents held with US12OF's custodian bank. The Treasuries, cash and/or cash equivalents earn income that accrues on a daily basis. For the nine months ended September 30, 2013, US12OF earned \$19,457 in dividend and interest income on such Treasuries, cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of approximately 0.03%. US12OF purchased Treasuries during the nine months ended September 30, 2013 and also held cash and/or cash equivalents during this time period. By comparison, for the nine months ended September 30, 2012, US12OF earned \$28,138 in dividend and interest income on such Treasuries, cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of approximately 0.02%. US12OF purchased Treasuries during the nine months ended September 30, 2012 and also held cash and/or cash equivalents during this time period. Interest rates on short-term investments held by US12OF, including cash, cash equivalents and Treasuries, were lower during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. As a result, the amount of income earned by US12OF as a percentage of average daily total net assets was lower during the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.

For the Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

*Portfolio Expenses.* During the three months ended September 30, 2013, the average daily total net assets of US12OF were \$80,781,725. The management fee incurred by US12OF during the period amounted to \$122,169. By comparison, during the three months ended September 30, 2012, the average daily total net assets of US12OF were \$125,277,978. The management fee paid by US12OF during the period amounted to \$188,943.

In addition to the management fee, US12OF pays all brokerage fees and other expenses, including tax reporting costs, licensing fees for the use of intellectual property, ongoing registration or other fees paid to the SEC, FINRA and any other regulatory agency in connection with offers and sales of its units subsequent to the initial offering and all legal,

accounting, printing and other expenses associated therewith. The total of these fees and expenses for the three months ended September 30, 2013 was \$82,859, as compared to \$59,762 for the three months ended September 30, 2012. The increase in total expenses excluding management fees for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, was primarily due to a higher amortization rate of registration fees and expenses and increased audit and tax reporting expenses during the three months ended September 30, 2013. For the three months ended September 30, 2013, US12OF incurred \$22,486 in ongoing registration fees and other expenses relating to the registration and offering of additional units. By comparison, for the three months ended September 30, 2012, US12OF incurred \$9,298 in ongoing registration fees and other expenses relating to the registration and offering of additional units. The increase in registration fees and expenses incurred by US12OF for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was primarily due to a higher amortization rate of registration fees and expenses during the three months ended September 30, 2013.

US12OF is responsible for paying its portion of the directors' and officers' liability insurance of US12OF and the Related Public Funds and the fees and expenses of the independent directors who also serve as audit committee members of US12OF and the Related Public Funds organized as limited partnerships and, as of July 8, 2011, the Related Public Funds organized as a series of a Delaware statutory trust. US12OF shares the fees and expenses on a pro rata basis with each Related Public Fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2013 are estimated to be a total of \$560,625 for US12OF and the Related Public Funds. By comparison, for the year ended December 31, 2012, these fees and expenses amounted to a total of \$540,586 for US12OF and the Related Public Funds. US12OF's portion of such fees and expenses for the year ended December 31, 2012 was \$25,332.

US12OF also incurs commissions to brokers for the purchase and sale of Oil Futures Contracts, Other Oil-Related Investments or Treasuries. During the three months ended September 30, 2013, total commissions accrued to brokers amounted to \$2,066. Of this amount, approximately \$1,376 was a result of rebalancing costs and approximately \$690 was the result of trades necessitated by creation and redemption activity. By comparison, during the three months ended September 30, 2012, total commissions accrued to brokers amounted to \$6,319. Of this amount, approximately \$2,127 was a result of rebalancing costs and approximately \$4,192 was the result of trades necessitated by creation and redemption activity. The decrease in the total commissions accrued to brokers for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was primarily a function of decreased brokerage fees due to a lower number of futures contracts being held and traded as a result of the decrease in US12OF's total net assets during the three months ended September 30, 2013. The decrease in total net assets required US12OF to purchase a fewer number of Oil Futures Contracts and incur a lower amount of broker commissions during the three months ended September 30, 2013. As an annualized percentage of average daily total net assets, the figure for the three months ended September 30, 2013 represents approximately 0.01% of average daily total net assets. By comparison, the figure for the three months ended September 30, 2012 represented approximately 0.02% of average daily total net assets. However, there can be no assurance that commission costs and portfolio turnover will not cause commission expenses to rise in future quarters.

The fees and expenses associated with US12OF's audit expenses and tax accounting and reporting requirements are paid by US12OF. These costs are estimated to be \$200,000 for the year ending December 31, 2013.

