

United States 12 Month Oil Fund, LP  
Form 10-Q  
November 09, 2010

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, 2010.

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)

20-0431897  
(I.R.S. Employer  
Identification No.)

1320 Harbor Bay Parkway, Suite 145  
Alameda, California 94502  
(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 Web site, 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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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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UNITED STATES 12 MONTH OIL FUND, LP  
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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, 2010 (Unaudited) and December 31, 2009

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents (Note 5)	\$ 129,597,828	\$ 141,666,539
<b>Equity in UBS Securities LLC trading accounts:</b>		
Cash	19,638,121	3,408,951
Unrealized gain on open commodity futures contracts	1,640,920	20,802,090
Dividend receivable	6,461	6,219
Other assets	143,162	145,723
<b>Total assets</b>	<b>\$ 151,026,492</b>	<b>\$ 166,029,522</b>
<b>Liabilities and Partners' Capital</b>		
Professional fees payable	\$ 448,155	\$ 405,399
General Partner management fees payable (Note 3)	72,794	78,963
Brokerage commission fees payable	6,282	10,532
Other liabilities	12,273	11,319
<b>Total liabilities</b>	<b>539,504</b>	<b>506,213</b>
<b>Commitments and Contingencies (Notes 3, 4 and 5)</b>		
<b>Partners' Capital</b>		
General Partner	-	-
Limited Partners	150,486,988	165,523,309
<b>Total Partners' Capital</b>	<b>150,486,988</b>	<b>165,523,309</b>
<b>Total liabilities and partners' capital</b>	<b>\$ 151,026,492</b>	<b>\$ 166,029,522</b>
Limited Partners' units outstanding	3,900,000	4,100,000
Net asset value per unit	\$ 38.59	\$ 40.37
Market value per unit	\$ 38.49	\$ 40.46

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, 2010

	Number of Contracts	Gain (Loss) on Open Commodity Contracts	% of Partners' Capital
<b>Open Futures Contracts - Long</b>			
United States Contracts			
NYMEX Crude Oil Futures CL contracts, expire November 2010	150	\$ 547,130	0.36
NYMEX Crude Oil Futures CL contracts, expire December 2010	150	(208,040)	(0.14)
NYMEX Crude Oil Futures CL contracts, expire January 2011	151	(223,020)	(0.15)
NYMEX Crude Oil Futures CL contracts, expire February 2011	150	(720,140)	(0.48)
NYMEX Crude Oil Futures CL contracts, expire March 2011	150	906,930	0.60
NYMEX Crude Oil Futures CL contracts, expire April 2011	150	(177,340)	(0.12)
NYMEX Crude Oil Futures CL contracts, expire May 2011	151	(661,190)	(0.44)
NYMEX Crude Oil Futures CL contracts, expire June 2011	150	(112,440)	(0.07)
NYMEX Crude Oil Futures CL contracts, expire July 2011	151	779,720	0.52
NYMEX Crude Oil Futures CL contracts, expire August 2011	150	1,166,650	0.78
NYMEX Crude Oil Futures CL contracts, expire September 2011	151	(73,400)	(0.05)
NYMEX Crude Oil Futures CL contracts, expire October 2011	150	416,060	0.28
<b>Total Open Futures Contracts</b>	<b>1,804</b>	<b>\$ 1,640,920</b>	<b>1.09</b>

	Principal Amount	Market Value	
<b>Cash Equivalents</b>			
United States - Money Market Funds			
Fidelity Institutional Government Portfolio - Class I	\$ 75,135,816	\$ 75,135,816	49.93
Goldman Sachs Financial Square Funds - Government Fund - Class SL	42,443,448	42,443,448	28.20
Morgan Stanley Institutional Liquidity Fund - Government Portfolio	10,001,985	10,001,985	6.65
<b>Total Cash Equivalents</b>		<b>\$ 127,581,249</b>	<b>84.78</b>

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, 2010 and 2009

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
<b>Income</b>				
Gain (loss) on trading of commodity futures contracts:				
Realized gain (loss) on closed positions	\$ (291,690)	\$ 17,518,080	\$ 14,251,490	\$ 30,743,940
Change in unrealized gain (loss) on open positions	8,114,980	(21,479,560)	(19,161,170)	24,098,430
Dividend income	23,287	47,388	46,763	159,668
Interest income	386	3,319	3,203	14,628
Other income	2,000	4,000	5,000	27,000
<b>Total income (loss)</b>	<b>7,848,963</b>	<b>(3,906,773)</b>	<b>(4,854,714)</b>	<b>55,043,666</b>
<b>Expenses</b>				
General Partner management fees (Note 3)	228,990	258,799	698,588	622,542
Professional fees	18,941	179,140	262,856	281,837
Brokerage commission fees	3,981	5,521	8,070	44,530
Other expenses	13,620	43,244	64,915	130,954
<b>Total expenses</b>	<b>265,532</b>	<b>486,704</b>	<b>1,034,429</b>	<b>1,079,863</b>
Expense waiver (Note 3)	-	-	-	(11,227)
<b>Net expenses</b>	<b>265,532</b>	<b>486,704</b>	<b>1,034,429</b>	<b>1,068,636</b>
<b>Net income (loss)</b>	<b>\$ 7,583,431</b>	<b>\$ (4,393,477)</b>	<b>\$ (5,889,143)</b>	<b>\$ 53,975,030</b>
Net income (loss) per limited partnership unit	\$ 1.79	\$ (0.97)	\$ (1.78)	\$ 5.54
Net income (loss) per weighted average limited partnership unit	\$ 1.86	\$ (0.95)	\$ (1.46)	\$ 13.28
Weighted average limited partnership units outstanding	4,070,652	4,632,609	4,023,077	4,063,736

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, 2010

	General Partner	Limited Partners	Total
Balances, at December 31, 2009	\$ -	\$ 165,523,309	\$ 165,523,309
Addition of 400,000 partnership units	-	14,577,236	14,577,236
Redemption of 600,000 partnership units	-	(23,724,414)	(23,724,414)
Net loss	-	(5,889,143)	(5,889,143)
Balances, at September 30, 2010	\$ -	\$ 150,486,988	\$ 150,486,988
Net Asset Value Per Unit:			
At December 31, 2009	\$	40.37	
At September 30, 2010	\$	38.59	

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, 2010 and 2009

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (5,889,143)	\$ 53,975,030
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Decrease (increase) in commodity futures trading account – cash	(16,229,170)	5,015,708
Unrealized (gain) loss on futures contracts	19,161,170	(24,098,430)
Decrease in receivable from General Partner	-	97,019
Decrease (increase) in dividend receivable and other assets	2,319	(168,044)
Increase (decrease) in General Partner management fees payable	(6,169)	76,868
Increase in professional fees payable	42,756	127,725
Increase (decrease) in brokerage commission fees payable	(4,250)	12,882
Increase in other liabilities	954	11,711
Net cash provided by (used in) operating activities	(2,921,533)	35,050,469
<b>Cash Flows from Financing Activities:</b>		
Addition of partnership units	14,577,236	177,719,127
Redemption of partnership units	(23,724,414)	(76,114,909)
Net cash provided by (used in) financing activities	(9,147,178)	101,604,218
Net Increase (Decrease) in Cash and Cash Equivalents	(12,068,711)	136,654,687
Cash and Cash Equivalents, beginning of period	141,666,539	4,012,323
Cash and Cash Equivalents, end of period	\$ 129,597,828	\$ 140,667,010

