

United States Oil Fund, LP
Form S-3
January 11, 2019

As filed with the Securities and Exchange Commission on

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

UNITED STATES OIL FUND, LP

(Exact Name of Registrant as Specified in Its Charter)

Delaware	6770	20-2830691
(State or Other Jurisdiction of	(Primary Standard Industrial	(I.R.S. Employer
Incorporation or Organization)	Classification Code Number)	Identification Number)

United States Oil Fund, LP

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Daphne G. Frydman

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Walnut Creek, California 94596

Walnut Creek, California 94596

510.522.9600

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(Address, Including Zip Code, and Telephone Number,

(Name, Address, Including Zip Code, and Telephone

Including Area Code, of Registrant's Principal Executive Offices) Including Area Code, of Agent for Service)

Copies to:

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202.383.0100

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same

offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Shares of United States Oil Fund, LP	0	N/A	\$ 1	\$ 0

(1) As discussed below, pursuant to Rule 415(a)(6) under the Securities Act, this registration Statement carries over 272,700,000 of unsold shares that have been previously registered, with respect to which the Registrant paid filing fees of \$223,532. The filing fee previously paid with respect to such shares being carried forward to this Registration Statement will continue to apply to such unsold shares.

Pursuant to Rule 415(a)(6) under the Securities Act, the securities registered pursuant to this Registration Statement include unsold securities previously registered for sale pursuant to the registrant’s registration statement on Form S-3 (File No. 333-209362), initially filed on February 3, 2016 (the “Prior Registration Statement”). The Prior Registration Statement registered 1,000,000,000 shares of beneficial interest of the registrant. Approximately 272,700,000 such shares of beneficial interests remain unsold. The unsold shares of common stock (and associated filing fees paid) are being carried forward to this Registration Statement. Pursuant to Rule 415(a)(6), the offering of unsold securities

under the Prior Registration Statement will be deemed terminated as of the date of effectiveness of this Registration Statement.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated January 11, 2019

PROSPECTUS

United States Oil Fund, LP[®]*

272,700,000 Shares

***Principal U.S. Listing Exchange: NYSE Arca, Inc.**

The United States Oil Fund, LP (“USO”) is an exchange traded fund organized as a limited partnership that issues shares that trade on the NYSE Arca stock exchange (“NYSE Arca”). USO’s investment objective is to track a benchmark of short-term oil futures contracts. USO pays its general partner, United States Commodity Funds LLC (“USCF”), a limited liability company, a management fee and incurs operating costs. Both USO and USCF are located at 1850 Mt. Diablo Boulevard, Suite 640, Walnut Creek, California 94596. The telephone number for both USO and USCF is 510.522.9600. In order for a hypothetical investment in shares to break even over the next 12 months, assuming a selling price of \$9.59 per share (the net asset value as of December 31, 2018), the investment would have to generate a -10.74% or -\$0.103 return. A negative return would be required, because USO’s assumed interest income, would cause USO’s income to exceed its assumed expenses during this period.

USO is an exchange traded fund. This means that most investors who decide to buy or sell shares of USO shares place their trade orders through their brokers and may incur customary brokerage commissions and charges. Shares trade on the NYSE Arca under the ticker symbol “USO” and are bought and sold throughout the trading day at bid and ask prices like other publicly traded securities.

Shares trade on the NYSE Arca after they are initially purchased by “Authorized Participants,” institutional firms that purchase shares in blocks of 100,000 shares called “baskets” through USO’s marketing agent, ALPS Distributors, Inc. (the “Marketing Agent”). The price of a basket is equal to the net asset value (“NAV”) of 100,000 shares on the day that the order to purchase the basket is accepted by the Marketing Agent. The NAV per share is calculated by taking the current market value of USO’s total assets (after close of NYSE Arca) subtracting any liabilities and dividing that total by the total number of outstanding shares. The offering of USO’s shares is a “best efforts” offering, which means that neither the Marketing Agent nor any Authorized Participant is required to purchase a specific number or dollar amount of shares. USCF pays the Marketing Agent a marketing fee consisting of a fixed annual amount plus an incentive fee based on the amount of shares sold. Authorized Participants will not receive from USO, USCF or any of their affiliates any fee or other compensation in connection with the sale of shares. Aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with this offering of shares will not exceed ten percent (10%) of the gross proceeds of the offering.

Investors who buy or sell shares during the day from their broker may do so at a premium or discount relative to the market value of the underlying oil futures contracts in which USO invests due to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of crude oil and the oil futures contracts that serve as USO's investment benchmark. Investing in USO involves risks similar to those involved with an investment directly in the oil market, the correlation risk described above, and other significant risks. See "**Risk Factors Involved with an Investment in USO**" beginning on page 4.

The offering of USO's shares is registered with the Securities and Exchange Commission ("SEC") in accordance with the Securities Act of 1933 (the "1933 Act"). The offering is intended to be a continuous offering and is not expected to terminate until all of the registered shares have been sold or three years from the date of the original offering, whichever is earlier, unless extended as permitted under the rules under the 1933 Act, although the offering may be temporarily suspended if and when no suitable investments for USO are available or practicable. USO is not a mutual fund registered under the Investment Company Act of 1940 ("1940 Act") and is not subject to regulation under such Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OFFERED IN THIS PROSPECTUS, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

USO is a commodity pool and USCF is a commodity pool operator subject to regulation by the Commodity Futures Trading Commission and the National Futures Association under the Commodity Exchange Act ("CEA").

THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN THIS POOL NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY OF THIS DISCLOSURE DOCUMENT.

The date of this prospectus is , 2019

COMMODITY FUTURES TRADING COMMISSION

RISK DISCLOSURE STATEMENT

YOU SHOULD CAREFULLY CONSIDER WHETHER YOUR FINANCIAL CONDITION PERMITS YOU TO PARTICIPATE IN A COMMODITY POOL. IN SO DOING, YOU SHOULD BE AWARE THAT COMMODITY INTEREST TRADING CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS. SUCH TRADING LOSSES CAN SHARPLY REDUCE THE NET ASSET VALUE OF THE POOL AND CONSEQUENTLY THE VALUE OF YOUR INTEREST IN THE POOL. IN ADDITION, RESTRICTIONS ON REDEMPTIONS MAY AFFECT YOUR ABILITY TO WITHDRAW YOUR PARTICIPATION IN THE POOL.

FURTHER, COMMODITY POOLS MAY BE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT, AND ADVISORY AND BROKERAGE FEES. IT MAY BE NECESSARY FOR THOSE POOLS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THIS DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF EACH EXPENSE TO BE CHARGED THIS POOL AT PAGE 36 AND A STATEMENT OF THE PERCENTAGE RETURN NECESSARY TO BREAK EVEN, THAT IS, TO RECOVER THE AMOUNT OF YOUR INITIAL INVESTMENT, AT PAGE 36.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER FACTORS NECESSARY TO EVALUATE YOUR PARTICIPATION IN THIS COMMODITY POOL. THEREFORE, BEFORE YOU DECIDE TO PARTICIPATE IN THIS COMMODITY POOL, YOU SHOULD CAREFULLY STUDY THIS DISCLOSURE DOCUMENT, INCLUDING THE DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT PAGE 4.

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY POOL MAY TRADE FOREIGN FUTURES OR OPTIONS CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION TO THE POOL AND ITS PARTICIPANTS. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OF REGULATORY AUTHORITIES OR MARKETS IN NON-UNITED STATES JURISDICTIONS WHERE TRANSACTIONS FOR THE POOL MAY BE EFFECTED.

SWAPS TRANSACTIONS, LIKE OTHER FINANCIAL TRANSACTIONS, INVOLVE A VARIETY OF SIGNIFICANT RISKS. THE SPECIFIC RISKS PRESENTED BY A PARTICULAR SWAP TRANSACTION NECESSARILY DEPEND UPON THE TERMS OF THE TRANSACTION AND YOUR CIRCUMSTANCES. IN GENERAL, HOWEVER, ALL SWAPS TRANSACTIONS INVOLVE SOME COMBINATION OF MARKET RISK, CREDIT RISK, COUNTERPARTY CREDIT RISK, FUNDING RISK, LIQUIDITY RISK, AND OPERATIONAL RISK.

HIGHLY CUSTOMIZED SWAPS TRANSACTIONS IN PARTICULAR MAY INCREASE LIQUIDITY RISK, WHICH MAY RESULT IN A SUSPENSION OF REDEMPTIONS. HIGHLY LEVERAGED TRANSACTIONS MAY EXPERIENCE SUBSTANTIAL GAINS OR LOSSES IN VALUE AS A RESULT OF RELATIVELY SMALL CHANGES IN THE VALUE OR LEVEL OF AN UNDERLYING OR RELATED MARKET FACTOR.

IN EVALUATING THE RISKS AND CONTRACTUAL OBLIGATIONS ASSOCIATED WITH A PARTICULAR SWAP TRANSACTION, IT IS IMPORTANT TO CONSIDER THAT A SWAP TRANSACTION MAY BE MODIFIED OR TERMINATED ONLY BY MUTUAL CONSENT OF THE ORIGINAL PARTIES AND SUBJECT TO AGREEMENT ON INDIVIDUALLY NEGOTIATED TERMS. THEREFORE, IT MAY NOT BE POSSIBLE FOR THE COMMODITY POOL OPERATOR TO MODIFY, TERMINATE, OR OFFSET THE POOL'S OBLIGATIONS OR THE POOL'S EXPOSURE TO THE RISKS ASSOCIATED WITH A TRANSACTION PRIOR TO ITS SCHEDULED TERMINATION DATE.

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PROSPECTUS SUMMARY

This is only a summary of the prospectus and, while it contains material information about USO and its shares, it does not contain or summarize all of the information about USO and the shares contained in this prospectus that is material and/or which may be important to you. You should read this entire prospectus, including “Risk Factors Involved with an Investment in USO” beginning on page 4, before making an investment decision about the shares. For a glossary of defined terms, see Appendix A.

United States Oil Fund, LP (“USO”), a Delaware limited partnership, is a commodity pool that continuously issues common shares of beneficial interest that may be purchased and sold on the NYSE Arca stock exchange (“NYSE Arca”). USO is managed and controlled by United States Commodity Funds LLC (“USCF”), a Delaware limited liability company. USCF is registered as a commodity pool operator (“CPO”) with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”).

