United States Brent Oil Fund, LP
Form 10-Q
November 14, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011.**

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: 001-34704

United States Brent Oil Fund, LP

(Exact name of registrant as specified in its charter)

Delaware	**27-0925904**
(State or other jurisdiction of incorporation or organization)	**(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. x Yes ¨ No

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Table of Contents

UNITED STATES BRENT OIL FUND, LP

Table of Contents

	Page
Part I. FINANCIAL INFORMATION	
Item 1. Condensed Financial Statements.	1
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	33
Item 4. Controls and Procedures.	35
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings.	36
Item 1A. Risk Factors.	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	36
Item 3. Defaults Upon Senior Securities.	36
Item 4. Removed and Reserved.	36
Item 5. Other Information.	36
Item 6. Exhibits.	37

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

Index to Condensed Financial Statements

Documents	Page
Condensed Statements of Financial Condition at September 30, 2011 (Unaudited) and December 31, 2010	2
Condensed Schedule of Investments (Unaudited) at September 30, 2011	3
Condensed Statements of Operations (Unaudited) for the three and nine months ended September 30, 2011 and 2010	4
Condensed Statement of Changes in Partners Capital (Unaudited) for the nine months ended September 30, 2011	5
Condensed Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010	6
Notes to Condensed Financial Statements for the period ended September 30, 2011 (Unaudited)	7

Table of Contents

United States Brent Oil Fund, LP

Condensed Statements of Financial Condition

At September 30, 2011 (Unaudited) and December 31, 2010

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents (Note 5)	$ 31,415,527	$ 9,140,476
Equity in UBS Securities LLC trading accounts:		
Cash	4,133,312	3,169,218
Unrealized gain (loss) on open commodity futures contracts	(614,550)	322,660
Receivable for General Partner (Note 3)	104,431	113,715
Dividend receivable	124	286
Other assets	1,390	
Total assets	$ 35,040,234	$ 12,746,355
Liabilities and Partners Capital		
Payable for units redeemed	$ 27,943,549	$
General Partner management fees payable (Note 3)	22,950	7,803
Brokerage commissions payable	886	416
Other liabilities	147,527	123,105
Total liabilities	28,114,912	131,324
Commitments and Contingencies (Notes 3, 4 and 5)		
Partners Capital		
General Partner		
Limited Partners	6,925,322	12,615,031
Total Partners Capital	6,925,322	12,615,031
Total liabilities and partners capital	$ 35,040,234	$ 12,746,355
Limited Partners units outstanding	100,000	200,000
Net asset value per unit	$ 69.25	$ 63.08
Market value per unit	$ 67.64	$ 62.45

See accompanying notes to condensed financial statements.

Table of Contents

United States Brent Oil Fund, LP

Condensed Schedule of Investments (Unaudited)

At September 30, 2011

	Number of Contracts	Loss on Open Commodity Contracts	% of Partners Capital
Open Futures Contracts - Long			
Foreign Contracts			
ICE Brent Crude Oil Futures CO November 2011 contracts, expiring October 2011	51	$ (614,550)	(8.87)
ICE Brent Crude Oil Futures CO December 2011 contracts, expiring November 2011	17		0.00
Total Open Futures Contracts	68	$ (614,550)	(8.87)

	Principal Amount	Market Value	
Cash Equivalents			
United States - Money Market Funds			
Fidelity Institutional Government Portfolio - Class I	$ 5,502,081	$ 5,502,081	79.45
Goldman Sachs Financial Square Funds - Government Fund - Class SL	1,000,288	1,000,288	14.44
Morgan Stanley Institutional Liquidity Fund - Government Portfolio	9,503,388	9,503,388	137.23
Total Cash Equivalents		$ 16,005,757	231.12

See accompanying notes to condensed financial statements.

Table of Contents

United States Brent Oil Fund, LP

Condensed Statements of Operations (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Income				
Gain (loss) on trading of commodity futures contracts:				
Realized gain (loss) on closed positions	$ (2,093,020)	$ 487,060	$ 3,874,520	$ 594,180
Change in unrealized gain (loss) on open positions	(440)	400,740	(937,210)	496,720
Dividend income	565	1,610	2,660	1,897
Interest income	1,116	89	2,013	170
Other income	3,500		15,500	
Total income (loss)	(2,088,279)	889,499	2,957,483	1,092,967
Expenses				
General Partners management fees (Note 3)	79,384	19,621	212,635	25,785
Brokerage commissions	7,456	2,259	20,896	3,681
Other expenses	45,388	52,155	149,787	63,500
Total expenses	132,228	74,035	383,318	92,966
Expense waiver (Note 3)	(28,525)	(48,064)	(104,431)	(58,502)
Net expenses	103,703	25,971	278,887	34,464
Net income (loss)	$ (2,191,982)	$ 863,528	$ 2,678,596	$ 1,058,503
Net income (loss) per limited partnership unit	$ (5.82)	$ 4.32	$ 6.17	$ 5.29
Net income (loss) per weighted average limited partnership unit	$ (3.92)	$ 4.32	$ 5.36	$ 5.29
Weighted average limited partnership units outstanding	558,696	200,000	499,634	200,000

See accompanying notes to condensed financial statements.

Table of Contents

United States Brent Oil Fund, LP

Condensed Statement of Changes in Partners Capital (Unaudited)

For the nine months ended September 30, 2011

	General Partners General Partner	General Partners Limited Partners	General Partners Total
Balances, at December 31, 2010	$	$ 12,615,031	$ 12,615,031
Addition of 1,300,000 partnership units		96,578,235	96,578,235
Redemption of 1,400,000 partnership units		(104,946,540)	(104,946,540)
Net income		2,678,596	2,678,596
Balances, at September 30, 2011	$	$ 6,925,322	$ 6,925,322
Net Asset Value Per Unit:			
At December 31, 2010	$ 63.08		
At September 30, 2011	$ 69.25		

See accompanying notes to condensed financial statements.

Table of Contents

United States Brent Oil Fund, LP

Condensed Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2011 and 2010

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash Flows from Operating Activities:		
Net income	$ 2,678,596	$ 1,058,503
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Increase in commodity futures trading account - cash	(964,094)	(1,413,440)
Unrealized (gain) loss on futures contracts	937,210	(496,720)
(Increase) decrease in receivable from General Partner	9,284	(58,502)
(Increase) decrease in dividend receivable and other assets	(1,228)	(460)
Increase in General Partner management fees payable	15,147	6,475
Increase in brokerage commissions payable	470	440
Increase in other liabilities	24,422	63,454
Net cash provided by (used in) operating activities	2,699,807	(840,250)
Cash Flows from Financing Activities:		
Addition of partnership units	96,578,235	10,000,000
Redemption of partnership units	(77,002,991)	(1,000)
Net cash provided by financing activities	19,575,244	9,999,000
Net Increase in Cash and Cash Equivalents	22,275,051	9,158,750
Cash and Cash Equivalents, beginning of period	9,140,476	1,000
Cash and Cash Equivalents, end of period	$ 31,415,527	$ 9,159,750

See accompanying notes to condensed financial statements.

Table of Contents

United States Brent Oil Fund, LP

Notes to Condensed Financial Statements

For the period ended September 30, 2011 (Unaudited)

NOTE 1 ORGANIZATION AND BUSINESS

The United States Brent Oil Fund, LP (USBO) was organized as a limited partnership under the laws of the state of Delaware on September 2, 2009. USBO is a commodity pool that issues limited partnership units (units) that may be purchased and sold on the NYSE Arca, Inc. (the NYSE Arca). USBO will continue in perpetuity, unless terminated sooner upon the occurrence of one or more events as described in its Second Amended and Restated Agreement of Limited Partnership dated as of May 4, 2010 (the LP Agreement). The investment objective of USBO is for the daily changes in percentage terms of its units net asset value (NAV) to reflect the daily changes in percentage terms of the spot price of Brent crude oil as measured by the changes in the price of the futures contract on Brent crude oil traded on the ICE Futures Exchange (the ICE Futures) that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case the futures contract will be the next month contract to expire, less USBO s expenses. It is not the intent of USBO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of Brent crude oil or any particular futures contract based on Brent crude oil. United States Commodity Funds LLC (USCF) believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below). USBO accomplishes its objective through investments in futures contracts for crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the ICE Futures, the New York Mercantile Exchange (the NYMEX), or other U.S. and foreign exchanges (collectively, Futures Contracts), and other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for crude oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, Other Crude Oil-Related Investments). As of September 30, 2011, USBO held 68 Futures Contracts for Brent crude oil traded on the ICE Futures.