*Dividend and Interest Income.* US12OF seeks to invest its assets such that it holds Oil Futures Contracts and Other Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require US12OF to pay the full amount of the contract value at the time of purchase, but rather require US12OF to post an amount as a margin deposit against the eventual settlement of the contract. As a result, US12OF retains an amount that is approximately equal to its total net assets, which US12OF invests in Treasuries, cash and/or cash equivalents. This includes both the amount on deposit with the FCM as margin, as well as unrestricted cash and cash equivalents held with US12OF's custodian bank. The Treasuries, cash and/or cash equivalents earn income that accrues on a daily basis. For the three months ended September 30, 2013, US12OF earned \$5,214 in dividend and interest income on such Treasuries, cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of approximately 0.03%. US12OF purchased Treasuries during the three months ended September 30, 2013 and also held cash and/or cash equivalents during this time period. By comparison, for the three months ended September 30, 2012, US12OF earned \$9,066 in dividend and interest income on such Treasuries, cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of approximately 0.03%. US12OF purchased Treasuries during the three months ended September 30, 2012 and also held cash and/or cash equivalents during this time period. Interest rates on short-term investments held by US12OF, including cash, cash equivalents and Treasuries, were similar during the three months ended September 30, 2013 compared to the three months ended September 30, 2012. As a result, the amount of income earned by US12OF as a percentage of average daily total net assets was similar during the three months ended September 30, 2013 as compared to the three months ended September 30, 2012.

### **Tracking US12OF's Benchmark**

USCF seeks to manage US12OF's portfolio such that changes in its average daily per unit NAV, on a percentage basis, closely track the daily changes in the average of the prices of the Benchmark Oil Futures Contracts, also on a percentage basis. Specifically, USCF seeks to manage the portfolio such that over any rolling period of 30 valuation days, the average daily change in US12OF's per unit NAV is within a range of 90% to 110% (0.9 to 1.1) of the average daily change in the prices of the Benchmark Oil Futures Contracts. As an example, if the average daily movement of the average of the prices of the Benchmark Oil Futures Contracts for a particular 30-valuation day time period was 0.50% per day, USCF would attempt to manage the portfolio such that the average daily movement of the per unit NAV during that same time period fell between 0.45% and 0.55% (*i.e.*, between 0.9 and 1.1 of the benchmark's results). US12OF's portfolio management goals do not include trying to make the nominal price of US12OF's per unit NAV equal to the average of the nominal prices of the current Benchmark Oil Futures Contracts or the spot price for light, sweet crude oil. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in listed Oil Futures Contracts.



For the 30 valuation days ended September 30, 2013, the simple average daily change in the Benchmark Oil Futures Contracts was (0.059)%, while the simple average daily change in the per unit NAV of US12OF over the same time period was (0.062)%. The average daily difference was (0.004)% (or (0.4) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the Benchmark Oil Futures Contracts, the average error in daily tracking by the per unit NAV was (0.94)%, meaning that over this time period US12OF's tracking error was within the plus or minus 10% range established as its benchmark tracking goal. A significant portion of the level of US12OF's relative tracking error as a percentage of the benchmark was due to periods of flat price returns. The first chart below shows the daily movement of US12OF's per unit NAV versus the daily movement of the Benchmark Oil Futures Contracts for the 30-valuation day period ended September 30, 2013, the last day of trading in September. The second chart below shows the monthly total returns of US12OF as compared to the monthly value of the Benchmark Oil Futures Contracts for the five years ended September 30, 2013.

Since the commencement of the offering of US12OF units to the public on December 6, 2007 to September 30, 2013, the simple average daily change in the Benchmark Oil Futures Contracts was 0.013%, while the simple average daily change in the per unit NAV of US12OF over the same time period was 0.012%. The average daily difference was (0.002)% (or (0.2) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the Benchmark Oil Futures Contracts, the average error in daily tracking by the per unit NAV was (0.655)%, meaning that over this time period US12OF's tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

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An alternative tracking measurement of the return performance of US12OF versus the return of its Benchmark Oil Futures Contracts can be calculated by comparing the actual return of US12OF, measured by changes in its per unit NAV, versus the expected changes in its per unit NAV under the assumption that US12OF's returns had been exactly the same as the daily changes in its Benchmark Oil Futures Contracts.