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, 2010 (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 Amended and Restated Agreement of Limited Partnership dated as of December 4, 2007 (the “LP Agreement”). The investment objective of US12OF is for the changes in percentage terms of its units’ net asset value to reflect the changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the 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, less US12OF’s expenses. US12OF accomplishes its objective through investments in futures contracts for light, sweet crude oil and 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 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, heating oil, gasoline, natural gas and other petroleum-based fuels, Oil Futures Contracts and indices based on the foregoing (collectively, “Other Oil Interests”). As of September 30, 2010, US12OF held 1,804 Oil Futures Contracts for light, sweet crude oil traded on the NYMEX.

US12OF commenced investment operations on December 6, 2007 and has a fiscal year ending on December 31. United States Commodity Funds LLC (the “General Partner”) is responsible for the management of US12OF. The General Partner 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. The General Partner 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 Heating Oil Fund, LP (“USHO”), 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 USHO’s units commenced trading on the NYSE Arca on November 25, 2008. The General Partner 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. The General Partner is also the sponsor of the United States Commodity Index Fund (“USCI”) which listed its units on the NYSE Arca under the ticker symbol “USCI” on August 10, 2010.

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

US12OF issues units to certain authorized purchasers (“Authorized Purchasers”) by offering baskets consisting of 100,000 units (“Creation Baskets”) through ALPS Distributors, Inc., as the marketing agent (the “Marketing Agent”). The purchase price for a Creation Basket is based upon the net asset value 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.

In addition, Authorized Purchasers pay US12OF a \$1,000 fee for each order placed to create one or more Creation Baskets or to redeem one or more baskets consisting of 100,000 units (“Redemption Baskets”). 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 net asset value of US12OF but rather at market prices quoted on such exchange.

On December 4, 2008, US12OF initially registered 11,000,000 units on Form S-1 with 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 net asset value by setting the price at \$50.00 per unit and issued 300,000 units in exchange for \$15,001,000. 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, 2010, US12OF had registered a total of 111,000,000 units.

## 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 statement 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 statement 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 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 2007 (year of inception). 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 analyses 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, 2010.

#### Creations and Redemptions

Authorized Purchasers may purchase Creation Baskets or redeem Redemption Baskets only in blocks of 100,000 units at a price equal to the net asset value of the units calculated shortly after the close of the core trading session on the NYSE Arca on the day the order is placed.

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 statement 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. The General Partner may revise, alter or otherwise modify this method of allocation as described in the LP Agreement.

#### Calculation of Net Asset Value

US12OF's net asset value is calculated on each NYSE Arca trading day by taking the current market value of its total assets, subtracting any liabilities and dividing the amount by the total number of units issued and 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 net asset value per unit 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 redeemed based on the amount of time the units were outstanding during such period. There were no units held by the General Partner at September 30, 2010.

#### 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 three months or less.

#### Reclassification

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

#### Use of Estimates

The preparation of condensed financial statements in conformity with GAAP requires US12OF's management 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**

**General Partner Management Fee**

Under the LP Agreement, the General Partner is responsible for investing the assets of US12OF in accordance with the objectives and policies of US12OF. In addition, the General Partner 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 the General Partner a fee, which is paid monthly, equal to 0.60% per annum of average daily 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, 2010 and 2009, US12OF incurred \$7,700 and \$96,250, 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 of the General Partner and the fees and expenses of the independent directors of the General Partner who are also the General Partner's audit committee members. These fees and expenses for the calendar year 2010 are estimated to be a total of \$1,178,870 for all funds. Effective as of April 1, 2010, US12OF is responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, the General Partner and each of the affiliated funds. US12OF shares all director fees and expenses, including any that may become due pursuant to the deferred compensation agreements, with USOF, USNG, UGA, USHO, USSO, US12NG and USBO based on the relative assets of each fund, computed on a daily basis.

#### Licensing Fees

As discussed in Note 4 below, US12OF entered into a licensing agreement with the NYMEX on January 16, 2008. Pursuant to the agreement, US12OF and the affiliated funds managed by the General Partner, other than USBO and USCI, pay a licensing fee that is equal to 0.04% for the first \$1,000,000,000 of combined assets of the funds and 0.02% for combined assets above \$1,000,000,000. During the nine months ended September 30, 2010 and 2009, US12OF incurred \$27,656 and \$24,679, respectively, under this arrangement.

#### Investor Tax Reporting Cost

US12OF pays the fees and expenses associated with its audit expenses and tax accounting and reporting requirements. These costs are estimated to be \$275,000 for the calendar year 2010.

#### 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 the General Partner 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 the General Partner, 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 the General Partner, 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.

The above fee does not include the following expenses, which are also borne by the General Partner: the cost of placing advertisements in various periodicals; web 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 the General Partner, whereby BBH&Co. holds investments on behalf of US12OF. The General Partner 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 the General Partner and BBH&Co., whereby BBH&Co. acts as the administrative agent, transfer agent and registrar for US12OF. The General Partner 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, the General Partner 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 affiliated funds managed by the General Partner, as well as a \$20,000 annual fee for its transfer agency services. In addition, the General Partner 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, USHO’s, USSO’s, US12NG’s, USBO’s and USCI’s combined net assets, (b) 0.0465% for US12OF’s, USOF’s, USNG’s, UGA’s, USHO’s, USSO’s, US12NG’s, USBO’s and USCI’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, USHO’s, USSO’s, US12NG’s, USBO’s and USCI’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. The General Partner also pays transaction fees ranging from \$7.00 to \$15.00 per transaction.

US12OF has entered into a brokerage agreement with UBS Securities LLC (“UBS Securities”). The agreement requires UBS Securities to provide services to US12OF in connection with the purchase and sale of Oil Futures Contracts and Other Oil Interests that may be purchased and sold by or through UBS Securities for US12OF’s account. In accordance with the agreement, UBS Securities charges US12OF commissions of approximately \$7 per round-turn trade, including applicable exchange and NFA fees for Oil Futures Contracts and options on Oil Futures Contracts.

On January 16, 2008, US12OF and the NYMEX entered into a licensing agreement whereby US12OF was granted a non-exclusive license to use certain of the NYMEX’s settlement prices and service marks. The agreement has an effective date of December 4, 2007 with respect to US12OF. Under the licensing agreement, US12OF and the affiliated funds managed by the General Partner, other than USBO and USCI, 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 and options on futures contracts (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 and options on futures contracts 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 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.