USBO commenced investment operations on June 1, 2010 and has a fiscal year ending on December 31. USCF is responsible for the management of USBO. USCF is a member of the National Futures Association (the NFA) and became a commodity pool operator registered with the Commodity Futures Trading Commission (the CFTC) effective December 1, 2005. USCF is also the general partner of the United States Oil Fund, LP (USOF), the United States Natural Gas Fund, LP (USNG), the United States 12 Month Oil Fund, LP (US12OF), the United States Gasoline Fund, LP (UGA) and the United States Heating Oil Fund, LP (USHO), which listed their limited partnership units on the American Stock Exchange (the AMEX) under the ticker symbols USO on April 10, 2006, UNG on April 18, 2007, USL on December 6, 200 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, US12OF s, UGA s and USHO s units commenced trading on the NYSE Arca on November 25, 2008. USCF is also the general partner of the United States Short Oil Fund, LP (USSO) and the United States 12 Month Natural Gas Fund, LP (US12NG), which listed their limited partnership units on the NYSE Arca under the ticker symbols DNO on September 24, 2009 and UNL on November 18, 2009, respectively. USCF is also the sponsor of the United States Commodity Index Fund (USCI), the United States Agriculture Index Fund (USAG), the United States Copper Index Fund (CPER) and the United States Metals Index Fund (USMI), each a series of the United States Commodity Index Funds Trust. USCI listed its units on the NYSE Arca under the ticker symbol USCI on August 10, 2010. CPER will be listing its units on the NYSE Arca on November 15, 2011. USAG and USMI are not listed on the NYSE Arca as of the filing of this quarterly report on Form 10-Q. USCF has also filed registration statements to register units of the United States Sugar Fund, the United States Natural Gas Double Inverse Fund, the United States Gasoil Fund and the United States Asian Commodities Basket Fund, each a series of the United States Commodity Funds Trust I.

USBO 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 NAV of a unit calculated shortly after the close of the core trading session on the NYSE Arca on the day the order to create the basket is properly received.

From July 1, 2011 to December 31, 2011, Authorized Purchasers pay USBO a $350 fee for each order placed to create one or more Creation Baskets or to redeem one or more baskets (Redemption Baskets), consisting of 100,000 units; prior to July 1, 2011, this fee was $1,000. Units may be purchased or sold on a nationally recognized securities exchange in smaller increments than a Creation Basket or Redemption Basket. Units purchased or sold on a nationally recognized securities exchange are not purchased or sold at the NAV of USBO but rather at market prices quoted on such exchange.

7

Table of Contents

In May 2010, USBO initially registered 50,000,000 units on Form S-1 with the U.S. Securities and Exchange Commission (the SEC). On June 2, 2010, USBO listed its units on the NYSE Arca under the ticker symbol BNO . USBO established its initial NAV by setting the price at $50.00 per unit and issued 200,000 units in exchange for $10,000,000. USBO commenced investment operations on June 1, 2010, by purchasing Futures Contracts traded on the ICE Futures based on Brent crude oil. As of September 30, 2011, USBO had registered a total of 50,000,000 units.

The accompanying unaudited condensed financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the SEC and, therefore, do not include all information and footnote disclosure required under 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, consisting only of normal recurring adjustments, which are, in the opinion of USCF, necessary for the fair presentation of the condensed financial statements for the interim period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Commodity futures contracts, forward contracts, physical commodities, and related options are recorded on the trade date. All such transactions are recorded on the identified cost basis and marked to market daily. Unrealized gains or losses on open contracts are reflected in the condensed 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. USBO 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, USBO 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

USBO 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, USBO 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. USBO files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. USBO is not subject to income tax return examinations by major taxing authorities for years before 2009 (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 USBO recording a tax liability that reduces net assets. However, USBO 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. USBO 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 nine months ended September 30, 2011.

Table of Contents

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 NAV of the units calculated shortly after the close of the core trading session on the NYSE Arca on the day the order is placed.

USBO 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 USBO 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 USBO in proportion to the number of units each partner holds as of the close of each month. USCF may revise, alter or otherwise modify this method of allocation as described in the LP Agreement.

Calculation of Net Asset Value

USBO s NAV 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. USBO 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 NAV 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 added and redeemed based on the amount of time the units were outstanding during such period. There were no units held by USCF at September 30, 2011.

Offering Costs

Offering costs incurred in connection with the registration of additional units after the initial registration of units are borne by USBO. 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.

Use of Estimates

The preparation of condensed financial statements in conformity with GAAP requires USBO 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

USCF Management Fee

Under the LP Agreement, USCF is responsible for investing the assets of USBO in accordance with the objectives and policies of USBO. In addition, USCF has arranged for one or more third parties to provide administrative, custody, accounting, transfer agency and other necessary services to USBO. For these services, USBO is contractually obligated to pay USCF a fee, which is paid monthly, equal to 0.75% per annum of average daily net assets.

9

Table of Contents

Ongoing Registration Fees and Other Offering Expenses

USBO 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, 2011 and 2010, USBO did not incur any registration fees or other offering expenses.

Directors Fees and Expenses

USBO is responsible for paying its portion of the directors and officers liability insurance for all affiliated funds for which USCF serves as general partner or sponsor (all affiliated funds including USCI, USAG, CPER and USMI) and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those affiliated funds organized as a series of a Delaware statutory trust. USBO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. Effective as of April 1, 2010, USBO became 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, USCF and the affiliated funds, except USCI, USAG, CPER and USMI.

Investor Tax Reporting Cost

The fees and expenses associated with USBO s audit expenses and tax accounting and reporting requirements are paid by USBO. These costs are estimated to be $75,000 for the year ending December 31, 2011.

Other Expenses and Fees and Expense Waivers

In addition to the fees described above, USBO pays all brokerage fees and other expenses in connection with the operation of USBO, excluding costs and expenses paid by USCF as outlined in Note 4 below. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USBO to the extent that such expenses exceed 0.15% (15 basis points) of USBO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

NOTE 4 CONTRACTS AND AGREEMENTS

USBO is party to a marketing agent agreement, dated as of March 31, 2010, as amended from time to time, with the Marketing Agent and USCF, whereby the Marketing Agent provides certain marketing services for USBO as outlined in the agreement. The fee of the Marketing Agent, which is borne by USCF, is equal to 0.06% on USBO s assets up to $3 billion and 0.04% on USBO s assets in excess of $3 billion.

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

USBO is also party to a custodian agreement, dated February 8, 2010, as amended from time to time, with Brown Brothers Harriman & Co. (BBH&Co.) and USCF, whereby BBH&Co. holds investments on behalf of USBO. USCF pays the fees of the custodian, which are determined by the parties from time to time. In addition, USBO is party to an administrative agency agreement, dated February 8, 2010, as amended from time to time, with USCF and BBH&Co., whereby BBH&Co. acts as the administrative agent, transfer agent and registrar for USBO. USCF also pays the fees of BBH&Co. for its services under such agreement and such fees are determined by the parties from time to time.

Currently, USCF pays BBH&Co. for its services, in the foregoing capacities, a minimum amount of $75,000 annually for its custody, fund accounting and fund administration services rendered to USBO and each of the affiliated funds managed by USCF, as well as a $20,000 annual fee for its transfer agency services. In addition, USCF pays BBH&Co. an asset-based charge of: (a) 0.06% for the first $500 million of USBO s, USOF s, USNG s, US12OF s, UGA s, USHO s, USSO s, US12NG s, USCI s, USAG s, USMI s and CPER s combined net assets, (b) 0.0465 USBO s, USOF s, USNG s, US12OF s, UGA s, USHO s, USSO s, US12NG s, USCI s, USAG s, USMI s and CPER s combined net assets grea $500 million but less than $1 billion, and (c) 0.035% once USBO s, USOF s, USNG s, US12OF s, UGA s, USHO s, USSO s, US12NG s, USCI USAG s, USMI s and CPER s combined net assets exceed $1 billion. The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds $75,000. USCF also pays transaction fees ranging from $7 to $15 per transaction.

10

Table of Contents

USBO has entered into a brokerage agreement with UBS Securities LLC (UBS Securities). The agreement requires UBS Securities to provide services to USBO in connection with the purchase and sale of Futures Contracts and Other Crude Oil-Related Investments that may be purchased and sold by or through UBS Securities for USBO s account. In accordance with the agreement, UBS Securities charges USBO commissions of approximately $7 to $15 per round-turn trade, including applicable exchange and NFA fees for Futures Contracts and options on Futures Contracts.

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

USBO engages in the trading of futures contracts and options on futures contracts and may engage in cleared swaps (collectively, derivatives). USBO 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.

USBO may enter into futures contracts, options on futures contracts and cleared swaps to gain exposure to changes in the value of an underlying commodity. A futures contract obligates the seller to deliver (and the purchaser to accept) the future delivery of a specified quantity and type of a commodity at a specified time and place. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The contractual obligations of a buyer or seller may generally be satisfied by taking or making physical delivery of the underlying commodity or by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of delivery.

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

Futures contracts and cleared swaps involve, to varying degrees, elements of market risk (specifically commodity price risk) and exposure to loss in excess of the amount of variation margin. The face or contract amounts reflect the extent of the total exposure USBO 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, 2011, all of the futures contracts held by USBO 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 USBO 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. USBO 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, USBO bears the risk of financial failure by the clearing broker.