For the nine months ended September 30, 2013, the actual total return of US12OF as measured by changes in its per unit NAV was 8.49%. This is based on an initial per unit NAV of \$39.81 as of December 31, 2012 and an ending per unit NAV as of September 30, 2013 of \$40.07. During this time period, US12OF made no distributions to its unitholders. However, if US12OF's daily changes in its per unit NAV had instead exactly tracked the changes in the daily total return of the Benchmark Oil Futures Contracts, US12OF would have had an estimated per unit NAV of \$43.49 as of September 30, 2013, for a total return over the relevant time period of 9.24%. The difference between the actual per unit NAV total return of US12OF of 8.49% and the expected total return based on the Benchmark Oil Futures Contracts of 9.24% was an error over the time period of (0.75)%, which is to say that US12OF's actual total return underperformed the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of the expenses that US12OF pays, offset in part by the income that US12OF collects on its cash and cash equivalent holdings. During the nine months ended September 30, 2013, US12OF earned dividend and interest income of \$19,457, which is equivalent to a weighted average income rate of approximately 0.03% for such period. In addition, during the nine months ended September 30, 2013, US12OF also collected \$6,300 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to US12OF's actual total return. During the nine months ended September 30, 2013, US12OF incurred total expenses of \$672,540. Income from dividends and interest and Authorized Purchaser collections net of expenses was \$(646,783), which is equivalent to an annualized weighted average net income rate of approximately (0.96)% for the nine months ended September 30, 2013. These expenses also contributed to US12OF's actual return underperforming the benchmark results.

By comparison, for the nine months ended September 30, 2012, the actual total return of US12OF as measured by changes in its per unit NAV was (7.04)%. This was based on an initial per unit NAV of \$43.46 as of December 31, 2011 and an ending per unit NAV as of September 30, 2012 of \$40.40. During this time period, US12OF made no distributions to its unitholders. However, if US12OF's daily changes in its per unit NAV had instead exactly tracked the changes in the daily total return of the Benchmark Oil Futures Contracts, US12OF would have had an estimated per unit NAV of \$40.62 as of September 30, 2012, for a total return over the relevant time period of (6.53)%. The difference between the actual per unit NAV total return of US12OF of (7.04)% and the expected total return based on the Benchmark Oil Futures Contracts of (6.53)% was an error over the time period of (0.51)%, which is to say that US12OF's actual total return underperformed the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of the expenses that US12OF paid, offset in part by the income that US12OF collected on its cash and cash equivalent holdings. During the nine months ended September 30, 2012, US12OF earned dividend and interest income of \$28,138, which was equivalent to a weighted average income rate of approximately 0.02% for such period. In addition, during the nine months ended September 30, 2012, US12OF also collected \$10,500 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to US12OF's actual total return. During the nine months ended September 30, 2012, US12OF incurred total expenses of \$829,718. Income from dividends and interest and Authorized Purchaser collections net of expenses was \$(791,080), which was equivalent to an annualized weighted average net income rate of approximately (0.73)% for the nine months ended September 30, 2012. These expenses also contributed to US12OF's actual return underperforming the benchmark results.

There are currently three factors that have impacted or are most likely to impact US12OF's ability to accurately track its Benchmark Oil Futures Contracts.

First, US12OF may buy or sell its holdings in the then current Benchmark Oil Futures Contracts at a price other than the closing settlement price of that contract on the day during which US12OF executes the trade. In that case, US12OF may pay a price that is higher, or lower, than that of the Benchmark Oil Futures Contracts, which could cause the changes in the daily per unit NAV of US12OF to either be too high or too low relative to the daily changes in the Benchmark Oil Futures Contracts. During the nine months ended September 30, 2013, USCF attempted to minimize the effect of these transactions by seeking to execute its purchase or sale of the Benchmark Oil Futures Contracts at, or as close as possible to, the end of the day settlement price. However, it may not always be possible for US12OF to obtain the closing settlement price and there is no assurance that failure to obtain the closing settlement price in the future will not adversely impact US12OF's attempt to track the Benchmark Oil Futures Contracts over time.

Second, US12OF earns dividend and interest income on its cash, cash equivalents and Treasuries. US12OF is not required to distribute any portion of its income to its unitholders and did not make any distributions to unitholders during the nine months ended September 30, 2013. Interest payments, and any other income, were retained within the portfolio and added to US12OF's NAV. When this income exceeds the level of US12OF's expenses for its management fee, brokerage commissions and other expenses (including ongoing registration fees, licensing fees and the fees and expenses of the independent directors of USCF), US12OF will realize a net yield that will tend to cause daily changes in the per unit NAV of US12OF to track slightly higher than daily changes in the average of the prices of the Benchmark Oil Futures Contracts. During the nine months ended September 30, 2013, US12OF earned, on an annualized basis, approximately 0.03% on its cash and cash equivalent holdings. It also incurred cash expenses on an annualized basis of 0.60% for management fees, approximately 0.01% in brokerage commission costs related to the purchase and sale of futures contracts and approximately 0.38% for other expenses. The foregoing fees and expenses resulted in a net yield on an annualized basis of approximately (0.97)% and affected US12OF's ability to track its benchmark. If short-term interest rates rise above the current levels, the level of deviation created by the yield would decrease. Conversely, if short-term interest rates were to decline, the amount of error created by the yield would increase. When short-term yields drop to a level lower than the combined expenses of the management fee and the