Through September 30, 2010, all of the futures contracts held by US12OF were exchange-traded. 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 U.S. 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 vast majority of US12OF's assets are held in U.S. Treasuries, cash and/or cash equivalents with US12OF's custodian and would not be impacted by the insolvency of a futures commission merchant. Also, the failure or insolvency of US12OF's custodian could result in a substantial loss of US12OF's assets.

The General Partner invests a portion of US12OF's cash in money market funds that seek to maintain a stable net asset value. US12OF is exposed to any risk of loss associated with an investment in these money market funds. As of September 30, 2010 and December 31, 2009, US12OF had deposits in domestic and foreign financial institutions, including cash investments in money market funds, in the amounts of \$149,235,949 and \$145,075,490, respectively. This amount is subject to loss should these institutions 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 statement 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 – 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.

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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 December 31, 2009 using the fair value hierarchy:

At December 31, 2009	Total	Level I	Level II	Level III
Short-Term Investments	\$ 117,532,512	\$ 117,532,512	\$ -	\$ -
Exchange-Traded Futures Contracts				
United States Contracts	20,802,090	20,802,090	-	-

During the year ended December 31, 2009, there were no significant transfers between Level I and Level II.

The following table summarizes the valuation of US12OF's securities at September 30, 2010 using the fair value hierarchy:

At September 30, 2010	Total	Level I	Level II	Level III
Short-Term Investments	\$ 127,581,249	\$ 127,581,249	\$ -	\$ -
Exchange-Traded Futures Contracts				
United States Contracts	1,640,920	1,640,920	-	-

During the nine months ended September 30, 2010, there were no significant 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	Statement of Financial Condition Location	Fair Value At September 30, 2010	Fair Value At December 31, 2009
Futures -			
Commodity Contracts	Assets	\$ 1,640,920	\$ 20,802,090





## The Effect of Derivative Instruments on the 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, 2010		For the nine months ended September 30, 2009	
		Realized Gain or (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain or (Loss) Recognized in Income	Realized Gain or (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain or (Loss) Recognized in Income
Futures - Commodity Contracts	Realized gain (loss) on closed futures contracts	\$ 14,251,490		\$ 30,743,940	
	Change in unrealized gain (loss) on open futures contracts		\$ (19,161,170)		\$ 24,098,430

## NOTE 7 - FINANCIAL HIGHLIGHTS

The following table presents per unit performance data and other supplemental financial data for the nine months ended September 30, 2010 and 2009 for the unitholders. This information has been derived from information presented in the condensed financial statements.

	For the nine months ended September 30, 2010 (Unaudited)	For the nine months ended September 30, 2009 (Unaudited)
<b>Per Unit Operating Performance:</b>		
Net asset value, beginning of period	\$ 40.37	\$ 31.24
Total income (loss)	(1.52)	5.80
Net expenses	(0.26)	(0.26)
Net increase (decrease) in net asset value	(1.78)	5.54
Net asset value, end of period	\$ 38.59	\$ 36.78
<b>Total Return</b>	<b>(4.41)%</b>	<b>17.73%</b>
<b>Ratios to Average Net Assets</b>		
Total income (loss)	(3.12)%	39.68%
Management fees*	0.60%	0.60%
Total expenses excluding management fees*	0.29%	0.44%
Expenses waived*	-%	(0.01)%
Net expenses excluding management fees*	0.29%	0.43%
Net income (loss)	(3.78)%	38.91%

\*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 8 – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2010-06 “Improving Disclosures about Fair Value Measurements.” ASU No. 2010-06 clarifies existing disclosure and requires additional disclosures regarding fair value measurements. Effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, entities will need to disclose information about purchases, sales, issuances and settlements of Level 3 securities on a gross basis, rather than as a net number as currently required. The implementation of ASU No. 2010-06 is not expected to have a material impact on US12OF’s financial statement disclosures.

NOTE 9 – SUBSEQUENT EVENTS

US12OF has performed an evaluation of subsequent events through the date the financial statements were issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.

## 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 changes in percentage terms of its units' net asset value ("NAV") to reflect the changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the 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") 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.

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 Interests"). For convenience and unless otherwise specified, Oil Futures Contracts and Other Oil Interests 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 Interests such that changes in its NAV, measured in percentage terms, will closely track the changes in the average

of the prices of the Benchmark Futures Contracts, also measured in percentage terms. US12OF's general partner believes the daily changes in the average of the prices of the Benchmark 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 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. Management 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 Interests.

On any valuation day, the Benchmark Futures Contracts are the near month futures contract for light, sweet crude oil traded on the NYMEX and the contracts for the following 11 months for a total of 12 consecutive months' contracts unless the near month contract is within two weeks of expiration, in which case the Benchmark Futures Contracts are the next month contract for light, sweet crude oil traded on the NYMEX and the contracts for the following 11 consecutive months. "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.

The regulation of commodity interests in the United States is a rapidly changing area of law and is subject to ongoing modification by governmental and judicial action. On July 21, 2010, a broad financial regulatory reform bill, "The Dodd-Frank Wall Street Reform and Consumer Protection Act," was signed into law that includes provisions altering the regulation of commodity interests. Provisions in the new law include the requirement that position limits on energy-based commodity futures contracts be established; new registration, recordkeeping, capital and margin requirements for "swap dealers" and "major swap participants" as determined by the new law and applicable regulations; and the forced use of clearinghouse mechanisms for most over-the-counter transactions. Additionally, the new law requires the aggregation, for purposes of position limits, of all positions in energy futures held by a single entity and its affiliates, whether such positions exist on U.S. futures exchanges, non-U.S. futures exchanges, or in over-the-counter contracts. The U.S. Commodity Futures Trading Commission (the "CFTC"), along with the SEC and other federal regulators, has been tasked with developing the rules and regulations enacting the provisions noted above. The new law and the rules to be promulgated may negatively impact US12OF's ability to meet its investment objective either through limits or requirements imposed on it or upon its counterparties. In particular, new position limits imposed on US12OF or its counterparties may impact US12OF's ability to invest in a manner that most efficiently meets its investment objective, and new requirements, including capital and mandatory clearing, may increase the cost of US12OF's investments and doing business, which could adversely affect US12OF's investors.

The general partner of US12OF, United States Commodity Funds LLC (the "General Partner"), which is registered as a commodity pool operator ("CPO") with the CFTC, is authorized by the Amended and Restated Agreement of Limited Partnership of US12OF (the "LP Agreement") to manage US12OF. The General Partner is authorized by US12OF in its sole judgment to employ and establish the terms of employment for, and termination of, commodity trading advisors or futures commission merchants.