USBO 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 USBO s assets posted with that futures commission merchant; however, the vast majority of USBO s assets are held in U.S. Treasuries, cash and/or cash equivalents with USBO s custodian and would not be impacted by the insolvency of a futures commission merchant. Also, the failure or insolvency of USBO s custodian could result in a substantial loss of USBO s assets.

Table of Contents

USCF invests a portion of USBO s cash in money market funds that seek to maintain a stable NAV. USBO is exposed to any risk of loss associated with an investment in such money market funds. Pursuant to a written agreement with BBH&Co., uninvested overnight cash balances are swept to offshore branches of U.S. regulated and domiciled banks located in Toronto, Canada, London, United Kingdom, Grand Cayman, Cayman Islands and Nassau, Bahamas, which are subject to U.S. regulation and regulatory oversight. As of September 30, 2011 and December 31, 2010, USBO held cash deposits and investments in money market funds in the amounts of $35,548,839 and $12,309,694, respectively. This amount is subject to loss should USBO s custodian cease operations.

For derivatives, risks arise from changes in the market value of the contracts. Theoretically, USBO 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, USBO 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.

USBO 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, USBO 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 USBO 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 FINANCIAL HIGHLIGHTS

The following table presents per unit performance data and other supplemental financial data for the nine months ended September 30, 2011 and 2010 for the unitholders. This information has been derived from information presented in the condensed financial statements.

	For the nine months ended September 30, 2011 (Unaudited)	For the nine months ended September 30, 2010 (Unaudited)
Per Unit Operating Performance:		
Net asset value, beginning of period	$ 63.08	$ 50.00
Total income	6.73	5.46
Total expenses	(0.56)	(0.17)
Net increase in net asset value	6.17	5.29
Net asset value, end of period	$ 69.25	$ 55.29
Total Return	9.78 %	10.58 %
Ratios to Average Net Assets		
Total income	7.80 %	10.54 %
Management fees*	0.75 %	0.75 %
Total expenses excluding management fees*	0.60 %	1.95 %
Expenses waived*	(0.37)%	(1.70)%
Net expenses excluding management fees*	0.23 %	0.25 %
Net income	7.07 %	10.21 %

* 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 USBO.

Table of Contents

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

USBO 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 USBO (observable inputs) and (2) USBO s own assumptions about market participant assumptions developed based on the best information available under the circumstances (unobservable inputs). The three levels defined by the ASC 820 hierarchy are as follows:

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

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

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

In some instances, the inputs used to measure fair value might fall within different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

The following table summarizes the valuation of USBO s securities at December 31, 2010 using the fair value hierarchy:

	$16,005,757	$16,005,757	$16,005,757	$16,005,757
At December 31, 2010	**Total**	**Level I**	**Level II**	**Level III**
Short-Term Investments	$ 8,002,935	$ 8,002,935	$	$
Exchange-Traded Futures Contracts				
Foreign Contracts	322,660	322,660		

During the year ended December 31, 2010, there were no significant transfers between Level I and Level II.

The following table summarizes the valuation of USBO s securities at September 30, 2011 using the fair value hierarchy:

At September 30, 2011	**Total**	**Level I**	**Level II**	**Level III**
Short-Term Investments	$ 16,005,757	$ 16,005,757	$	$
Exchange-Traded Futures Contracts				
Foreign Contracts	(614,550)	(614,550)		

During the nine months ended September 30, 2011, there were no significant transfers between Level I and Level II.

USBO has 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.

Table of Contents

Fair Value of Derivative Instruments

Derivatives not Accounted for as Hedging Instruments	Condensed Statement of Financial Condition Location	Fair Value At September 30, 2011	Fair Value At December 31, 2010
Futures - Commodity Contracts	Assets	$ (614,550)	$ 322,660

The Effect of Derivative Instruments on the Condensed Statements of Operations

Derivatives not Accounted for as Hedging Instruments	Location of Gain or (Loss) on Derivatives Recognized in Income	For the nine months ended September 30, 2011 Realized Gain or (Loss) on Derivatives Recognized in Income	For the nine months ended September 30, 2011 Change in Unrealized Gain or (Loss) Recognized in Income	For the nine months ended September 30, 2010 Realized Gain or (Loss) on Derivatives Recognized in Income	For the nine months ended September 30, 2010 Change in Unrealized Gain or (Loss) Recognized in Income
Futures Commodity Contracts	Realized gain on closed positions	$ 3,874,520		$ 594,180	
	Change in unrealized gain (loss) on open positions		$ (937,210)		$ 496,720

NOTE 8 RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU No. 2011-04 clarifies existing requirements for measuring fair value and for disclosure about fair value measurements in converged guidance of the FASB and the International Accounting Standards Board. The amendments are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. Nonpublic entities may apply the amendments early, but no earlier than for interim periods beginning after December 15, 2011. The implementation of ASU No. 2011-04 is not expected to have a material impact on USBO s financial statements.

In January 2010, FASB issued 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 USBO s financial statements.

NOTE 9 SUBSEQUENT EVENTS

USBO 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.

14

Table of Contents

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 Brent Oil Fund, LP (USBO) 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 USBO 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 USBO 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 of these words, other variations o comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and USBO cannot assure investors that the projections included in these forward-looking statements will come to pass. USBO s actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

USBO 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 USBO assumes no obligation to update any such forward-looking statements. Although USBO 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 USBO may make directly to them or through reports that USBO 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

USBO, 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 USBO is for the daily changes in percentage terms of its units NAV to reflect the daily changes in percentage terms of the spot price of Brent crude oil as measured by the changes in the price of the futures contract for Brent crude oil traded on the ICE Futures Exchange (the ICE Futures) that is the near month contract to expire, 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, less USBO s expenses. It is not the intent of USBO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of Brent crude oil or any particular futures contract based on Brent crude oil. The general partner of USBO, United States Commodity Funds LLC (USCF), believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below).

USBO invests in futures contracts for crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the ICE Futures, the New York Mercantile Exchange (the NYMEX), or other U.S. and foreign exchanges (collectively, Futures Contracts) and other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for crude oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, Other Crude Oil-Related Investments). For convenience and unless otherwise specified, Futures Contracts and Other Crude Oil-Related Investments collectively are referred to as Crude Oil Interests in this quarterly report on Form 10-Q.

USBO seeks to achieve its investment objective by investing in a combination of Futures Contracts and Other Crude Oil-Related Investments such that daily changes in its NAV, measured in percentage terms, will closely track the daily changes in the price of the Benchmark Futures Contract, also measured in percentage terms. USCF believes the changes in the price of the Benchmark Futures Contract have historically exhibited a close correlation with the changes in the spot price of Brent crude oil. It is not the intent of USBO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of Brent crude oil or any particular futures contract based on Brent crude oil. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in listed crude oil Futures Contracts and Other Crude Oil-Related Investments.

Table of Contents

On any valuation day, the Benchmark Futures Contract is the near month futures contract for Brent crude oil traded on the ICE Futures unless the near month contract is within two weeks of expiration, in which case the Benchmark Futures Contract becomes, over a 4-day period, the next month contract for Brent crude oil traded on the ICE Futures. Near month contract means the next contract traded on the ICE Futures due to expire. Next month contract means the first contract traded on the ICE Futures due to expire after the near month contract.

The regulation of commodity interests in the United States 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 (the Dodd-Frank Act), was signed into law.

All of the Dodd-Frank Act s new provisions became effective on July 16, 2011. However, some new rules implementing, and in many cases, interpreting and clarifying, the Dodd-Frank Act s new requirements have not been finalized. Therefore, USBO will necessarily operate in a period of regulatory uncertainty until all applicable new regulations have been finalized. Some specific examples of how the new Dodd-Frank Act provisions and rules adopted thereunder could impact USBO are discussed below.

Provisions in the Dodd-Frank Act include the requirement that position limits be established on a wide range of commodity interests including energy-based and other commodity futures contracts, certain cleared commodity swaps and certain over-the-counter commodity contracts; 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 swap transactions that are currently entered into in the over-the-counter market. The new law and the rules thereunder may negatively impact USBO s ability to meet its investment objective either through limits or requirements imposed on it or upon its counterparties. Further, increased regulation of, and the imposition of additional costs on, swap transactions under the new legislation and implementing regulations could cause a reduction in the swap market and the overall derivatives markets, which could restrict liquidity and adversely affect USBO. In particular, new position limits imposed on USBO or its counterparties may impact USBO 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 USBO s investments and doing business, which could adversely impact the ability of USBO to achieve its investment objective.

On October 18, 2011, the U.S. Commodity Futures Trading Commission (the CFTC) adopted regulations implementing position limits and limit formulas for 28 core physical commodity futures, including the Futures Contracts and options on Futures Contracts executed pursuant to the rules of designated contract markets (*i.e.*, certain regulated exchanges) and commodity swaps that are economically equivalent to such futures and options contracts (collectively Referenced Contracts). The new regulations require, among other things, aggregation of position limits that would apply across different trading venues to contracts based on the same underlying commodity. However, the regulations do not appear to require aggregation of Referenced Contracts held across separate Funds or Trust Series.