brokerage commissions, then the tracking error becomes a negative number and would tend to cause the daily returns of the per unit NAV to underperform the daily returns of the Benchmark Oil Futures Contracts. USCF anticipates that interest rates will continue to remain at historical lows and, therefore, it is anticipated that fees and expenses paid by US12OF will continue to be higher than interest earned by US12OF. As such, USCF anticipates that US12OF will continue to underperform its benchmark until such a time when interest earned at least equals or exceeds the fees and expenses paid by US12OF.

Third, US12OF may hold Other Oil-Related Investments in its portfolio that may fail to closely track the Benchmark Oil Futures Contracts' total return movements. In that case, the error in tracking the Benchmark Oil Futures Contracts could result in daily changes in the per unit NAV of US12OF that are either too high, or too low, relative to the daily changes in the Benchmark Oil Futures Contracts. During the nine months ended September 30, 2013, US12OF did not hold any Other Oil-Related Investments. If US12OF increases in size, and due to its obligations to comply with regulatory limits, US12OF may invest in Other Oil-Related Investments which may have the effect of increasing transaction related expenses and may result in increased tracking error.

*Term Structure of Crude Oil Futures Prices and the Impact on Total Returns.* Several factors determine the total return from investing in a futures contract position. One factor that impacts the total return that will result from investing in near month futures contracts and "rolling" those contracts forward each month is the price relationship between the current near month contract and the next month contract. For example, if the price of the near month contract is higher than the next month contract (a situation referred to as "backwardation" in the futures market), then absent any other change there is a tendency for the price of a next month contract to rise in value as it becomes the near month contract and approaches expiration. Conversely, if the price of a near month contract is lower than the next month contract (a situation referred to as "contango" in the futures market), then absent any other change there is a tendency for the price of a next month contract to decline in value as it becomes the near month contract and approaches expiration.

As an example, assume that the price of crude oil for immediate delivery (the "spot" price), was \$50 per barrel, and the value of a position in the near month futures contract was also \$50. Over time, the price of the barrel of crude oil will fluctuate based on a number of market factors, including demand for oil relative to its supply. The value of the near month contract will likewise fluctuate in reaction to a number of market factors. If investors seek to maintain their position in a near month contract and not take delivery of the oil, every month they must sell their current near month contract as it approaches expiration and invest in the next month contract.

If the futures market is in backwardation, *e.g.*, when the expected price of crude oil in the future would be less, the investor would be buying a next month contract for a lower price than the current near month contract. Using the \$50 per barrel price above to represent the front month price, the price of the next month contract could be \$49 per barrel, that is, 2% cheaper than the front month contract. Hypothetically, and assuming no other changes to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract (and ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the \$49 next month contract would rise as it approaches expiration and becomes the new near month contract with a price of \$50. In this example, the value of an investment in the second month contract would tend to rise faster than the spot price of crude oil, or fall slower. As a result, it would be possible in this hypothetical example for the spot price of crude oil to have risen 10% after some period of time, while the value of the investment in the second month futures contract would have risen 12%, assuming backwardation is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the futures contract could have fallen only 8%. Over time, if backwardation remained constant, the difference would continue to increase.

If the futures market is in contango, the investor would be buying a next month contract for a higher price than the current near month contract. Using again the \$50 per barrel price above to represent the front month price, the price of the next month contract could be \$51 per barrel, that is, 2% more expensive than the front month contract. Hypothetically, and assuming no other changes to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract (and ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the next month contract would fall as it approaches expiration and becomes the new near month contract with a price of \$50. In this example, it would mean that the value of an investment in the second month would tend to rise slower than the spot price of crude oil, or fall faster. As a result, it would be possible in this hypothetical example for the spot price of crude oil to have risen 10% after some period of time, while the value of the investment in the second month futures contract will have risen only 8%.

assuming contango is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the second month futures contract could have fallen 12%. Over time, if contango remained constant, the difference would continue to increase.