#### Price Movements

Crude oil futures prices were volatile during the nine months ended September 30, 2010 and exhibited moderate daily swings along with an uneven upward trend between January and late March and a downward trend from April to late September 2010. The average price of the Benchmark Futures Contracts started the period at \$82.15 per barrel. Average prices hit a peak on May 3, 2010 of \$92.05 per barrel. The low of the period was on May 25, 2010 when prices reached \$72.75 per barrel. The period ended with the average price of the Benchmark Futures Contracts at \$83.42 per barrel, up approximately 1.55% over the period. Similarly, US12OF's NAV started the period at \$40.37 per unit. US12OF's NAV reached its high for the period on May 3, 2010 at \$44.30 per unit and reached its low for the period on May 25, 2010 at \$34.69 per unit. The NAV on September 30, 2010 was \$38.59, down approximately 4.41% over the period. The average Benchmark Futures Contract prices listed above began with the February 2010 to January 2011 contracts and ended with the November 2010 to October 2011 contracts. The return of approximately 1.55% on the average price of the Benchmark Futures Contracts listed above is a hypothetical return only and could not actually be achieved by an investor holding Futures Contracts. An investment in Oil Futures Contracts would need to be rolled forward during the time period described in order to achieve 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, 2010, the level of contango remained mildly steep, meaning that the price of the near month crude oil Futures Contract was less than the price of the next month crude oil Futures Contract, or 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 nine months ended September 30, 2010, crude oil inventories began to climb higher, which contributed to the crude oil futures market remaining in contango through the end of September 2010. 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.”

#### Valuation of Futures Contracts and the Computation of the NAV

The NAV of US12OF's units is calculated once each NYSE Arca trading day. The 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, Merrill Lynch Professional Clearing Corp., in exchange for \$15,001,000 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. As of September 30, 2010, US12OF had issued 7,900,000 units and had 3,900,000 units outstanding. As of September 30, 2010, there were 103,100,000 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.

#### For the Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

As of September 30, 2010, the total unrealized gain on Oil Futures Contracts owned or held on that day was \$1,640,920, and US12OF established cash deposits, including cash investments in money market funds, that were equal to \$149,235,949. US12OF held 86.84% of its cash assets in overnight deposits and money market funds at its custodian bank, while 13.16% of the cash balance was held as margin deposits for the Oil Futures Contracts purchased. The ending per unit NAV on September 30, 2010 was \$38.59.

By comparison, as of September 30, 2009, the total unrealized gain on Oil Futures Contracts owned or held on that day was \$21,343,800 and US12OF established cash deposits, including cash investments in money market funds, that were equal to \$140,644,514. US12OF held 100.02% of its cash assets in overnight deposits and money market funds at its custodian bank, while -0.02% of the cash balance was held as margin deposits for the Oil Futures Contracts purchased. Margin requirements at this time were satisfied by unrealized appreciation on investments held at the



futures commission merchant, including a forward funding excess of \$8,690,704 in open equity over the required margin deposit amount. The ending per unit NAV on September 30, 2009 was \$36.78. The increase in the per unit NAV for September 30, 2010 as compared to September 30, 2009 was primarily a result of higher prices for crude oil and the related increase in the value of the Oil Futures Contracts that US12OF had invested in between the period ended September 30, 2009 and the period ended September 30, 2010.

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 the General Partner and expenses relating to tax accounting and reporting requirements. The management fee that US12OF pays to the General Partner is calculated as a percentage of the total net assets of US12OF. US12OF pays the General Partner a management fee of 0.60% of its average net assets. The fee is accrued daily and paid monthly.

During the nine months ended September 30, 2010, the daily average total net assets of US12OF were \$155,668,274. The management fee incurred by US12OF during the period amounted to \$698,588. By comparison, during the nine months ended September 30, 2009, the daily average total net assets of US12OF were \$138,722,810. During the nine months ended September 30, 2009, the management fee paid by US12OF amounted to \$622,542.

In addition to the management fee, US12OF pays all brokerage fees and other expenses, including certain 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, 2010 was \$335,841, as compared to \$457,321 for the nine months ended September 30, 2009. The decrease in expenses for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 was primarily due to a decrease in registration fees during the nine months ended September 30, 2010. For the nine months ended September 30, 2010, US12OF incurred \$7,700 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, 2009, US12OF incurred \$96,250 in ongoing registration fees and other expenses relating to the registration and offering of additional units.

US12OF is responsible for paying its portion of the directors’ and officers’ liability insurance of the General Partner and the fees and expenses of the independent directors of the General Partner who are also the General Partner’s audit committee members. US12OF shares these fees and expenses with the United States Oil Fund, LP (“USOF”), the United States Natural Gas Fund, LP (“USNG”), the United States Gasoline Fund, LP (“UGA”), the United States Heating Oil Fund, LP (“USHO”), 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”) based on the relative assets of each fund computed on a daily basis. These fees and expenses for the calendar year 2010 are estimated to be a total of \$1,178,870 for all funds. By comparison, for the year ended December 31, 2009, these fees and expenses amounted to a total of \$433,046 for all funds, and US12OF’s portion of such fees and expenses was \$12,326. Directors’ expenses are expected to increase in 2010 due to an increase in the amount of directors’ and officers’ liability insurance coverage and the incurrence of the independent directors’ deferred compensation expense. Effective as of March 3, 2009, the General Partner obtained directors’ and officers’ liability insurance covering all of the directors and officers of the General Partner. Previously, the General Partner did not have liability insurance for its directors and officers; instead, the independent directors received a payment in lieu of directors’ and officers’ liability insurance coverage. Effective as of April 1, 2010, US12OF is also responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, the General Partner and US12OF, USOF, USNG, UGA, USHO, USSO, US12NG and USBO.

US12OF also incurs commissions to brokers for the purchase and sale of Oil Futures Contracts, Other Oil Interests or short-term obligations of the United States of two years or less (“Treasuries”). During the nine months ended September 30, 2010, total commissions paid to brokers amounted to \$8,070. By comparison, during the nine months ended September 30, 2009, total commissions paid to brokers amounted to \$44,530. The decrease in the total commissions paid to brokers for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 was primarily a function of the decrease in creations and redemptions of units during the nine months ended September 30, 2010. The decrease in creation and redemption activity required US12OF to purchase fewer Oil Futures Contracts and incur a lower amount of broker commissions. As an annualized percentage of total net assets, the figure for the nine months ended September 30, 2010 represents approximately 0.01% of total net assets. By comparison, the figure for the nine months ended September 30, 2009 represented approximately 0.04% of 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 pays the fees and expenses associated with its audit expenses and tax accounting and reporting requirements. These costs are estimated to be \$275,000 for the calendar year 2010.