The position limit rules will be implemented in two phases: spot-month position limits and non-spot-month position limits. Spot-month limits will be effective sixty days after the term swap is defined under the Dodd-Frank Act (see below). The limits adopted will be based on the spot-month position limit levels currently in place at the Futures Exchanges (or designated contract market or DCM). Thereafter, the spot-month limits will be adjusted annually for energy contracts. These subsequent limits will be based on the CFTC s determination of deliverable supply in consultation with the Futures Exchanges. Spot-month position limit levels will be set generally at 25% of estimated deliverable supply, and limits will be applied separately for physical-delivery and cash-settled contracts in the same commodity.

Non-spot-month position limits will go into effect by CFTC order after the CFTC has received one year of open interest data on physical commodity cleared and uncleared swaps under the swaps large trader reporting rule. The non-spot month limits will be adjusted biennially based on Referenced Contract open interest. Non-spot-month position limits (*i.e.*, limits applied to positions in all contract months combined or in a single contract month) will be set using the 10/2.5 percent formula: 10 percent of the contract s first 25,000 of open interest and 2.5 percent thereafter. These limits will be reset biennially based on two years open interest data.

Table of Contents

Based on its current understanding of the final position limit regulations, USCF does not anticipate significant negative impact on the ability of USBO to achieve its investment objective. However, as of the filing of this quarterly report on Form 10-Q, additional studies are required before final rules are implemented, and therefore, it cannot be determined with certainty, what impact such rules will have on USBO.

On April 12, 2011, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Farm Credit System and the Federal Housing Finance Agency (collectively, the Prudential Regulators) and the CFTC issued proposed rules establishing minimum initial and variation margin collection requirements for certain swap dealers and major swap participants (collectively, Covered Swap Entities), which if adopted, would require Covered Swap Entities to collect minimum initial and variation margin amounts from swap counterparties. The public comment period for these rules was extended on June 23, 2011. The Prudential Regulators proposed rules would apply to those Covered Swap Entities that are regulated by the Prudential Regulators and the CFTC s proposed rules would apply to Covered Swap Entities that are not regulated by the Prudential Regulators.

The amount of initial and variation margin that Covered Swap Entities would be required to collect under the proposed rules varies based on whether a Covered Swap Entity s counterparty to a particular swap is (1) also a Covered Swap Entity, (2) a high-risk financial entity end-user, (3) a low-risk financial entity end-user (*e.g.,* financial entities subject to capital requirements imposed by bank or insurance regulators, that predominantly use swaps to hedge and that do not have significant swap exposure) or (4) a non-financial end-user. With certain exceptions not applicable to USBO and the affiliated funds managed by USCF, Covered Swap Entities would not be required to post initial or variation margin to any of their counterparties except for other Covered Swap Entities.

Covered Swap Entities and all financial entity end-users would be required to post initial margin and variation margin when they enter into swaps with Covered Swap Entities. Margin posted by low-risk financial entity end-users could be subject to thresholds under the proposed rules. As commodity pools, USBO and the affiliated funds managed by USCF would be high-risk financial entity end-users and would therefore have to post margin without thresholds.

The CFTC and the SEC have proposed joint rules defining swaps and security-based swaps, which would provide additional clarity regarding which transactions will be regulated as such under the Dodd-Frank Act and, more specifically, whether and how new CFTC and SEC rules will apply to USBO. Final rules with regard to the definition of swaps and security-based-swaps have not yet been proposed.

The CFTC has now issued proposed versions of all of the rules it is required to promulgate under the Dodd-Frank Act but continues to issue proposed versions of additional rules that it has authority to promulgate.

On July 14, 2011, the CFTC issued an order providing temporary relief from certain swaps-related provisions of Title VII that would have automatically taken effect on July 16, 2011. The final order granted temporary exemptive relief that, by its terms, expires upon the earlier of the effective date of the required final rulemaking or December 31, 2011. On October 18, 2011, the CFTC issued an order, which modifies the July 14, 2011 order by extending the temporary exemptive relief to the earlier of the effective date of the required final rulemaking or July 16, 2012.

USCF, which is registered as a commodity pool operator (CPO) with the CFTC, is authorized by the Second Amended and Restated Agreement of Limited Partnership of USBO (the LP Agreement) to manage USBO. USCF is authorized by USBO 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

Brent Crude Oil futures prices exhibited moderate daily swings along with an uneven upward trend during the nine months ended September 30, 2011. The price of the Benchmark Futures Contract started the period at $94.75 per barrel. The Benchmark Futures Contract reached its high for the period on April 8, 2011 at $126.12 per barrel and reached its low for the period on January 7, 2011 when the price dropped to $93.18 per barrel. The period ended with the Benchmark Futures Contract at $102.76 per barrel, up approximately 8.45% over the period. USBO s NAV began the period at $63.08 per unit and ended the period at $69.25 per unit, an increase of approximately 9.78% over the period. USBO s NAV reached its high for the period on April 8, 2011 at $83.91 per unit and reached its low for the period on January 7, 2011 at $62.07 per unit. The Benchmark Futures Contract prices listed above began with the February 2011 and March 2011 contracts and ended with the November 2011 and December 2011 contracts. The return of approximately 8.45% on the Benchmark Futures Contract listed above is a hypothetical return only and could not actually be achieved by an investor holding Futures Contracts. An investment in 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 USBO seeks to track, which are more fully described below, in the section titled *Tracking USBO s Benchmark.*

17

Table of Contents

During the nine months ended September 30, 2011, the level of contango in U.S. crude oil markets 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 in the United States, which reached historic levels in January 2009 and February 2009 and which appeared to be the primary cause of the steep level of contango, began to drop in March 2009 and continued to drop for the remainder of 2009 and the beginning of 2010. During the year ended December 31, 2010, crude oil inventories began to climb higher; however, beginning mid-2011 inventories outside the U.S. have drawn to their lowest levels in nine years. Although the market is tight, global markets are keeping prices low and the futures market in contango, when otherwise, due to inventory, it would be more in a backwardation environment. The Brent crude oil futures market did not experience the steep levels of contango seen in the United States during the year ended December 31, 2010 and the nine months ended September 30, 2011. The Brent crude oil futures market moved into a very mild backwardation through the end of September 2011. For a discussion of the impact of backwardation and contango on total returns, see *Term Structure of Crude Oil Prices and the Impact on Total Returns* below.

Valuation of Futures Contracts and the Computation of the NAV

The NAV of USBO 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. USBO s administrator uses the ICE Futures settlement price (a weighted average price of trades during a three-minute settlement period from 2:27 p.m. to 2:30 p.m. New York time) for the contracts held on the ICE Futures, but calculates or determines the value of all other USBO investments, including NYMEX 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 June 2, 2010, USBO listed its units on the NYSE Arca under the ticker symbol BNO. On that day, USBO established its initial offering price at $50.00 per unit and issued 200,000 units to the initial authorized purchaser, Merrill Lynch Professional Clearing Corp., in exchange for $10,000,000 in cash.

Since its initial offering of 50,000,000 units, USBO has not registered any subsequent offerings of its units. As of September 30, 2011, USBO had issued 48,500,000 units, 100,000 of which were outstanding. As of September 30, 2011, there were 48,500,000 units registered but not yet issued.

More units may have been issued by USBO 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 USBO cannot be resold by USBO. As a result, USBO 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, 2011 Compared to the Period Ended September 30, 2010

Since USBO commenced operations on June 2, 2010, the comparison of USBO s results of operations for the period from June 2, 2010 to September 30, 2010 and the nine months ended September 30, 2011 may not be meaningful.

As of September 30, 2011, the total unrealized loss on Futures Contracts owned or held on that day was $614,550, and USBO established cash deposits and investments in money market funds that were equal to $35,548,839. USBO held 88.37% of its cash assets in overnight deposits and money market funds at its custodian bank, while 11.63% of the cash balance was held as margin deposits for the Futures Contracts purchased. The ending per unit NAV on September 30, 2011 was $69.25.

By comparison, as of September 30, 2010, the total unrealized gain on Futures Contracts owned or held on that day was $496,720, and USBO established cash deposits and investments in money market funds that were equal to $10,573,190. USBO held 86.63% of its cash assets in overnight deposits and money market funds at its custodian bank, while 13.37% of the cash balance was held as margin deposits for the Futures Contracts purchased. The increase in cash assets in overnight deposits and money market funds for September 30, 2011, as compared to September 30, 2010 was the result of USBO s smaller size in the current period as measured by total net assets. The ending per unit NAV on September 30, 2010 was $55.29. The increase in the per unit NAV for September 30, 2011, as compared to September 30, 2010, was primarily due to the rise in the price of the Futures Contracts.

Table of Contents

Portfolio Expenses. USBO s expenses consist of investment management fees, brokerage fees and commissions, certain offering costs, the fees and expenses of the independent directors of USCF and expenses relating to tax accounting and reporting requirements. The management fee that USBO pays to USCF is calculated as a percentage of the total net assets of USBO. USBO pays USCF a management fee of 0.75% of its average net assets. The fee is accrued daily and paid monthly.