The chart below compares the price of the near month contract to the average price of the near 12 month contracts over the last 10 years for light, sweet crude oil. When the price of the near month contract is higher than the average price of the near 12 month contracts, the market would be described as being in backwardation. When the price of the near month contract is lower than the average price of the near 12 month contracts, the market would be described as being in contango. Although the prices of the near month contract and the average price of the near 12 month contracts do tend to move up or down together, it can be seen that at times the near month prices are clearly higher than the average price of the near 12 month contracts (backwardation), and other times they are below the average price of the near 12 month contracts (contango).

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An alternative way to view the same data is to subtract the dollar price of the average dollar price of the near 12 month contracts for light, sweet crude oil from the dollar price of the near month contract for light, sweet crude oil. If the resulting number is a positive number, then the near month price is higher than the average price of the near 12 months and the market could be described as being in backwardation. If the resulting number is a negative number, then the near month price is lower than the average price of the near 12 months and the market could be described as being in contango. The chart below shows the results from subtracting the average dollar price of the near 12 month contracts from the near month price for the 10 year period between September 30, 2003 and September 30, 2013.

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An investment in a portfolio that involved owning only the near month contract would likely produce a different result than an investment in a portfolio that owned an equal number of each of the near 12 months' worth of contracts. Generally speaking, when the crude oil futures market is in backwardation, the near month only portfolio would tend to have a higher total return than the 12 month contract portfolio. Conversely, if the crude oil futures market was in contango, the portfolio containing 12 months' worth of contracts would tend to outperform the near month only portfolio. The chart below shows the annual results of owning a portfolio consisting of the near month contract and a portfolio containing the near 12 months' worth of contracts. In addition, the chart shows the annual change in the spot price of light, sweet crude oil. In this example, each month, the near month only portfolio would sell the near month contract at expiration and buy the next month out contract. The portfolio holding an equal number of the near 12 months' worth of contracts would sell the near month contract at expiration and replace it with the contract that becomes the new twelfth month contract.



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**HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT US12OF WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.**

**ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING.**

**FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.**

As seen in the chart above, there have been periods of both positive and negative annual total returns for both hypothetical portfolios over the last 10 years. In addition, there have been periods during which the near month only approach had higher returns, and periods where the 12 month approach had higher total returns. The above chart does not represent the performance history of US12OF or any Related Public Fund.

Historically, the crude oil futures markets have experienced periods of contango and backwardation, with backwardation being in place roughly as often as contango since oil futures trading started in 1982. Following the global financial crisis in the fourth quarter of 2008, the crude oil market moved into contango and remained in contango for a period of several years. During parts of 2009, the level of contango was unusually steep as a combination of slack U.S. and global demand for crude oil and issues involving the physical transportation and storage of crude oil at Cushing, Oklahoma, the primary pricing point for oil traded in the U.S., led to unusually high inventories of crude oil. Since then, a combination of improved transportation and storage capacity, along with growing demand for crude oil globally, has moderated the inventory build-up and led to reduced levels of contango by 2011. The crude oil futures market moved into backwardation during the nine months ended September 30, 2013.

USCF believes that holding futures contracts whose expiration dates are spread out over a 12 month period of time will cause the total return of such a portfolio to vary compared to a portfolio that holds only a single month's contract (such as the near month contract). In particular, USCF believes that the total return of a portfolio holding contracts with a range of expiration months will be impacted differently by the price relationship between different contract months of the same commodity future compared to the total return of a portfolio consisting of the near month contract. USCF believes that based on historical evidence a portfolio that held futures contracts with a range of expiration dates spread out over a 12 month period of time would typically be impacted less by the positive effect of backwardation, and less by the negative effect of contango, compared to a portfolio that held contracts of a single near month. As a result, absent the impact of any other factors, a portfolio of 12 different monthly contracts would tend to have a lower total return than a near month only portfolio in a backwardation market and a higher total return in a contango market. However there can be no assurance that such historical relationships would provide the same or similar results in the future.

Periods of contango or backwardation do not materially impact US12OF's investment objective of having the daily percentage changes in its per unit NAV track the daily percentage changes in the average of the prices of the Benchmark Oil Futures Contracts since the impact of backwardation and contango tend to equally impact the daily percentage changes in price of both US12OF's units and the Benchmark Oil Futures Contracts. It is impossible to predict with any degree of certainty whether backwardation or contango will occur in the future. It is likely that both conditions will occur during different periods.