**Dividend and Interest Income.** US12OF seeks to invest its assets such that it holds Oil Futures Contracts and Other Oil Interests 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 futures commission merchant 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, 2010, US12OF earned \$49,966 in dividend and interest income on such cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of 0.04%. US12OF did not purchase Treasuries during the nine months ended September 30, 2010 and held only cash and/or cash equivalents during this time period. By comparison, for the nine months ended September 30, 2009, US12OF earned \$174,296 in dividend and interest income on such cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of 0.17%. US12OF did not purchase Treasuries during the nine months ended September 30, 2009 and held only cash and/or cash equivalents during this time period. Interest rates on short-term investments, including cash, cash equivalents and Treasuries, were lower during the nine months ended September 30, 2010 compared to the same time period in 2009. As a result, the amount of income earned by US12OF as a percentage of total net assets was lower during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009.

For the Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

**Portfolio Expenses.** During the three months ended September 30, 2010, the daily average total net assets of US12OF were \$151,415,173. The management fee incurred by US12OF during the period amounted to \$228,990. By comparison, during the three months ended September 30, 2009, the daily average total net assets of US12OF were \$171,126,467. During the three months ended September 30, 2009, the management fee paid by US12OF amounted to \$258,799.

In addition to the management fee, US12OF pays all brokerage fees and other expenses, including certain 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, 2010 was \$36,542, as compared to \$227,905 for the three months ended September 30, 2009. The decrease in expenses for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 was primarily due to decreased commissions, fewer creations and redemptions, and lower registration and offering costs during the three months ended September 30, 2010. For the three months ended September 30, 2010, US12OF incurred \$1,840 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, 2009, US12OF incurred \$29,750 in ongoing registration fees and other expenses relating to the registration and offering of additional units.

US12OF is responsible for paying its portion of the directors' and officers' liability insurance of the General Partner and the fees and expenses of the independent directors of the General Partner who are also the General Partner's audit committee members. US12OF shares these fees and expenses with USOF, USNG, UGA, USHO, USSO, US12NG and USBO based on the relative assets of each fund computed on a daily basis. These fees and expenses for the calendar year 2010 are estimated to be a total of \$1,178,870 for all funds. By comparison, for the year ended December 31, 2009, these fees and expenses amounted to a total of \$433,046 for all funds, and US12OF's portion of such fees and expenses was \$12,326. Directors' expenses are expected to increase in 2010 due to an increase in the amount of directors' and officers' liability insurance coverage and the incurrence of the independent directors' deferred

compensation expense. Effective as of March 3, 2009, the General Partner obtained directors' and officers' liability insurance covering all of the directors and officers of the General Partner. Previously, the General Partner did not have liability insurance for its directors and officers; instead, the independent directors received a payment in lieu of directors' and officers' liability insurance coverage. Effective as of April 1, 2010, US12OF is also responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, the General Partner and US12OF, USOF, USNG, UGA, USHO, USSO, US12NG and USBO.

US12OF also incurs commissions to brokers for the purchase and sale of Oil Futures Contracts, Other Oil Interests or Treasuries. During the three months ended September 30, 2010, total commissions paid to brokers amounted to \$3,981. By comparison, during the three months ended September 30, 2009, total commissions paid to brokers amounted to \$5,521. The decrease in the total commissions paid to brokers for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 was primarily a function of the decrease in creations and redemptions of units during the three months ended September 30, 2010. The decrease in creation and redemption activity required US12OF to purchase fewer futures contracts and incur a lower amount of commissions. As an annualized percentage of total net assets, the figure for the three months ended September 30, 2010 represents approximately 0.01% of total net assets. By comparison, the figure for the three months ended September 30, 2009 represented approximately 0.01% of 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 pays the fees and expenses associated with its audit expenses and tax accounting and reporting requirements. These costs are estimated to be \$275,000 for the calendar year 2010.

**Dividend and Interest Income.** US12OF seeks to invest its assets such that it holds Oil Futures Contracts and Other Oil Interests 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 futures commission merchant 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, 2010, US12OF earned \$23,673 in dividend and interest income on such cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of 0.06%. US12OF did not purchase Treasuries during the three months ended September 30, 2010 and held only cash and/or cash equivalents during this time period. By comparison, for the three months ended September 30, 2009, US12OF earned \$50,707 in dividend and interest income on such cash and/or cash equivalents. Based on US12OF's average daily total net assets, this was equivalent to an annualized yield of 0.12%. US12OF did not purchase Treasuries during the three months ended September 30, 2009 and held only cash and/or cash equivalents during this time period. Interest rates on short-term investments, including cash, cash equivalents, and Treasuries, were lower during the three months ended September 30, 2010 compared to the same time period in 2009. As a result, the amount of income earned by US12OF as a percentage of total net assets was lower during the three months ended September 30, 2010 compared to the three months ended September 30, 2009.

#### Tracking US12OF's Benchmark

US12OF's management seeks to manage US12OF's portfolio such that changes in its average daily NAV, on a percentage basis, closely track the changes in the average of the daily prices of the Benchmark Futures Contracts, also on a percentage basis. Specifically, US12OF's management seeks to manage the portfolio such that over any rolling period of 30 valuation days, the average daily change in US12OF's 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 Futures Contracts. As an example, if the average daily movement of the average of the prices of the Benchmark Futures Contracts for a particular 30-valuation day time period was 0.5% per day, US12OF management would attempt to manage the portfolio such that the average daily movement of the 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 NAV equal to the average of the nominal prices of the current Benchmark Futures Contracts or the spot price for light, sweet crude oil. Management 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, 2010, the simple average daily change in the Benchmark Futures Contracts was 0.156%, while the simple average daily change in the NAV of US12OF over the same time period was 0.154%. 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 Futures Contracts, the average error in daily tracking by the NAV was 0.646%, 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 NAV versus the daily movement of the Benchmark Futures Contracts for the 30-valuation day period ended September 30, 2010. The second chart below shows the monthly total returns of US12OF as compared to the monthly value of the Benchmark Futures Contracts since inception.

Since the commencement of the offering of US12OF units to the public on December 6, 2007 to September 30, 2010, the simple average daily change in the Benchmark Futures Contracts was 0.005%, while the simple average daily change in the NAV of US12OF over the same time period was 0.005%. The average daily difference was 0.000% (or 0.0 basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the Benchmark Futures Contracts, the average error in daily tracking by the NAV was 0.119%, meaning that over this time period US12OF's tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

**\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**



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

For the nine months ended September 30, 2010, the actual total return of US12OF as measured by changes in its NAV was -4.41%. This is based on an initial NAV of \$40.37 on December 31, 2009 and an ending NAV as of September 30, 2010 of \$38.59. During this time period, US12OF made no distributions to its unitholders. However, if US12OF's daily changes in its NAV had instead exactly tracked the changes in the daily return of the Benchmark Futures Contracts, US12OF would have had an estimated NAV of \$38.64 as of September 30, 2010, for a total return over the relevant time period of -4.28%. The difference between the actual NAV total return of US12OF of -4.41% and the expected total return based on the Benchmark Futures Contracts of -4.28% was an error over the time period of -0.13%, which is to say that US12OF's actual total return underperformed the benchmark result by that percentage. Management believes that a portion of the difference between the actual return and the expected benchmark 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, 2010, US12OF received dividend and interest income of \$49,966, which is equivalent to a weighted average income rate of 0.04% for such period. In addition, during the nine months ended September 30, 2010, US12OF also collected \$5,000 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to US12OF's actual return. During the nine months ended September 30, 2010, US12OF incurred total expenses of \$1,034,429. Expenses net of income from dividends and interest and Authorized Purchaser collections was \$(979,463), which is equivalent to an annualized weighted average net income rate of (0.84)% for the nine months ended September 30, 2010. These net expenses also contributed to US12OF's actual return underperforming the benchmark results.