During the nine months ended September 30, 2011, the daily average total net assets of USBO were $37,905,574. The management fee incurred by USBO during the period amounted to $212,635. By comparison, during the period ended September 30, 2010, the daily average total net assets of USBO were $10,371,026. The management fee paid by USBO during the period amounted to $25,785.

In addition to the management fee, USBO pays all brokerage fees and other expenses, including certain tax reporting costs, 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, 2011 was $170,683, as compared to $67,181 for the period ended September 30, 2010. The increase in expenses was primarily due to the fact that USBO was only operating for a portion of the period ended September 30, 2010 versus a full nine months of operations for the nine months ended September 30, 2011. For the nine months ended September 30, 2011 and the period ended September 30, 2010, USBO did not incur any ongoing registration fees or other expenses relating to the registration and offering of additional units. During the nine months ended September 30, 2011 and the period ended September 30, 2010, an expense waiver was in effect which offset certain of the expenses incurred by USBO. The total amount of the expense waiver was $104,431 for the nine months ended September 30, 2011 and $58,502 for the period ended September 30, 2010. For the nine months ended September 30, 2011 and the period ended September 30, 2010, the expenses of USBO, including management fees, commissions, and all other expenses, before allowance for the expense waiver, totaled $383,318 and $92,966, respectively, and after allowance for the expense waiver, totaled $278,887 and $34,464, respectively.

USBO is responsible for paying its portion of the directors and officers liability insurance of all affiliated funds for which USCF serves as general partner and sponsor and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those funds organized as a series of a Delaware statutory trust. Affiliated funds of USBO include the United States Oil Fund, LP (USOF), the United States Natural Gas Fund, LP (USNG), the United States 12 Month Oil Fund, LP (US12OF), 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), the United States Commodity Index Fund (USCI), the United States Agriculture Index Fund (USAG), the United States Copper Index Fund (CPER) and the United States Metals Index Fund (USMI). USBO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. By comparison, for the year ended December 31, 2010, these fees and expenses amounted to a total of $1,107,140 for all affiliated funds, except USCI, USAG, USMI and CPER, and USBO s portion of such fees and expenses was $421. Effective as of April 1, 2010, USBO became 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, USCF and the affiliated funds, except USCI, USAG, USMI and CPER.

Table of Contents

USBO also incurs commissions to brokers for the purchase and sale of Futures Contracts, Other Crude Oil-Related Investments or short-term obligations of the United States of two years or less (Treasuries). During the nine months ended September 30, 2011, total commissions paid to brokers amounted to $20,896. By comparison, during the period ended September 30, 2010, total commissions paid to brokers amounted to $3,681. The increase in total commissions paid to brokers for the nine months ended September 30, 2011, as compared to the period ended September 30, 2010, was primarily due to the fact that USBO was only operating for a portion of the period ended September 30, 2010 versus a full nine months of operations for the nine months ended September 30, 2011. As an annualized percentage of total net assets, the figure for the nine months ended September 30, 2011 represents approximately 0.07% of total net assets. By comparison, the figure for the period ended September 30, 2010 represented approximately 0.11% 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.

The fees and expenses associated with USBO s audit expenses and tax accounting and reporting requirements are paid by USBO. These costs are estimated to be $75,000 for the year ending December 31, 2011. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USBO to the extent that such expenses exceed 0.15% (15 basis points) of USBO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

Dividend and Interest Income. USBO seeks to invest its assets such that it holds Futures Contracts and Other Crude Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require USBO to pay the full amount of the contract value at the time of purchase, but rather require USBO to post an amount as a margin deposit against the eventual settlement of the contract. As a result, USBO retains an amount that is approximately equal to its total net assets, which USBO 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 USBO 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, 2011, USBO earned $4,673 in dividend and interest income on such cash and/or cash equivalents. Based on USBO s average daily total net assets, this was equivalent to an annualized yield of 0.02%. USBO did not purchase Treasuries during the nine months ended September 30, 2011 and held only cash and/or cash equivalents during this time period. By comparison, for the period ended September 30, 2010, USBO earned $2,067 in dividend and interest income on such cash and/or cash equivalents. Based on USBO s average daily total net assets, this was equivalent to an annualized yield of 0.06%. USBO did not purchase Treasuries during the period ended September 30, 2010 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 slightly lower during the nine months ended September 30, 2011 compared to the period ended September 30, 2010. As a result, the amount of income earned by USBO as a percentage of total net assets was lower during the nine months ended September 30, 2011 compared to the period ended September 30, 2010.

For the Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Portfolio Expenses. During the three months ended September 30, 2011, the daily average total net assets of USBO were $41,992,746. The management fee incurred by USBO during the period amounted to $79,384. By comparison, during the three months ended September 30, 2010, the daily average total net assets of USBO were $10,379,353. The management fee incurred by USBO during the period amounted to $19,621.

In addition to the management fee, USBO pays all brokerage fees and other expenses, including certain tax reporting costs, ongoing registration or other fees paid to the SEC and 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, 2011 was $52,844, as compared to $54,414 for the three months ended September 30, 2010. The decrease in expenses was primarily a result of the decrease in the estimated fees for tax, reporting, audit, licensing, directors, and other fees during the three months ended September 30, 2011. For the three months ended September 30, 2011 and 2010, USBO did not incur any ongoing registration fees or other expenses relating to the registration and offering of additional units. During the three months ended September 30, 2011 and 2010, an expense waiver was in effect which offset certain of the expenses incurred by USBO. The total amount of the expense waiver was $28,525 for the three months ended September 30, 2011 and $48,064 for the three months ended September 30, 2010. For the three months ended September 30, 2011 and 2010, the expenses of USBO, including management fees, commissions, and all other expenses, before allowance for the expense waiver, totaled $132,228 and $74,035 respectively, and after allowance for the expense waiver, totaled $103,703 and $25,971, respectively.

Table of Contents

USBO is responsible for paying its portion of the directors and officers liability insurance of all affiliated funds for which USCF serves as general partner and sponsor and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those affiliated funds organized as a series of a Delaware statutory trust. Affiliated funds of USBO include USOF, USNG, US12OF, UGA, USHO, USSO, US12NG, USCI, USAG, CPER and USMI. USBO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. By comparison, for the year ended December 31, 2010, these fees and expenses amounted to a total of $1,107,140 for all affiliated funds, except USCI, USAG, USMI and CPER, and USBO s portion of such fees and expenses was $421. Effective as of April 1, 2010, USBO became 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, USCF and the affiliated funds, except USCI, USAG, CPER and USMI.

USBO also incurs commissions to brokers for the purchase and sale of Futures Contracts, Other Crude Oil-Related Investments or Treasuries. During the three months ended September 30, 2011, total commissions paid to brokers amounted to $7,456. By comparison, during the three months ended September 30, 2010, total commissions paid to brokers amounted to $2,259. The increase in total commissions paid to brokers for the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, was primarily a function of increased brokerage fees due to a higher number of future contracts being held and traded as a result of the relative increase in USBO s total net assets. The increase in assets required USBO to purchase a greater number of Future Contracts and incur a higher amount of commissions. As an annualized percentage of total net assets, the figure for the three months ended September 30, 2011 represents approximately 0.07% of total net assets. By comparison, the figure for the three months ended September 30, 2010 represented approximately 0.09% 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.

The fees and expenses associated with USBO s audit expenses and tax accounting and reporting requirements are paid by USBO. These costs are estimated to be $75,000 for the year ending December 31, 2011. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USBO to the extent that such expenses exceed 0.15% (15 basis points) of USBO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

Dividend and Interest Income. USBO seeks to invest its assets such that it holds Futures Contracts and Other Crude Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require USBO to pay the full amount of the contract value at the time of purchase, but rather require USBO to post an amount as a margin deposit against the eventual settlement of the contract. As a result, USBO retains an amount that is approximately equal to its total net assets, which USBO 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 USBO 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, 2011, USBO earned $1,681 in dividend and interest income on such cash and/or cash equivalents. Based on USBO s average daily total net assets, this was equivalent to an annualized yield of 0.02%. USBO did not purchase Treasuries during the three months ended September 30, 2011 and held only cash and/or cash equivalents during this time period. By comparison, for the three months ended September 30, 2010, USBO earned $1,699 in dividend and interest income on such cash and/or cash equivalents. Based on USBO s average daily total net assets, this was equivalent to an annualized yield of 0.06%. USBO did not purchase Treasuries during the three months ended September 30, 2010 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, 2011 compared to the three months ended September 30, 2010. As a result, the amount of income earned by USBO as a percentage of total net assets was lower during the three months ended September 30, 2011 compared to the three months ended September 30, 2010.