USO’s Investment Objective and Strategy

The investment objective of USO is for the daily changes in percentage terms of its shares’ per share net asset value (“NAV”) to reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes in the price of a specified short-term futures contract on light, sweet crude oil called the “Benchmark Oil Futures Contract,” plus interest earned on USO’s collateral holdings, less USO’s expenses.

What Is the “Benchmark Oil Futures Contract”?

The Benchmark Oil Futures Contract is the futures contract on light, sweet crude oil as traded on the New York Mercantile Exchange (the “NYMEX”) 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.

USO seeks to achieve its investment objective by investing primarily in futures contracts for light, sweet crude oil, other types of crude oil, diesel-heating oil, gasoline, natural gas, and other petroleum-based fuels that are traded on the NYMEX, ICE Futures Europe and ICE Futures U.S. (together, “ICE Futures”) or other U.S. and foreign exchanges (collectively, “Oil Futures Contracts”) and to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, other oil-related investments such as cash-settled options on Oil Futures Contracts, forward contracts for oil, cleared swap contracts and non-exchange traded (“over-the-counter” or “OTC”) transactions that are based on the price of oil, other petroleum-based fuels, Oil Futures Contracts and indices based on the foregoing (collectively, “Other Oil-Related Investments”). Market conditions that USCF currently anticipates could cause USO to invest in Other Oil-Related Investments include those allowing USO to obtain greater liquidity or to execute transactions with more favorable pricing. (For convenience and unless otherwise specified, Oil Futures Contracts and Other Oil-Related Investments collectively are referred to as “Oil Interests” in this prospectus.)

In addition, USCF believes that market arbitrage opportunities will cause daily changes in USO’s share price on the NYSE Arca on a percentage basis to closely track daily changes in USO’s per share NAV on a percentage basis. USCF further believes that daily changes in prices of the Benchmark Oil Futures Contract have historically closely tracked the daily changes in spot prices of light, sweet crude oil. USCF believes that the net effect of these relationships will be that the daily changes in the price of USO’s shares on the NYSE Arca on a percentage basis will closely track, the daily changes in the spot price of a barrel of light, sweet crude oil on a percentage basis, less USO’s expenses.

Specifically, USO seeks to achieve its investment objective by investing so that the average daily percentage change in USO’s NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the

average daily percentage change in the price of the Benchmark Oil Futures Contract over the same period.

Investors should be aware that USO's investment objective is *not* for its NAV or market price of shares to equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil, *nor* is USO's investment objective for the percentage change in its NAV to reflect the percentage change of the price of any particular futures contract as measured over a time period *greater than one day*. This is because natural market forces called contango and backwardation have impacted the total return on an investment in USO's shares during the past year relative to a hypothetical direct investment in crude oil and, in the future, it is likely that the relationship between the market price of USO's shares and changes in the spot prices of light, sweet crude oil will continue to be so impacted by contango and backwardation. (It is important to note that the disclosure above ignores the potential costs associated with physically owning and storing crude oil, which could be substantial.)

Principal Investment Risks of an Investment in USO

An investment in USO involves a degree of risk. Some of the risks you may face are summarized below. A more extensive discussion of these risks appears beginning on page 4.

Investment Risk

Investors may choose to use USO as a means of investing indirectly in crude oil. There are significant risks and hazards inherent in the crude oil industry that may cause the price of crude oil to widely fluctuate.

Correlation Risk

To the extent that investors use USO as a means of indirectly investing in crude oil, there is the risk that the daily changes in the price of USO's shares on the NYSE Arca on a percentage basis, will not closely track the daily changes in the spot price of light, sweet crude oil on a percentage basis. This could happen if the price of shares traded on the NYSE Arca does not correlate closely with the value of USO's NAV; the changes in USO's NAV do not correlate closely with the changes in the price of the Benchmark Oil Futures Contract; or the changes in the price of the Benchmark Oil Futures Contract do not closely correlate with the changes in the cash or spot price of crude oil. This is a risk because if these correlations do not exist, then investors may not be able to use USO as a cost-effective way to indirectly invest in crude oil or as a hedge against the risk of loss in crude oil-related transactions.

The price relationship between the near month contract to expire and the next month contract to expire that compose the Benchmark Oil Futures Contract will vary and may impact both the total return over time of USO's NAV, as well as the degree to which its total return tracks other crude oil prices' total returns. In cases in which the near month contract's price is lower than the next month contract's price (a situation known as "contango" in the futures markets), then absent the impact of the overall movement in crude oil prices the value of the benchmark contract would tend to decline as it approaches expiration. In cases in which the near month contract's price is higher than the next month contract's price (a situation known as "backwardation" in the futures markets), then absent the impact of the overall movement in crude oil prices the value of the benchmark contract would tend to rise as it approaches expiration.

Tax Risk

USO is organized and operated as a limited partnership in accordance with the provisions of its limited partnership agreement and applicable state law, and therefore, has a more complex tax treatment than conventional mutual funds.

Over-the-Counter ("OTC") Contract Risk

USO may also invest in Other Oil-Related Investments, many of which are negotiated or OTC contracts that are not as liquid as Oil Futures Contracts and expose USO to credit risk that its counterparty may not be able to satisfy its obligations to USO.

Other Risks

USO pays fees and expenses that are incurred regardless of whether it is profitable.

Unlike mutual funds, commodity pools or other investment pools that manage their investments in an attempt to realize income and gains and distribute such income and gains to their investors, USO generally does not distribute cash to limited partners or other shareholders. You should not invest in USO if you will need cash distributions from USO to pay taxes on your share of income and gains of USO, if any, or for any other reason.