By comparison, for the nine months ended September 30, 2009, the actual total return of US12OF as measured by changes in its NAV was 17.73%. This was based on an initial NAV of \$31.24 on December 31, 2008 and an ending NAV as of September 30, 2009 of \$36.78. During this time period, US12OF made no distributions to its unitholders. However, if US12OF's daily changes in its NAV had instead exactly tracked the changes in the daily return of the Benchmark Futures Contracts, US12OF would have had an estimated NAV of \$36.95 as of September 30, 2009, for a total return over the relevant time period of 18.28%. The difference between the actual NAV total return of US12OF of 17.73% and the expected total return based on the Benchmark Futures Contracts of 18.28% was an error over the time period of 0.55%, which is to say that US12OF's actual total return underperformed the benchmark result by that percentage. Management believes that a portion of the difference between the actual return and the expected benchmark 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, 2009, US12OF received dividend and interest income of \$174,296, which is equivalent to a weighted average income rate of 0.17% for such period. In addition, during the nine months ended September 30, 2009, US12OF also collected \$27,000 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to US12OF's actual return. During the nine months ended September 30, 2009, US12OF incurred net expenses of \$1,068,636. Expenses net of dividends and interest income and Authorized Purchaser collections was \$(867,340), which is equivalent to an annualized weighted average net income rate of (0.84)% for the nine months ended September 30, 2009. These net expenses also contributed to US12OF's actual return underperforming the benchmark results.

**\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**



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

First, US12OF may buy or sell its holdings in the then current Benchmark 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 Futures Contracts, which could cause the changes in the daily NAV of US12OF to either be too high or too low relative to the changes in the Benchmark Futures Contracts. During the nine months ended September 30, 2010, management attempted to minimize the effect of these transactions by seeking to execute its purchase or sale of the Benchmark 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 Futures Contracts over time.

Second, US12OF earns dividend and interest income on its cash and cash equivalents. 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, 2010. 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 the General Partner), US12OF will realize a net yield that will tend to cause daily changes in the NAV of US12OF to track slightly higher than daily changes in the average of the prices of the Benchmark Futures Contracts. During the nine months ended September 30, 2010, US12OF earned, on an annualized basis, approximately 0.04% on its cash holdings. It also incurred cash expenses on an annualized basis of 0.60% for management fees and approximately 0.01% in brokerage commission costs related to the purchase and sale of futures contracts, and 0.28% for other expenses. The foregoing fees and expenses resulted in a net yield on an annualized basis of approximately -0.85% 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 NAV to underperform the daily returns of the Benchmark Futures Contracts.

Third, US12OF may hold Other Oil Interests in its portfolio that may fail to closely track the Benchmark Futures Contracts' total return movements. In that case, the error in tracking the Benchmark Futures Contracts could result in daily changes in the NAV of US12OF that are either too high, or too low, relative to the daily changes in the Benchmark Futures Contracts. During the nine months ended September 30, 2010, US12OF did not hold any Other Oil Interests. If US12OF increases in size, and due to its obligations to comply with regulatory limits, US12OF may invest in Other Oil Interests 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 crude oil 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. 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 rise as it approaches expiration and becomes the new near month contract. In this example, the value of the \$50 investment 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 to \$60 after some period of time, while the value of the investment in the futures contract would have risen to \$65, assuming backwardation is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen to \$40 while the value of an investment in the futures contract could have fallen to only \$45. 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. 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. In this example, it would mean that the value of the \$50 investment 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 to \$60 after some period of time, while the value of the investment in the futures contract will have risen to only \$55, assuming contango is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen to \$45 while the value of an investment in the futures contract could have fallen to \$40. 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 (2000-2009) 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).

**\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

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 2000 and 2009.

**\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

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 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.

**\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE 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 affiliated funds.

Historically, the crude oil futures markets have experienced periods of contango and backwardation, with backwardation being in place more often than contango. During 2006 and the first half of 2007, these markets experienced contango. However, starting early in the third quarter of 2007, the crude oil futures market moved into backwardation. The crude oil markets remained in backwardation until late in the second quarter of 2008 when they moved into contango. The crude oil markets remained in contango until late in the third quarter of 2008, when the markets moved into backwardation. Early in the fourth quarter of 2008, the crude oil market moved back into contango and remained in contango for the balance of 2008. Throughout 2009, the crude oil market remained in contango. During parts of January and February 2009, the level of contango was unusually steep. Crude oil inventories, which reached historic levels in January 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 balance of 2009 and the beginning of 2010. The crude oil futures market remained in contango through September 30, 2010.



The General Partner 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, the General Partner 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. The General Partner 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 percentage changes in its per unit NAV track the percentage changes in the average of the prices of the Benchmark Futures Contracts since the impact of backwardation and contango tend to equally impact the percentage changes in price of both US12OF's units and the Benchmark 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, 2010, crude oil prices were impacted by several factors. On the consumption side, demand increased inside and outside the United States as global economic growth, including emerging economies such as China and India, improved for the third quarter of the year. On the supply side, efforts to reduce production by the Organization of the Petroleum Exporting Countries to more closely match global consumption were partially successful. Crude oil prices finished the third quarter of 2010 approximately 1% higher than at the beginning of the year, though investors looked forward to continued improvements in the global economy. Management believes, however, 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.

Crude Oil Price Movements in Comparison to Other Energy Commodities and Investment Categories. The General Partner 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 indicating 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 or 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 2000 and 2009, the chart 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, 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 not strongly correlated, positively or negatively, with the movements of large cap U.S. equities, U.S. government bonds or global equities. However, movements in crude oil had a strong positive correlation to movements in heating oil and unleaded gasoline. Finally, crude oil had a positive, but weaker, correlation with natural gas.