Table of Contents

Tracking USBO s Benchmark

USCF seeks to manage USBO s portfolio such that changes in its average daily NAV, on a percentage basis, closely track the changes in the average daily price of the Benchmark Futures Contract, also on a percentage basis. Specifically, USCF seeks to manage the portfolio such that over any rolling period of 30 valuation days, the average daily change in USBO s NAV is within a range of 90% to 110% (0.9 to 1.1) of the average daily change in the price of the Benchmark Futures Contract. As an example, if the average daily movement of the price of the Benchmark Futures Contract for a particular 30-valuation day time period was 0.5% per day, USCF 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). USBO s portfolio management goals do not include trying to make the nominal price of USBO s NAV equal to the nominal price of the current Benchmark Futures Contract or the spot price for Brent crude oil. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in listed Futures Contracts.

For the 30 valuation days ended September 30, 2011, the simple average daily change in the Benchmark Futures Contract was (0.093)%, while the simple average daily change in the NAV of USBO over the same time period was (0.096)%. The average daily difference was (0.004)% (or (0.4) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the Benchmark Futures Contract, the average error in daily tracking by the NAV was (0.5748)%, meaning that over this time period USBO s tracking error was within the plus or minus 10% range established as its benchmark tracking goal. The first chart below shows the daily movement of USBO s NAV versus the daily movement of the Benchmark Futures Contract for the 30-valuation day period ended September 30, 2011. The second chart below shows the monthly total returns of USBO as compared to the monthly value of the Benchmark Futures Contract since inception.

Since the commencement of the offering of USBO s units to the public on June 2, 2010 to September 30, 2011, the simple average daily change in the Benchmark Futures Contract was 0.116%, while the simple average daily change in the NAV of USBO over the same time period was 0.112%. The average daily difference was 0.004% (or 0.4 basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the Benchmark Futures Contract, the average error in daily tracking by the NAV was 1.08%, meaning that over this time period USBO s tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

Table of Contents

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

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

Table of Contents

For the nine months ended September 30, 2011, the actual total return of USBO as measured by changes in its NAV was 9.78%. This is based on an initial NAV of $63.08 on December 31, 2010 and an ending NAV as of September 30, 2011 of $69.25. During this time period, USBO made no distributions to its unitholders. However, if USBO s daily changes in its NAV had instead exactly tracked the changes in the daily total return of the Benchmark Futures Contract, USBO would have had an estimated NAV of $69.70 as of September 30, 2011, for a total return over the relevant time period of 10.49%. The difference between the actual NAV total return of USBO of 9.78% and the expected total return based on the Benchmark Futures Contract of 10.49% was an error over the time period of (0.71)%, which is to say that USBO s actual total return underperformed the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of the expenses that USBO pays, offset in part by the income that USBO collects on its cash and cash equivalent holdings. During the nine months ended September 30, 2011, USBO received dividend and interest income of $4,673, which is equivalent to a weighted average income rate of 0.02% for such period. During the nine months ended September 30, 2011, USBO collected $15,500 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to USBO s actual total return. During the nine months ended September 30, 2011, USBO incurred net expenses of $278,887. Income from dividends and interest and Authorized Purchaser collections net of expenses was $(258,714), which is equivalent to an annualized weighted average net income rate of (0.91)% for the nine months ended September 30, 2011.

By comparison, for the period ended September 30, 2010, the actual total return of USBO as measured by changes in its NAV was 10.58%. This was based on an initial NAV of $50.00 on June 1, 2010 and an ending NAV as of September 30, 2010 of $55.29. During this time period, USBO made no distributions to its unitholders. However, if USBO s daily changes in its NAV had instead exactly tracked the changes in the daily total return of the Benchmark Futures Contract, USBO would have had an estimated NAV of $55.45 as of September 30, 2010, for a total return over the relevant time period of 10.90%. The difference between the actual NAV total return of USBO of 10.58% and the expected total return based on the Benchmark Futures Contract of 10.90% was an error over the time period of -0.32%, which is to say that USBO s actual total return underperformed the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of the expenses that USBO paid, offset in part by the income that USBO collected on its cash and cash equivalent holdings. During the period ended September 30, 2010, USBO received dividend and interest income of $2,067, which is equivalent to a weighted average income rate of 0.06% for such period. In addition, during the period ended September 30, 2010, USBO collected $0 from its Authorized Purchasers for creating or redeeming baskets of units. During the period ended September 30, 2010, USBO incurred net expenses of $34,464. Income from dividends and interest and Authorized Purchaser collections net of expenses was $(32,397), which is equivalent to an annualized weighted average net income rate of (0.94%) for the period ended September 30, 2010.

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

First, USBO may buy or sell its holdings in the then current Benchmark Futures Contract at a price other than the closing settlement price of that contract on the day during which USBO executes the trade. In that case, USBO may pay a price that is higher, or lower, than that of the Benchmark Futures Contract, which could cause the changes in the daily NAV of USBO to either be too high or too low relative to the changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USCF attempted to minimize the effect of these transactions by seeking to execute its purchase or sale of the Benchmark Futures Contract at, or as close as possible to, the end of the day settlement price. However, it may not always be possible for USBO 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 USBO s attempt to track the Benchmark Futures Contract over time.

Second, USBO earns dividend and interest income on its cash and cash equivalents. USBO 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, 2011. Interest payments, and any other income, were retained within the portfolio and added to USBO s NAV. When this income exceeds the level of USBO s expenses for its management fee, brokerage commissions and other expenses (including ongoing registration fees and the fees and expenses of the independent directors of USCF), USBO will realize a net yield that will tend to cause daily changes in the NAV of USBO to track slightly higher than daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USBO earned, on an annualized basis, approximately 0.02% on its cash holdings. It also incurred cash expenses on an annualized basis of 0.75% for management fees, approximately 0.07% in brokerage commission costs related to the purchase and sale of futures contracts and 0.16% for other net expenses. The foregoing fees and expenses resulted in a net yield on an annualized basis of approximately (0.96)% and affected USBO 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 Contract.

24

Table of Contents

Third, USBO may hold Other Crude Oil-Related Investments in its portfolio that may fail to closely track the Benchmark Futures Contract s total return movements. In that case, the error in tracking the Benchmark Futures Contract could result in daily changes in the NAV of USBO that are either too high, or too low, relative to the daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USBO did not hold any Other Crude Oil-Related Investments. If USBO increases in size, and due to its obligations to comply with regulatory limits, USBO may invest in Other Crude Oil-Related Investments, which may have the effect of increasing transaction related expenses and may result in increased tracking error.

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

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

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

If the futures market is in contango, the investor would be buying a next month contract for a higher price than the current near month contract. Using again the $50 per barrel price above to represent the front month price, the price of the next month contract could be $51 per barrel, that is, 2% more expensive than the front month contract. Hypothetically, and assuming no other changes to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract (and ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the next month contract would fall as it approaches expiration and becomes the new near month contract with a price of $50. In this example, it would mean that the value of an investment in the second month would tend to rise slower than the spot price of crude oil, or fall faster. As a result, it would be possible in this hypothetical example for the spot price of crude oil to have risen 10% after some period of time, while the value of the investment in the second month futures contract will have risen only 8%, assuming contango is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the second month futures contract could have fallen 12%. Over time, if contango remained constant, the difference would continue to increase.

Table of Contents

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 (2001-2010). 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 from the dollar price of the near month contract the average dollar price of the near 12-months contracts for Brent 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 contracts 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 contracts and the market could be described as being in contango. The chart below shows the results from subtracting from the near 12-months contracts price the price of the next month contract for the 10-year period between 2001 and 2010.

Table of Contents

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

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 2010 and the nine months ended September 30, 2011. The Brent crude oil futures market experiences the same effects of contango and backwardation as the United States crude oil futures market, but the Brent crude oil futures market has not historically experienced the same level of steepness in contango and backwardation as the United States crude oil futures market.

Periods of contango or backwardation do not materially impact USBO s investment objective of having the percentage changes in its per unit NAV track the percentage changes in the price of the Benchmark Futures Contract since the impact of backwardation and contango tend to equally impact the percentage changes in price of both USBO s units and the Benchmark Futures Contract. 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.

Table of Contents

Brent Crude Oil Market. During the nine months ended September 30, 2011, Brent 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, continued to improve during the third quarter of 2011. 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. In the summer of 2011, production was also disrupted by political unrest in the Middle East, particularly Libya, which reduced global supply by approximately 1.8 million barrels per day. On June 23, 2011, the United States and other industrial nations announced the release of 60 million barrels of crude oil in an effort to reduce the price of fuel. This announcement briefly lowered the price of crude oil, but the release of oil from strategic stockpiles did not in and of itself have an impact on the price of crude oil as of September 30, 2011. Brent crude oil prices finished the third quarter of 2011 approximately 8.45% higher than at the beginning of the year, as the global economy continues to adjust to periods of slow recovery and economic growth. USCF believes, 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.

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

For the ten-year time period between September 30, 2001 and September 30, 2011, the chart below compares the monthly movements of Brent 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 Brent 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 Brent crude oil had a strong positive correlation to movements in unleaded gasoline and crude oil. Brent crude oil was also positively, yet mildly correlated with heating oil.