You will have no rights to participate in the management of USO and will have to rely on the duties and judgment of USCF to manage USO.

USO is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and “Authorized Participants,” the institutional firms that directly purchase and redeem shares in baskets. USCF’s officers, directors and employees do not devote their time exclusively to USO. USCF’s persons are directors, officers or employees of other entities that may compete with USO for their services, including other commodity pools (funds) that USCF manages. USCF could have a conflict between its responsibilities to USO and to those other entities. As a result of these and other relationships, parties involved with USO have a financial incentive to act in a manner other than in the best interests of USO and the shareholders.

USO's Fees and Expenses

This table describes the fees and expenses that you may pay if you buy and hold shares of USO. You should note that you may pay brokerage commissions on purchases and sales of USO's shares, which are not reflected in the table. Authorized Participants will pay applicable creation and redemption fees. See "Creation and Redemption of Shares-Creation and Redemption Transaction Fee," page 64.

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)⁽¹⁾

Management Fees	0.45 %
Distribution Fees	None
Other Fund Expenses	0.28 %
Total Annual Fund Expenses	0.73 %

Based on amounts for the year ended December 31, 2018. The individual expense amounts in dollar terms are shown in the table below. As used in this table, (i) Professional Expenses include expenses for legal, audit, tax accounting and printing; and (ii) Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance.

Management fees	\$8,147,165
Professional Expenses	\$1,789,398
Brokerage commissions	\$2,536,913
Licensing fees	\$271,572
Registration fees	\$99,290
Independent Directors and Officer Expenses	\$316,185

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RISK FACTORS INVOLVED WITH AN INVESTMENT IN USO

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in this prospectus as well as information found in our periodic reports, which include USO's financial statements and the related notes, that are incorporated by reference. See "Incorporation By Reference of Certain Information", page 67.

USO's investment objective is for the daily percentage changes in the net asset value ("NAV") per share to reflect the daily percentage changes of the spot price of light, sweet crude oil, as measured by the daily percentage changes in the price of Benchmark Oil Futures Contract, plus interest earned on USO's collateral holdings, less USO's expenses. USO seeks to achieve its investment objective by investing so that the average daily percentage change in USO's NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the average daily percentage change in the price of the Benchmark Oil Futures Contract over the same period. USO's investment strategy is designed to provide investors with a cost-effective way to invest indirectly in crude oil and to hedge against movements in the spot price of light, sweet crude oil. An investment in USO involves investment risk similar to a direct investment in Oil Futures Contracts and Other Oil-Related Investments, and correlation risk, or the risk that investors purchasing shares to hedge against movements in the price of crude oil will have an efficient hedge only if the price they pay for their shares closely correlates with the price of crude oil. In addition to investment risk and correlation risk, an investment in USO involves tax risks, OTC risks, and other risks.

Investment Risk

The NAV of USO's shares relates directly to the value of the Benchmark Oil Futures Contracts and other assets held by USO and fluctuations in the prices of these assets could materially adversely affect an investment in USO's shares. Past performance is not necessarily indicative of future results; all or substantially all of an investment in USO could be lost.

The net assets of USO consist primarily of investments in Oil Futures Contracts and, to a lesser extent, in Other Oil-Related Investments. The NAV of USO's shares relates directly to the value of these assets (less liabilities, including accrued but unpaid expenses), which in turn relates to the price of light, sweet crude oil in the marketplace. Crude oil prices depend on local, regional and global events or conditions that affect supply and demand for oil.

Economic conditions impacting crude oil. The demand for crude oil correlates closely with general economic growth rates. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on crude oil prices. Other factors that affect general economic conditions in the world or in a major region, such as changes in population growth rates, periods of civil unrest, government austerity programs, or currency exchange rate fluctuations, can also impact the demand for crude oil. Sovereign debt downgrades, defaults, inability to access debt markets due to credit or legal constraints, liquidity crises, the breakup or restructuring of fiscal, monetary, or political systems such as the European Union, and other events or conditions that impair the functioning of financial markets and institutions also may adversely impact the demand for crude oil.

Other crude oil demand-related factors. Other factors that may affect the demand for crude oil and therefore its price, include technological improvements in energy efficiency; seasonal weather patterns, which affect the demand for crude oil associated with heating and cooling; increased competitiveness of alternative energy sources that have so far generally not been competitive with oil without the benefit of government subsidies or mandates; and changes in technology or consumer preferences that alter fuel choices, such as toward alternative fueled vehicles.

Other crude oil supply-related factors. Crude oil prices also vary depending on a number of factors affecting supply. For example, increased supply from the development of new oil supply sources and technologies to enhance recovery from existing sources tends to reduce crude oil prices to the extent such supply increases are not offset by commensurate growth in demand. Similarly, increases in industry refining or petrochemical manufacturing capacity may impact the supply of crude oil. World oil supply levels can also be affected by factors that reduce available supplies, such as adherence by member countries to the Organization of the Petroleum Exporting Countries (“OPEC”) production quotas and the occurrence of wars, hostile actions, natural disasters, disruptions in competitors’ operations, or unexpected unavailability of distribution channels that may disrupt supplies. Technological change can also alter the relative costs for companies in the petroleum industry to find, produce, and refine oil and to manufacture petrochemicals, which in turn may affect the supply of and demand for oil.