10 Year Correlation Matrix 2000-2009	Large Cap U.S. Equities (S&P 500)	U.S. Gov't. Bonds (EFFAS U.S. Gov't. Bond Index)	Global Equities (FTSE World Index)	Unleaded Gasoline	Natural Gas	Heating Oil	Crude Oil
Large Cap U.S. Equities (S&P 500)	1.000	-0.259	0.966	0.135	0.087	0.023	0.152
U.S. Gov't. Bonds (EFFAS U.S. Gov't. Bond Index)		1.000	-0.237	-0.214	-0.078	0.128	-0.127
Global Equities (FTSE World Index)			1.000	0.196	0.165	0.084	0.246
Unleaded Gasoline				1.000	0.613	0.257	0.724
Natural Gas					1.000	0.466	0.334
Heating Oil						1.000	0.783
Crude Oil							1.000

Source: Bloomberg, NYMEX

#### PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

The chart below covers a more recent, but much shorter, range of dates than the above chart. Over the one year period ended September 30, 2010, crude oil continued to have a strong positive correlation with heating oil and unleaded gasoline. During this period, it had no positive or negative correlation with the movements of natural gas compared to what it had displayed over the ten year period ended December 31, 2009. Notably, the correlation between crude oil and both large cap U.S. equities and global equities, which had been essentially non-correlated over the ten year period ended December 31, 2009, displayed results that indicated that they had a mildly positive correlation over this shorter time period, particularly due to the recent downturn in the U.S. economy. Finally, the results showed that crude oil and U.S. government bonds, which had essentially been non-correlated for the ten year period ended December 31, 2009, were weakly negatively correlated over this more recent time period.

Correlation Matrix 12 months ended September 30, 2010	Large Cap U.S. Equities (S&P 500)	U.S. Gov't. Bonds (EFFAS U.S. Gov't. Bond Index)	Global Equities (FTSE World Index)	Unleaded Gasoline	Heating Oil	Natural Gas	Crude Oil
Large Cap U.S. Equities (S&P 500)	1.000	-0.504	0.973	0.676	0.717	-0.075	0.715
U.S. Gov't. Bonds (EFFAS U.S. Gov't. Bond Index)		1.000	-0.504	-0.569	-0.587	-0.282	-0.559
Global Equities (FTSE World Index)			1.000	0.687	0.748	-0.074	0.743
Unleaded Gasoline				1.000	0.914	-0.004	0.958
Heating Oil					1.000	0.003	0.943

Natural Gas	1.000	0.115
Crude Oil		1.000

Source: Bloomberg, NYMEX

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Investors are cautioned that the historical price relationships between crude oil and various other energy commodities, as well as other investment asset classes, as measured by correlation may not be reliable predictors of future price movements and correlation results. The results pictured above would have been different if a different range of dates had been selected. The General Partner believes that crude oil has historically not demonstrated a strong correlation with equities or bonds over long periods of time. However, the General Partner also believes that in the future it is possible that crude oil could have long term correlation results that indicate prices of crude oil more closely track the movements of equities or bonds. In addition, the General Partner believes that, when measured over time periods shorter than ten years, there will always be some periods where the correlation of crude oil to equities and bonds will be either more strongly positively correlated or more strongly negatively correlated than the long term historical results suggest.

The correlations between crude oil, natural gas, heating oil and gasoline are relevant because the General Partner endeavors to invest US12OF's assets in Oil Futures Contracts and Other Oil Interests so that daily changes in percentage terms in US12OF's NAV correlate as closely as possible with daily changes in percentage terms in the price of the Benchmark Futures Contracts. If certain other fuel-based commodity futures contracts do not closely correlate with the Oil Futures Contracts, then their use could lead to greater tracking error. As noted above, the General Partner also believes that the changes in percentage terms in the price of the Benchmark Futures Contracts will closely correlate with changes in percentage terms in the spot price of light, sweet crude oil.

#### Critical Accounting Policies

Preparation of the condensed financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate accounting rules and guidance, as well as the use of estimates. US12OF's application of these policies involves judgments and actual results may differ from the estimates used.

The General Partner has evaluated the nature and types of estimates that it makes in preparing US12OF's condensed financial statements and related disclosures and has determined that the valuation of its investments which are not traded on a United States or internationally recognized futures exchange (such as forward contracts and over-the-counter contracts) involves a critical accounting policy. The values which are used by US12OF for its Futures Contracts are provided by its commodity broker who uses market prices when available, while over-the-counter contracts are valued based on the present value of estimated future cash flows that would be received from or paid to a third party in settlement of these derivative contracts prior to their delivery date and valued on a daily basis. In addition, US12OF estimates interest and dividend income on a daily basis using prevailing rates earned on its cash and cash equivalents. These estimates are adjusted to the actual amount received on a monthly basis and the difference, if any, is not considered material.

#### Liquidity and Capital Resources

US12OF has not made, and does not anticipate making, use of borrowings or other lines of credit to meet its obligations. US12OF has met, and it is anticipated that US12OF will continue to meet, its liquidity needs in the normal course of business from the proceeds of the sale of its investments, or from the Treasuries, cash and/or cash equivalents that it intends to hold at all times. US12OF's liquidity needs include: redeeming units, providing margin deposits for its existing Oil Futures Contracts or the purchase of additional Oil Futures Contracts and posting collateral for its over-the-counter contracts, if applicable, and payment of its expenses, summarized below under "Contractual Obligations."

US12OF currently generates cash primarily from (i) the sale of baskets consisting of 100,000 units ("Creation Baskets") and (ii) income earned on cash and/or cash equivalents. US12OF has allocated substantially all of its net assets to

trading in Oil Interests. US12OF invests in Oil Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Oil Futures Contracts and Other Oil Interests. A significant portion of US12OF's NAV is held in cash and cash equivalents that are used as margin and as collateral for its trading in Oil Interests. The balance of the net assets is held in US12OF's account at its custodian bank. Income received from US12OF's money market funds is paid to US12OF. In prior periods, the amount of cash earned by US12OF from the sale of Creation Baskets and from income earned has exceeded the amount of cash required to pay US12OF's expenses. However, during the nine months ended September 30, 2010, US12OF's expenses exceeded the income US12OF earned and the cash earned from the sale of Creation Baskets. During the nine months ended September 30, 2010, US12OF was forced to use other assets to pay cash expenses, which could cause a drop in US12OF's NAV over time. To the extent expenses exceed income, US12OF's NAV will be negatively impacted.

US12OF's investments in Oil Interests may be subject to periods of illiquidity because of market conditions, regulatory considerations and other reasons. For example, most commodity exchanges limit the fluctuations in futures contracts prices during a single day by regulations referred to as "daily limits." During a single day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, positions in the contracts can neither be taken nor liquidated unless the traders are willing to effect trades at or within the specified daily limit. Such market conditions could prevent US12OF from promptly liquidating its positions in Oil Futures Contracts. During the nine months ended September 30, 2010, US12OF was not forced to purchase or liquidate any of its positions while daily limits were in effect; however, US12OF cannot predict whether such an event may occur in the future.