Table of Contents

Correlation Matrix September 30, 2001-2011	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)	Crude Oil (WTI)	Unleaded Gasoline	Heating Oil	Brent Oil
Large Cap U.S. Equities (S&P 500)	1.000	(0.342)	0.968	0.223	0.181	0.190	**0.237**
U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)		1.000	(0.311)	(0.179)	(0.254)	(0.126)	**(0.200)**
Global Equities (FTSE World Index)			1.000	0.319	0.240	0.273	**0.330**
Crude Oil (WTI)				1.000	0.760	0.844	**0.963**
Unleaded Gasoline					1.000	0.723	**0.784**
Heating Oil						1.000	**0.369**
Brent 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, 2011, Brent crude oil had a positive correlation with West Texas Intermediate Crude Oil as well as unleaded gasoline. Brent crude oil continued to have a positive, yet mild, correlation with heating oil. The correlation between Brent crude oil and both large cap U.S. equities and global equities, which had been essentially non-correlated over the ten-year period ended September 30, 2011, displayed results that indicated that they had a strong positive correlation over this shorter time period. Finally, the results showed that Brent crude oil and U.S. government bonds, which had essentially been non-correlated for the ten-year period ended September 30, 2011, were negatively correlated over this more recent time period.

Table of Contents

Correlation Matrix 12 Months ended September 30, 2011	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)	Crude Oil	Unleaded Gasoline	Heating Oil	Brent Oil
Large Cap U.S. Equities (S&P 500)	1.000	-0.734	-0.986	0.768	0.691	0.702	**0.793**
U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)		1.000	-0.677	-0.599	-0.505	-0.477	**-0.523**
Global Equities (FTSE World Index)			1.000	0.762	0.690	0.704	**0.795**
Crude Oil				1.000	0.965	0.871	**0.900**
Unleaded Gasoline					1.000	0.854	**0.894**
Heating Oil						1.000	**0.425**
Brent Oil							**1.000**

Source: Bloomberg, NYMEX

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Investors are cautioned that the historical price relationships between Brent 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. USCF believes that Brent crude oil has historically not demonstrated a strong correlation with equities or bonds over long periods of time. However, USCF also believes that in the future it is possible that Brent crude oil could have long-term correlation results that indicate prices of Brent crude oil more closely track the movements of equities or bonds. In addition, USCF believes that, when measured over time periods shorter than ten years, there will always be some periods where the correlation of Brent 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 Brent crude oil, U.S. West Texas Intermediate Crude Oil, heating oil and gasoline are relevant because USCF endeavors to invest USBO s assets in Futures Contracts and Other Crude Oil-Related Investments so that daily changes in percentage terms in USBO s NAV correlate as closely as possible with daily changes in percentage terms in the price of the Benchmark Futures Contract. If certain other fuel-based commodity Futures Contracts do not closely correlate with the Benchmark Futures Contract, then their use could lead to greater tracking error. As noted above, USCF also believes that the changes in percentage terms in the price of the Benchmark Futures Contract will closely correlate with changes in percentage terms in the spot price of Brent 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. USBO s application of these policies involves judgments and actual results may differ from the estimates used.

USCF has evaluated the nature and types of estimates that it makes in preparing USBO 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 USBO 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, USBO 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.

Table of Contents

Liquidity and Capital Resources

USBO has not made, and does not anticipate making, use of borrowings or other lines of credit to meet its obligations. USBO has met, and it is anticipated that USBO 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. USBO s liquidity needs include: redeeming units, providing margin deposits for its existing Futures Contracts or the purchase of additional Futures Contracts and posting collateral for its over-the-counter contracts, if applicable, and, except as noted below, payment of its expenses, summarized below under Contractual Obligations.

USBO 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. USBO has allocated substantially all of its net assets to trading in Crude Oil Interests. USBO invests in Crude 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 Futures Contracts and Other Crude Oil-Related Investments. A significant portion of USBO s NAV is held in cash and cash equivalents that are used as margin and as collateral for its trading in Crude Oil Interests. The balance of the net assets is held in USBO s account at its custodian bank. Income received from USBO s money market funds is paid to USBO. During the nine months ended September 30, 2011, USBO s expenses exceeded the income USBO earned and the cash earned from the sale of Creation Baskets. During the nine months ended September 30, 2011, USBO was forced to use other assets to pay cash expenses, which could cause a drop in USBO s NAV over time. To the extent expenses exceed income USBO s NAV will be negatively impacted.

USBO s investments in Crude 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 USBO from promptly liquidating its positions in Futures Contracts. During the nine months ended September 30, 2011, USBO was not forced to purchase or liquidate any of its positions while daily limits were in effect; however, USBO cannot predict whether such an event may occur in the future.

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

Market Risk

Trading in Futures Contracts and Other Crude Oil-Related Investments, such as forwards, involves USBO 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 USBO s future cash requirements since USBO intends to close out its open positions prior to settlement. As a result, USBO is generally only subject to the risk of loss arising from the change in value of the contracts. USBO considers the fair value of its derivative instruments to be the unrealized gain or loss on the contracts. The market risk associated with USBO s commitments to purchase oil is limited to the aggregate market value of the contracts held. However, should USBO 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 USBO could be unlimited.

Table of Contents

USBO 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 Futures Contracts and Other Crude Oil-Related Investments markets and the relationships among the contracts held by USBO. Drastic market occurrences could ultimately lead to the loss of all or substantially all of an investor s capital.

Credit Risk

When USBO enters into Futures Contracts and Other Crude Oil-Related Investments, it is exposed to the credit risk that the counterparty will not be able to meet its obligations. The counterparty for the Futures Contracts traded on the ICE Futures 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 clearinghouse in connection with cleared trades, 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 USBO in such circumstances.

USCF attempts to manage the credit risk of USBO by following various trading limitations and policies. In particular, USBO generally posts margin and/or holds liquid assets that are approximately equal to the market value of its obligations to counterparties under the Futures Contracts and Other Crude Oil-Related Investments it holds. USCF 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 USBO to limit its credit exposure. UBS Securities LLC, USBO s commodity broker, or any other broker that may be retained by USBO in the future, when acting as USBO s futures commission merchant in accepting orders to purchase or sell Futures Contracts on United States exchanges, is required by CFTC regulations to separately account for and segregate as belonging to USBO, all assets of USBO relating to domestic Futures Contracts trading. These futures commission merchants are not allowed to commingle USBO s assets with their other assets. In addition, the CFTC requires commodity brokers to hold in a secure account USBO s assets related to foreign Futures Contracts trading. During the nine months ended September 30, 2011, the only foreign exchange on which USBO made investments was the ICE Futures, which is a London based futures exchange. Those crude oil contracts are denominated in U.S. dollars.

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

As of September 30, 2011, USBO held cash deposits and investments in money market funds in the amount of $35,548,839. This amount is subject to loss should USBO s custodian cease operations.

Off Balance Sheet Financing

As of September 30, 2011, USBO had 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 USBO. While USBO s exposure under these indemnification provisions cannot be estimated, they are not expected to have a material impact on USBO s financial position.

Redemption Basket Obligation

In order to meet its investment objective and pay its contractual obligations described below, USBO requires liquidity to redeem units, which redemptions must be in blocks of 100,000 units called Redemption Baskets. USBO 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.

Table of Contents

Contractual Obligations

USBO s primary contractual obligations are with USCF. In return for its services, USCF is entitled to a management fee calculated monthly as a fixed percentage of USBO s NAV, currently 0.75% of NAV on its average daily net assets.

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

USCF pays the fees of USBO 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 USBO s condensed financial statements and its SEC and CFTC reports. USBO pays the fees and expenses associated with its tax accounting and reporting requirements. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USBO to the extent that such expenses exceed 0.15% (15 basis points) of USBO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

In addition to USCF s management fee, USBO pays its brokerage fees (including fees to a futures commission merchant), over-the-counter dealer spreads 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 USBO 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. USBO also pays a portion of the fees and expenses of the independent directors of USCF. *See Note 3 to the Notes to Condensed Financial Statements (Unaudited) in Item 1 of this quarterly report on Form 10-Q.*

The parties cannot anticipate the amount of payments that will be required under these arrangements for future periods, as USBO s NAVs and trading levels to meet its investment objective will not be known until a future date. These agreements are effective for a specific term agreed upon by the parties with an option to renew, or, in some cases, are in effect for the duration of USBO s existence. Either party may terminate these agreements earlier for certain reasons described in the agreements.

As of September 30, 2011, USBO s portfolio consisted of 68 Brent Crude Oil Futures CO contracts traded on the ICE Futures. For a list of USBO s current holdings, please see USBO s website at www.unitedstatesbrentoilfund.com.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Over-the-Counter Derivatives (Including Spreads and Straddles)

In the future, USBO may purchase over-the-counter contracts (OTC Contracts). Unlike most exchange-traded futures contracts or exchange-traded options on such futures, each party to an OTC Contract bears the credit risk that the other party may not be able to perform its obligations under its contract.