Other factors impacting the crude oil market. The supply of and demand for crude oil may also be impacted by changes in interest rates, inflation, and other local or regional market conditions, as well as by the development of alternative energy sources.

Price Volatility May Possibly Cause the Total Loss of Your Investment. Futures contracts have a high degree of price variability and are subject to occasional rapid and substantial changes. Consequently, you could lose all or substantially all of your investment in USO.

Because USCF anticipates it will “roll” USO’s positions in Oil Interests, it may be subject to the potential negative impact from rolling futures positions.

USCF anticipates it will “roll” USO’s positions in Oil Interests and, as a result, is subject to risks related to rolling. The contractual obligations of a buyer or seller holding a futures contract to expiration may generally be satisfied by settling in cash as designated in the contract specifications. Alternatively, futures contracts may be closed out prior to expiration by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of settlement. Once this date is reached, the futures contract “expires.” As the futures contracts held by USO near expiration, they are generally closed out and replaced by contracts with a later expiration. This process is referred to as “rolling.” USO does not intend to hold futures contracts through expiration, but instead to “roll” its positions.

When the market for these contracts is such that the prices are higher in the more distant delivery months than in the nearer delivery months, the sale during the course of the “rolling process” of the more nearby contract would take place at a price that is lower than the price of the more distant contract. This pattern of higher futures prices for longer expiration futures contracts is often referred to as “contango.” Alternatively, when the market for these contracts is such that the prices are higher in the nearer months than in the more distant months, the sale during the course of the “rolling process” of the more nearby contract would take place at a price that is higher than the price of the more distant contract. This pattern of higher futures prices for shorter expiration futures contracts is referred to as “backwardation.”

The presence of contango in the Benchmark Futures Contract at the time of rolling would be expected to adversely affect USO’s position, and the presence of backwardation in the Benchmark Futures Contract at the time of rolling such contracts would be expected to positively affect USO’s position.

There have been extended periods in which contango or backwardation has existed in the futures contract markets for various types of futures contracts, and such periods can be expected to occur in the future. These extended periods have in the past and can in the future cause significant losses for USO, and the periods can have as much or more impact over time than movements in the level of USO’s Benchmark Oil Futures Contract.

An investment in USO may provide little or no diversification benefits. Thus, in a declining market, USO may have no gains to offset losses from other investments, and an investor may suffer losses on an investment in USO while incurring losses with respect to other asset classes.

Historically, Oil Futures Contracts and Other Oil-Related Investments have generally been non-correlated to the performance of other asset classes such as stocks and bonds. Non-correlation means that there is a low statistically valid relationship between the performance of futures and other commodity interest transactions, on the one hand, and stocks or bonds, on the other hand.

However, there can be no assurance that such non-correlation will continue during future periods. If, contrary to historic patterns, USO's performance were to move in the same general direction as the financial markets, investors will obtain little or no diversification benefits from an investment in USO's shares. In such a case, USO may have no gains to offset losses from other investments, and investors may suffer losses on their investment in USO at the same time they incur losses with respect to other investments.

Variables such as drought, floods, weather, embargoes, tariffs and other political events may have a larger impact on crude oil prices and crude oil-linked instruments, including Oil Futures Contracts and Other Oil-Related Investments, than on traditional securities. These additional variables may create additional investment risks that subject USO's investments to greater volatility than investments in traditional securities.

Non-correlation should not be confused with negative correlation, where the performance of two asset classes would be opposite of each other. There is no historical evidence that the spot price of crude oil and prices of other financial assets, such as stocks and bonds, are negatively correlated. In the absence of negative correlation, USO cannot be expected to be automatically profitable during unfavorable periods for the stock market, or vice versa.

Historical performance of USO and the Benchmark Futures Contract is not indicative of future performance.

Past performance of USO or the Benchmark Futures Contract is not necessarily indicative of future results. Therefore, past performance of USO or the Benchmark Futures Contract should not be relied upon in deciding whether to buy shares of USO.

Correlation Risk

Investors purchasing shares to hedge against movements in the price of crude oil will have an efficient hedge only if the price investors pay for their shares closely correlates with the price of crude oil. Investing in USO's shares for hedging purposes involves the following risks:

- The market price at which the investor buys or sells shares may be significantly less or more than NAV.
- Daily percentage changes in NAV may not closely correlate with daily percentage changes in the price of the Benchmark Oil Futures Contract.
- Daily percentage changes in the price of the Benchmark Oil Futures Contract may not closely correlate with daily percentage changes in the price of light, sweet crude oil.

The market price at which investors buy or sell shares may be significantly less or more than NAV.

USO's NAV per share will change throughout the day as fluctuations occur in the market value of USO's portfolio investments. The public trading price at which an investor buys or sells shares during the day from their broker may be different from the NAV of the shares. Price differences may relate primarily to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of the light, sweet crude oil and the Benchmark Oil Futures Contract at any point in time. USCF expects that exploitation of certain arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per share closely over time, but there can be no assurance of that.

The NAV of USO's shares may also be influenced by non-concurrent trading hours between the NYSE Arca and the various futures exchanges on which crude oil is traded. While the shares trade on the NYSE Arca from 9:30 a.m. to 4:00 p.m. Eastern Time, the trading hours for the futures exchanges on which light, sweet crude oil trade may not necessarily coincide during all of this time. For example, while the shares trade on the NYSE Arca until 4:00 p.m.