Prior to the initial offering of US12OF, all payments with respect to US12OF's expenses were paid by the General Partner. US12OF does not have an obligation or intention to refund such payments by the General Partner. The General Partner is under no obligation to pay US12OF's current or future expenses. Since the initial offering of units, US12OF has been responsible for expenses relating to (i) management fees, (ii) brokerage fees and commissions, (iii) licensing fees for the use of intellectual property, (iv) ongoing registration expenses in connection with offers and sales of its units subsequent to the initial offering, (v) other expenses, including certain tax reporting costs, (vi) fees and expenses of the independent directors of the General Partner and (vii) other extraordinary expenses not in the ordinary course of business, while the General Partner has been responsible for expenses relating to the fees of US12OF's marketing agent, administrator and custodian and registration expenses relating to the initial offering of units. If the General Partner and US12OF are unsuccessful in raising sufficient funds to cover these respective expenses or in locating any other source of funding, US12OF will terminate and investors may lose all or part of their investment.

#### Market Risk

Trading in Oil Futures Contracts and Other Oil Interests, such as forwards, involves US12OF entering into contractual commitments to purchase or sell oil at a specified date in the future. The aggregate market value of the contracts will significantly exceed US12OF's future cash requirements since US12OF intends to close out its open positions prior to settlement. As a result, US12OF is generally only subject to the risk of loss arising from the change in value of the contracts. US12OF considers the "fair value" of its derivative instruments to be the unrealized gain or loss on the contracts. The market risk associated with US12OF's commitments to purchase oil is limited to the aggregate market value of the contracts held. However, should US12OF enter into a contractual commitment to sell oil, it would be required to make delivery of the oil at the contract price, repurchase the contract at prevailing prices or settle in cash. Since there are no limits on the future price of oil, the market risk to US12OF could be unlimited.

US12OF's exposure to market risk depends on a number of factors, including the markets for oil, the volatility of interest rates and foreign exchange rates, the liquidity of the Oil Futures Contracts and Other Oil Interests markets and the relationships among the contracts held by US12OF. Drastic market occurrences could ultimately lead to the loss of all or substantially all of an investor's capital.

#### Credit Risk

When US12OF enters into Oil Futures Contracts and Other Oil Interests, it is exposed to the credit risk that the counterparty will not be able to meet its obligations. The counterparty for the Oil Futures Contracts traded on the NYMEX and on most other futures exchanges is the clearinghouse associated with the particular exchange. In general, in addition to margin required to be posted by the exchange or clearinghouse in connection with trades on the exchange or through the clearinghouse, clearinghouses are backed by their members who may be required to share in the financial burden resulting from the nonperformance of one of their members and, therefore, this additional member support should significantly reduce credit risk. Some foreign exchanges are not backed by their

clearinghouse members but may be backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearinghouse, or their members or their financial backers will satisfy their obligations to US12OF in such circumstances.



The General Partner attempts to manage the credit risk of US12OF by following various trading limitations and policies. In particular, US12OF generally posts margin and/or holds liquid assets that are approximately equal to the market value of its obligations to counterparties under the Oil Futures Contracts and Other Oil Interests it holds. The General Partner has implemented procedures that include, but are not limited to, executing and clearing trades only with creditworthy parties and/or requiring the posting of collateral or margin by such parties for the benefit of US12OF to limit its credit exposure. UBS Securities LLC, US12OF's commodity broker, or any other broker that may be retained by US12OF in the future, when acting as US12OF's futures commission merchant in accepting orders to purchase or sell Oil Futures Contracts on United States exchanges, is required by CFTC regulations to separately account for and segregate as belonging to US12OF, all assets of US12OF relating to domestic Oil Futures Contracts trading. These futures commission merchants are not allowed to commingle US12OF's assets with their other assets. In addition, the CFTC requires commodity brokers to hold in a secure account US12OF's assets related to foreign Oil Futures Contracts trading.

If, in the future, US12OF purchases over-the-counter contracts, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk" of this quarterly report on Form 10-Q for a discussion of over-the-counter contracts.

As of September 30, 2010, US12OF had deposits in domestic and foreign financial institutions, including cash investments in money market funds, in the amount of \$149,235,949. This amount is subject to loss should these institutions cease operations.

#### Off Balance Sheet Financing

As of September 30, 2010, US12OF has no loan guarantee, credit support or other off-balance sheet arrangements of any kind other than agreements entered into in the normal course of business, which may include indemnification provisions relating to certain risks that service providers undertake in performing services which are in the best interests of US12OF. While US12OF's exposure under these indemnification provisions cannot be estimated, they are not expected to have a material impact on US12OF's financial position.

#### Redemption Basket Obligation

In order to meet its investment objective and pay its contractual obligations described below, US12OF requires liquidity to redeem units, which redemptions must be in blocks of 100,000 units called "Redemption Baskets". US12OF has to date satisfied this obligation by paying from the cash or cash equivalents it holds or through the sale of its Treasuries in an amount proportionate to the number of units being redeemed.

#### Contractual Obligations

US12OF's primary contractual obligations are with the General Partner. In return for its services, the General Partner is entitled to a management fee calculated monthly as a fixed percentage of US12OF's NAV, currently 0.60% of NAV on its average daily net assets.

The General Partner agreed to pay the start-up costs associated with the formation of US12OF, primarily its legal, accounting and other costs in connection with the General Partner's registration with the CFTC as a CPO and the registration and listing of US12OF and its units with the SEC, FINRA and the AMEX, respectively. However, since US12OF's initial offering of units, offering costs incurred in connection with registering and listing additional units of US12OF have been directly borne on an ongoing basis by US12OF, and not by the General Partner.

The General Partner pays the fees of US12OF's marketing agent, ALPS Distributors, Inc., and the fees of the custodian and transfer agent, Brown Brothers Harriman & Co. ("BBH&Co."), as well as BBH&Co.'s fees for performing

administrative services, including those in connection with the preparation of US12OF's condensed financial statements and its SEC and CFTC reports. The General Partner and US12OF have also entered into a licensing agreement with the NYMEX pursuant to which US12OF and the affiliated funds managed by the General Partner, other than USBO, pay a licensing fee to the NYMEX. US12OF also pays the fees and expenses associated with its tax accounting and reporting requirements with the exception of certain initial implementation service fees and base service fees which are borne by the General Partner.

In addition to the General Partner's management fee, US12OF pays its brokerage fees (including fees to a futures commission merchant), over-the-counter dealer spreads, any licensing fees for the use of intellectual property, and, subsequent to the initial offering, registration and other fees paid to the SEC, FINRA, or other regulatory agencies in connection with the offer and sale of units, as well as legal, printing, accounting and other expenses associated therewith, and extraordinary expenses. The latter are expenses not incurred in the ordinary course of US12OF's business, including expenses relating to the indemnification of any person against liabilities and obligations to the extent permitted by law and under the LP Agreement, the bringing or defending of actions in law or in equity or otherwise conducting litigation and incurring legal expenses and the settlement of claims and litigation. Commission payments to a futures commission merchant are on a contract-by-contract, or round turn, basis. US12OF also pays a portion of the fees and expenses of the independent directors of the General Partner. See Note 3 to the Notes to Condense