Some crude oil-based derivatives transactions contain fairly generic terms and conditions and are available from a wide range of participants. Other crude oil-based derivatives have highly customized terms and conditions and are not as widely available. Many of these OTC Contracts are cash-settled forwards for the future delivery of crude oil- or petroleum-based fuels that have terms similar to the Futures Contracts. Others take the form of swaps in which the two parties exchange cash flows based on pre-determined formulas tied to the spot price of crude oil, forward crude oil price or crude oil futures price. In these swaps, a party pays a fixed price per unit and the other pays a variable price based on the average price of future contracts for a specified period or the price on a specific date, with payments typically made between the parties on a net basis. For example, USBO may enter into OTC Contracts whose value will be tied to changes in the difference between the spot price of Brent crude oil, the price of Futures Contracts traded on the NYMEX or the ICE Futures and the prices of other Futures Contracts in which USBO may invest.

33

Table of Contents

To reduce the credit risk that arises in connection with such contracts, USBO will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. that provides for the netting of its overall exposure to its counterparty.

USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC Contract pursuant to guidelines approved by USCF s board of directors (the Board). Furthermore, USCF on behalf of USBO only enters into OTC Contracts with counterparties who are, or are affiliates of, (a) banks regulated by a United States federal bank regulator, (b) broker-dealers regulated by the SEC, (c) insurance companies domiciled in the United States, or (d) producers, users or traders of energy, whether or not regulated by the CFTC. Any entity acting as a counterparty shall be regulated in either the United States or the United Kingdom unless otherwise approved by the Board after consultation with its legal counsel. Existing counterparties are also reviewed periodically by USCF. USBO will also require that the counterparty be highly rated and/or provide collateral or other credit support. Even if collateral is used to reduce counterparty credit risk, sudden changes in the value of OTC transactions may leave a party open to financial risk due to a counterparty default since the collateral held may not cover a party s exposure on the transaction in such situations.

The Dodd-Frank Act requires the CFTC and SEC to establish both initial and variation margin requirements on all swaps that are not cleared by a registered clearing organization (*i.e.*, uncleared swaps). In addition, the Dodd-Frank Act provides parties who post initial margin to a swap dealer or major swap participant with a statutory right to insist that such margin be held in a segregated account with an independent custodian. At this time, the CFTC has proposed rules addressing margin requirements and the statutory right of certain market participants, but has not implemented any rules on these issues. On April 12, 2011, the Prudential Regulators and the CFTC issued proposed rules establishing minimum initial and variation margin collection requirements for Covered Swap Entities, which if adopted, would require Covered Swap Entities to collect minimum initial and variation margin amounts from swap counterparties. The public comment period for these rules was extended on June 23, 2011. The Prudential Regulators proposed rules would apply to those Covered Swap Entities that are regulated by the Prudential Regulators and the CFTC s proposed rules would apply to Covered Swap Entities that are not regulated by the Prudential Regulators.

The amount of initial and variation margin that Covered Swap Entities would be required to collect under the proposed rules varies based on whether a Covered Swap Entity s counterparty to a particular swap is (1) also a Covered Swap Entity, (2) a high-risk financial entity end-user, (3) a low-risk financial entity end-user (*e.g.,* financial entities subject to capital requirements imposed by bank or insurance regulators, that predominantly use swaps to hedge and that do not have significant swap exposure) or (4) a non-financial end-user. With certain exceptions not applicable to USBO and the affiliated funds managed by USCF, Covered Swap Entities would not be required to post initial or variation margin to any of their counterparties except for other Covered Swap Entities.

Covered Swap Entities and all financial entity end-users would be required to post initial margin and variation margin when they enter into swaps with Covered Swap Entities. Margin posted by low-risk financial entity end-users could be subject to thresholds under the proposed rules. As commodity pools, USBO and the affiliated funds managed by USCF would be high-risk financial entity end-users and would therefore have to post margin without thresholds.

The CFTC voted to propose rules for capital requirements for Covered Swap Entities that are not regulated by a Prudential Regulator. Covered Swap Entities that are regulated by a Prudential Regulator will be subject to the capital requirements already imposed by such Prudential Regulator. In general, higher levels of capital would be imposed on Covered Swap Entities that do not collect margin from their counterparties (or that collect margin subject to thresholds) in connection with their swaps, and could increase the costs of such swaps. On July 14, 2011, the CFTC issued an order providing temporary relief from certain swaps-related provisions of Title VII that would have automatically taken effect on July 16, 2011. The final order granted temporary exemptive relief that, by its terms, expires upon the earlier of the effective date of the required final rulemaking or December 31, 2011. On October 18, 2011, the CFTC issued an order, which modifies the July 14, 2011 order by extending the temporary exemptive relief to the earlier of the effective date of the required final rulemaking or July 16, 2012.

Table of Contents

In general, valuing OTC derivatives is less certain than valuing actively traded financial instruments such as exchange-traded futures contracts and securities or cleared swaps because the price and terms on which such OTC derivatives are entered into or can be terminated are individually negotiated, and those prices and terms may not reflect the best price or terms available from other sources. In addition, while market makers and dealers generally quote indicative prices or terms for entering into or terminating OTC Contracts, they typically are not contractually obligated to do so, particularly if they are not a party to the transaction. As a result, it may be difficult to obtain an independent value for an outstanding OTC derivatives transaction.

USBO may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of tracking the price of the Benchmark Futures Contract. USBO would use a spread when it chooses to take simultaneous long and short positions in futures written on the same underlying asset, but with different delivery months. The effect of holding such combined positions is to adjust the sensitivity of USBO to changes in the price relationship between futures contracts, which will expire sooner, and those that will expire later. USBO would use such a spread if USCF felt that taking such long and short positions, when combined with the rest of its holdings, would more closely track the investment goals of USBO, or if USCF felt it would lead to an overall lower cost of trading to achieve a given level of economic exposure to movements in oil prices. USBO would enter into a straddle when it chooses to take an option position consisting of a long (or short) position in both a call option and put option. The economic effect of holding certain combinations of put options and call options can be very similar to that of owning the underlying futures contracts. USBO would make use of such a straddle approach if, in the opinion of USCF, the resulting combination would more closely track the investment goals of USBO or if it would lead to an overall lower cost of trading to achieve a given level of economic exposure to movements in oil prices.

During the nine months ended September 30, 2011, USBO did not employ any hedging methods such as those described above since all of its investments were made over an exchange. Therefore, during such period, USBO was not exposed to counterparty risk.

USBO anticipates that the use of Other Crude Oil-Related Investments together with its investments in Futures Contracts will produce price and total return results that closely track the investment goals of USBO. However, there can be no assurance of this. OTC Contracts may result in higher transaction-related expenses than the brokerage commissions paid in connection with the purchase of Futures Contracts, which may impact USBO s ability to successfully track the Benchmark Futures Contract.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

USBO maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in USBO s periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the SEC s rules and forms.

The duly appointed officers of USCF, including its chief executive officer and chief financial officer, who perform functions equivalent to those of a principal executive officer and principal financial officer of USBO if USBO had any officers, have evaluated the effectiveness of USBO s disclosure controls and procedures and have concluded that the disclosure controls and procedures of USBO have been effective as of the end of the period covered by this quarterly report on Form 10-Q.

Change in Internal Control Over Financial Reporting

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

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.
Not applicable.

Item 1A. Risk Factors.
There have been no material changes to the risk factors previously disclosed in USBO s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed on March 30, 2011, and USBO s Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 15, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Not applicable.

Item 3. Defaults Upon Senior Securities.
Not applicable.

Item 4. Removed and Reserved.

Item 5. Other Information.
Monthly Account Statements

Pursuant to the requirement under Rule 4.22 under the Commodity Exchange Act, each month USBO publishes an account statement for its unitholders, which includes a Statement of Income (Loss) and a Statement of Changes in NAV. The account statement is furnished to the SEC on a current report on Form 8-K pursuant to Section 13 or 15(d) of the Exchange Act and posted each month on USBO s website at www.unitedstatesbrentoilfund.com.

Table of Contents

Item 6. Exhibits.

Listed below are the exhibits, which are filed as part of this quarterly report on Form 10-Q (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description of Document
10.1(1)	Third Amendment to License Agreement between the United States Commodity Funds LLC and New York Mercantile Exchange, Inc.
31.1(2)	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(2)	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(2)	Certification by Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(2)	Certification by Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(3)	XBRL Instance Document
101.SCH(3)	XBRL Taxonomy Extension Schema
101.CAL(3)	XBRL Taxonomy Extension Calculation Linkbase
101.DEF(3)	XBRL Taxonomy Extension Definition Linkbase
101.LAB(3)	XBRL Taxonomy Extension Label Linkbase
101.PRE(3)	XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed on October 24, 2011.
(2) Filed herewith.
(3) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

United States Brent Oil Fund, LP (Registrant)
By: United States Commodity Funds LLC, its general partner

By: /s/ Nicholas D. Gerber
Nicholas D. Gerber
President and Chief Executive Officer
(Principal executive officer)

Date: November 14, 2011

By: /s/ Howard Mah
Howard Mah
Chief Financial Officer
(Principal financial and accounting officer)

Date: November 14, 2011