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Eastern Time, liquidity in the global light sweet crude market will be reduced after the close of the NYMEX at 2:30 p.m. Eastern Time. As a result, during periods when the NYSE Arca is open and the futures exchanges on which light, sweet crude oil is traded are closed, trading spreads and the resulting premium or discount on the shares may widen and, therefore, increase the difference between the price of the shares and the NAV of the shares.

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Daily percentage changes in USO's NAV may not correlate with daily percentage changes in the price of the Benchmark Oil Futures Contract.

It is possible that the daily percentage changes in USO's NAV per share may not closely correlate to daily percentage changes in the price of the Benchmark Oil Futures Contract. Non-correlation may be attributable to disruptions in the market for light, sweet crude oil, the imposition of position or accountability limits by regulators or exchanges, or other extraordinary circumstances. As USO approaches or reaches position limits with respect to the Benchmark Oil Futures Contract and other Oil Futures Contracts or in view of market conditions, USO may begin investing in Other Oil-Related Investments. In addition, USO is not able to replicate exactly the changes in the price of the Benchmark Oil Futures Contract because the total return generated by USO is reduced by expenses and transaction costs, including those incurred in connection with USO's trading activities, and increased by interest income from USO's holdings of Treasuries (defined below). Tracking the Benchmark Oil Futures Contract requires trading of USO's portfolio with a view to tracking the Benchmark Oil Futures Contract over time and is dependent upon the skills of USCF and its trading principals, among other factors.

Daily percentage changes in the price of the Benchmark Oil Futures Contract may not correlate with daily percentage changes in the spot price of light, sweet crude oil.

The correlation between changes in prices of the Benchmark Oil Futures Contract and the spot price of crude oil may at times be only approximate. The degree of imperfection of correlation depends upon circumstances such as variations in the speculative oil market, supply of and demand for Oil Futures Contracts (including the Benchmark Oil Futures Contract) and Other Oil-Related Investments, and technical influences in oil futures trading.

Natural forces in the oil futures market known as "backwardation" and "contango" may increase USO's tracking error and/or negatively impact total return.

The design of USO's Benchmark Oil Futures Contract is such that every month it begins by using the near month contract to expire until the near month contract is within two weeks of expiration, when, over a four day period, it transitions to the next month contract to expire as its benchmark contract and keeps that contract as its benchmark until it becomes the near month contract and close to expiration. In the event of a crude oil futures market where near month contracts trade at a higher price than next month to expire contracts, a situation described as "backwardation" in the futures market, then absent the impact of the overall movement in crude oil prices the value of the benchmark contract would tend to rise as it approaches expiration. Conversely, in the event of a crude oil futures market where near month contracts trade at a lower price than next month contracts, a situation described as "contango" in the futures market, then absent the impact of the overall movement in crude oil prices the value of the benchmark contract would tend to decline as it approaches expiration. When compared to total return of other price indices, such as the spot price of crude oil, the impact of backwardation and contango may cause the total return of USO's per share NAV to vary significantly. Moreover, absent the impact of rising or falling oil prices, a prolonged period of contango could have a significant negative impact on USO's per share NAV and total return and investors could lose part or all of their investment. See "Additional Information About USO, its Investment Objective and Investments" for a discussion of the potential effects of contango and backwardation.

Accountability levels, position limits, and daily price fluctuation limits set by the exchanges have the potential to cause tracking error, which could cause the price of shares to substantially vary from the price of the Benchmark

Oil Futures Contract.

Designated contract markets, such as the NYMEX and ICE Futures, have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by USO is not) may hold, own or control. In addition to accountability levels and position limits, the NYMEX and ICE Futures also set daily price fluctuation limits on futures contracts. The daily price fluctuation limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price. Once the daily price fluctuation limit has been reached in a particular futures contract, no trades may be made at a price beyond that limit.

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

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express CFTC authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire.

The CFTC has proposed to adopt limits on speculative positions in 25 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts in the agriculture, energy and metals markets (the "Position Limit Rules"). The Position Limit Rules would, among other things: identify which contracts are subject to speculative position limits; set thresholds that restrict the size of speculative positions that a person may hold in the spot month, other individual months, and all months combined; create an exemption for positions that constitute bona fide hedging transactions; impose responsibilities on designated contract markets ("DCMs") and swap execution facilities ("SEFs") to establish position limits or, in some cases, position accountability rules; and apply to both futures and swaps across four relevant venues: OTC, DCMs, SEFs as well as certain non-U.S. located platforms. The CFTC's first attempt at finalizing the Position Limit Rules, in 2011, was successfully challenged by market participants in 2012 and, since then, the CFTC has re-proposed them and solicited comments from market participants multiple times. At this time, it is unclear how the Position Limit Rules may affect USO, but the effect may be substantial and adverse. By way of example, the Position Limit Rules may negatively impact the ability of USO to meet its investment objectives through limits that may inhibit USCF's ability to sell additional Creation Baskets of USO.

Until such time as the Position Limit Rules are adopted, the regulatory architecture in effect prior to the adoption of the Position Limit Rules will govern transactions in commodities and related derivatives. Under that system, the CFTC enforces federal limits on speculation in nine agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for other agricultural products and certain energy products (e.g., oil and natural gas). As a result, USO may be limited with respect to the size of its investments in any commodities subject to these limits.