*Crude Oil Market.* During the nine months ended September 30, 2013, crude oil prices were impacted by several factors. On the consumption side, demand growth remained moderate inside and outside the United States as global economic growth, including emerging economies such as China and India, showed signs of slow economic growth. Europe in particular showed signs of weakness as the ongoing financial and banking crisis raised concerns during the first quarter of 2013. On the supply side, efforts to reduce production in recent years by the Organization of the Petroleum Exporting Countries ("OPEC") to more closely match global consumption were partially successful. However, continuing concerns about the political standoff with Iran have left the market subject to bouts of heightened volatility as OPEC's ability to replace Iranian oil currently subject to embargo is not unlimited. In addition, security issues in Libya, Egypt, Iraq, and Syria also contribute to heightened volatility. In recent years, oil production in the United States and Canada has increased. However, limits on oil transportation infrastructure, including pipelines, have made it more difficult for the increased production to move to the centers of refining, often leading to a build-up in crude oil inventory in areas of the United States, such as the U.S. Midwest, and Canada. The result is that crude oil prices in the U.S. Midwest, where the pricing point of the light, sweet crude oil contract is located, have tended to trade at a lower price than crude oil in other parts of the United States and lower than global crude oil benchmarks such as Brent crude oil. United States crude oil prices finished the third quarter of 2013 approximately 11.45% higher than at the beginning of the year, as the global economy continues to adjust to periods of slow recovery and economic growth. USCF believes that should the global economic situation cease to improve, or decline, there is a meaningful possibility that crude oil prices could further retreat from their current levels, while any military actions involving Iran would likely have the opposite effect

*Crude Oil Price Movements in Comparison to Other Energy Commodities and Investment Categories.* USCF believes that investors frequently measure the degree to which prices or total returns of one investment or asset class move up or down in value in concert with another investment or asset class. Statistically, such a measure is usually done by measuring the correlation of the price movements of the two different investments or asset classes over some period of time. The correlation is scaled between 1 and -1, where 1 indicates that the two investment options move up or down in price or value together, known as “positive correlation,” and -1 indicates that they move in completely opposite directions, known as “negative correlation.” A correlation of 0 would mean that the movements of the two are neither positively nor negatively correlated, known as “non-correlation.” That is, the investment options sometimes move up and down together and other times move in opposite directions.

For the ten-year time period between September 30, 2003 and September 30, 2013, the table below compares the monthly movements of crude oil prices versus the monthly movements of the prices of several other energy commodities, such as natural gas, diesel-heating oil, and unleaded gasoline, as well as several major non-commodity investment asset classes, such as large cap U.S. equities, U.S. government bonds and global equities. It can be seen that over this particular time period, the movement of crude oil on a monthly basis was neither strongly correlated nor inversely correlated with the movements of U.S. government bonds, global equities, large cap U.S. equities and natural gas. However, movements in crude oil were strongly correlated to movements in diesel-heating oil and unleaded gasoline.

Correlation Matrix September 30, 2003-2013	U.S. Gov't.			Unleaded Gasoline	Diesel- Heating Oil	Natural Gas	Crude Oil
	Large Cap U.S. Equities (S&P 500)	Bonds (EFFAS U.S. Gov't. Bond Index)	Global Equities (FTSE World Index)				
Large Cap U.S. Equities (S&P 500)	1.000	(0.285)	0.961	0.196	0.382	0.099	0.419
U.S. Gov't. Bonds (EFFAS U.S. Gov't. Bond Index)		1.000	(0.258)	(0.248)	(0.265)	(0.019)	(0.321)
Global Equities (FTSE World Index)			1.000	0.212	0.450	0.148	0.485
Unleaded Gasoline				1.000	0.665	0.221	0.639
Diesel-Heating Oil					1.000	0.390	0.869
Natural Gas						1.000	0.322
Crude Oil							1.000

Source: Bloomberg, NYMEX

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The table below covers a more recent, but much shorter, range of dates than the above table. Over the one-year period ended September 30, 2013, crude oil was neither strongly correlated nor inversely correlated with the movements of U.S. government bonds, global equities, large cap U.S. equities and natural gas. Movements in crude oil still had a strong positive correlation to the movements in diesel-heating oil. Over the shorter time frame, crude oil was neither strongly correlated nor inversely correlated with movements in unleaded gasoline as compared to the strong correlation over the longer time period.

Large Cap U.S.	U.S. Gov't.		Global Equities (FTSE	Diesel-	U.S.
	Bonds (EFFAS U.S.	Bonds			
					&#1