Under existing and recently adopted CFTC regulations, for the purpose of position limits, a market participant is generally required, subject to certain narrow exceptions, to aggregate all positions for which that participant controls the trading decisions with all positions for which that participant has a 10 percent or greater ownership interest in an account or position, as well as the positions of two or more persons acting pursuant to an express or implied agreement or understanding with that participant (the "Aggregation Rules"). The Aggregation Rules will also apply with respect to the Position Limit Rules if and when such Position Limit Rules are adopted. All of these limits may potentially cause a tracking error between the price of USO's shares and the price of the Benchmark Oil Futures

Contract. This may in turn prevent investors from being able to effectively use USO as a way to hedge against crude oil-related losses or as a way to indirectly invest in crude oil.

USO has not limited the size of its offering and is committed to utilizing substantially all of its proceeds to purchase Oil Futures Contracts and Other Oil-Related Investments. If USO encounters accountability levels, position limits, or price fluctuation limits for Oil Futures Contracts on the NYMEX or ICE Futures, it may then, if permitted under applicable regulatory requirements, purchase Oil Futures Contracts on other exchanges that trade listed crude oil futures or enter into swaps or other transactions to meet its investment objective. In addition, if USO exceeds accountability levels on either the NYMEX or ICE Futures and is required by such exchanges to reduce its holdings, such reduction could potentially cause a tracking error between the price of USO's shares and the price of the Benchmark Oil Futures Contract.

Tax Risk

An investor's tax liability may exceed the amount of distributions, if any, on its shares.

Cash or property will be distributed at the sole discretion of USCF. USCF has not and does not currently intend to make cash or other distributions with respect to shares. Investors will be required to pay U.S. federal income tax and, in some cases, state, local, or foreign income tax, on their allocable share of USO's taxable income, without regard to whether they receive distributions or the amount of any distributions. Therefore, the tax liability of an investor with respect to its shares may exceed the amount of cash or value of property (if any) distributed.

An investor's allocable share of taxable income or loss may differ from its economic income or loss on its shares.

Due to the application of the assumptions and conventions applied by USO in making allocations for tax purposes and other factors, an investor's allocable share of USO's income, gain, deduction or loss may be different than its economic profit or loss from its shares for a taxable year. This difference could be temporary or permanent and, if permanent, could result in it being taxed on amounts in excess of its economic income.

Items of income, gain, deduction, loss and credit with respect to shares could be reallocated, USO could be liable for U.S. Federal income tax, if the U.S. Internal Revenue Service ("IRS") does not accept the assumptions and conventions applied by USO in allocating those items, with potential adverse consequences for an investor.

The U.S. tax rules pertaining to partnerships are complex and their application to large, publicly traded partnerships such as USO is in many respects uncertain. USO applies certain assumptions and conventions in an attempt to comply with the intent of the applicable rules and to report taxable income, gains, deductions, losses and credits in a manner that properly reflects shareholders' economic gains and losses. These assumptions and conventions may not fully comply with all aspects of the Internal Revenue Code (the "Code") and applicable Treasury Regulations, however, and it is possible that the IRS will successfully challenge USO's allocation methods and require USO to reallocate items of income, gain, deduction, loss or credit in a manner that adversely affects investors.

USO may be liable for U.S. federal income tax on any "imputed understatement" of tax resulting from an adjustment as a result of an IRS audit. The amount of the imputed understatement generally includes increases in allocations of items of income or gains to any investor and decreases in allocations of items of deduction, loss, or credit to any investor without any offset for any corresponding reductions in allocations of items of income or gain to any investor or increases in allocations of items of deduction, loss, or credit to any investor. If USO is required to pay any U.S. federal income taxes on any imputed understatement, the resulting tax liability would reduce the net assets of USO and would likely have an adverse impact on the value of the shares. Under certain circumstances, USO may be eligible to make an election to cause the investors to take into account the amount of any imputed understatement, including any interest and penalties. The ability of a publicly traded partnership such as USO to make this election is

uncertain. If the election is made, USO would be required to provide investors who owned beneficial interests in the shares in the year to which the adjusted allocations relate with a statement setting forth their proportionate shares of the adjustment ("Adjusted K-1s"). The investors would be required to take the adjustment into account in the taxable year in which the Adjusted K-1s are issued.

USO could be treated as a corporation for federal income tax purposes, which may substantially reduce the value of the shares.

USO has received an opinion of counsel that, under current U.S. federal income tax laws, USO will be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, provided that (i) at least 90 percent of USO's annual gross income will be derived from (a) income and gains from commodities (not held as inventory) or futures, forwards, options, swaps and other notional principal contracts with respect to commodities, and (b) interest income, (ii) USO is organized and operated in accordance with its governing agreements and applicable law and (iii) USO does not elect to be taxed as a corporation for federal income tax purposes. Although USCF anticipates that USO has satisfied and will continue to satisfy the "qualifying income" requirement for all of its taxable years, that result cannot be assured. USO has not requested and will not request any ruling from the IRS with respect to its classification as a partnership not taxable as a corporation for federal income tax purposes. If the IRS were to successfully assert that USO is taxable as a corporation for federal income tax purposes in any taxable year, rather than passing through its income, gains, losses and deductions proportionately to shareholders, USO would be subject to tax on its net income for the year at corporate tax rates. In addition, although USCF does not currently intend to make distributions with respect to shares, any distributions would be taxable to shareholders as dividend income. Taxation of USO as a corporation could materially reduce the after-tax return on an investment in shares and could substantially reduce the value of the shares.

USO is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law, and therefore, USO has a more complex tax treatment than traditional mutual funds.

USO is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law. No U.S. federal income tax is paid by USO on its income. Instead, USO will furnish shareholders each year with tax information on IRS Schedule K-1 (Form 1065) and each U.S. shareholder is required to report on its U.S. federal income tax return its allocable share of the income, gain, loss and deduction of USO.

This must be reported without regard to the amount (if any) of cash or property the shareholder receives as a distribution from USO during the taxable year. A shareholder, therefore, may be allocated income or gain by USO but receive no cash distribution with which to pay the tax liability resulting from the allocation, or may receive a distribution that is insufficient to pay such liability.

In addition to federal income taxes, shareholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, business franchise taxes and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which USO does business or owns property or where the shareholders reside. Although an analysis of those various taxes is not presented here, each prospective shareholder should consider their potential impact on its investment in USO. It is each shareholder's responsibility to file the appropriate U.S. federal, state, local and foreign tax returns.

If USO is required to withhold tax with respect to any Non-U.S. shareholders, the cost of such withholding may be borne by all shareholders.

Under certain circumstances, USO may be required to pay withholding tax with respect to allocations to Non-U.S. shareholders. Although the LP Agreement provides that any such withholding will be treated as being distributed to the Non-U.S. shareholder, USO may not be able to cause the economic cost of such withholding to be borne by the Non-U.S. shareholder on whose behalf such amounts were withheld since it does not generally expect to make any distributions. Under such circumstances, the economic cost of the withholding may be borne by all shareholders, not just the shareholders on whose behalf such amounts were withheld. This could have a material impact on the value of the shares.

The impact of U.S. tax reform on USO is uncertain.

On December 22, 2017, H.R. 1, the bill formerly known as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), was signed into law. The Tax Act substantially alters the U.S. federal tax system in a variety of ways, including significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. We cannot predict with certainty how any changes in the tax laws might affect the US economy or the

demand for and the price of commodities. As a result, it is possible that the Tax Act, as well as any U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Act and any future legislation related to tax reform, could have unexpected or negative impacts on USO and some or all of its shareholders. Shareholders are urged to consult with their tax advisor regarding tax legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in USO.

OTC Contract Risk

USO will be subject to credit risk with respect to counterparties to OTC contracts entered into by USO or held by special purpose or structured vehicles.

USO faces the risk of non-performance by the counterparties to the OTC contracts. Unlike in futures contracts, the counterparty to these contracts is generally a single bank or other financial institution, rather than a clearing organization backed by a group of financial institutions. As a result, there will be greater counterparty credit risk in these transactions. A counterparty may not be able to meet its obligations to USO, in which case USO could suffer significant losses on these contracts.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, USO may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. USO may obtain only limited recovery or may obtain no recovery in such circumstances.

Valuing OTC derivatives may be less certain than actively traded financial instruments.

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.

Other Risks

Certain of USO's investments could be illiquid, which could cause large losses to investors at any time or from time to time.

Futures positions cannot always be liquidated at the desired price. It is difficult to execute a trade at a specific price when there is a relatively small volume of buy and sell orders in a market. A market disruption, such as a foreign government taking political actions that disrupt the market for its currency, its crude oil production or exports, or another major export, can also make it difficult to liquidate a position. Because both Oil Futures Contracts and Other Oil-Related Investments may be illiquid, USO's Oil Interests may be more difficult to liquidate at favorable prices in periods of illiquid markets and losses may be incurred during the period in which positions are being liquidated. The large size of the positions that USO may acquire increases the risk of illiquidity both by making its positions more difficult to liquidate and by potentially increasing losses while trying to do so.

OTC contracts that are not subject to clearing may be even less marketable than futures contracts because they are not traded on an exchange, do not have uniform terms and conditions, and are entered into based upon the creditworthiness of the parties and the availability of credit support, such as collateral, and in general, they are not transferable without the consent of the counterparty. These conditions make such contracts less liquid than standardized futures contracts traded on a commodities exchange and could adversely impact USO's ability to realize the full value of such contracts. In addition, 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.

USO is not actively managed and tracks the Benchmark Oil Futures Contract during periods in which the price of the Benchmark Oil Futures Contract is flat or declining as well as when the price is rising.

USO is not actively managed by conventional methods. Accordingly, if USO's investments in Oil Interests are declining in value, USO will not close out such positions except in connection with paying the proceeds to an

Authorized Participant upon the redemption of a basket or closing out futures positions in connection with the monthly change in the Benchmark Oil Futures Contract. USCF will seek to cause the NAV of USO's shares to track the Benchmark Oil Futures Contract during periods in which its price is flat or declining as well as when the price is rising.

The NYSE Arca may halt trading in USO's shares, which would adversely impact an investor's ability to sell shares.

USO's shares are listed for trading on the NYSE Arca under the market symbol "USO." Trading in shares may be halted due to market conditions or, in light of NYSE Arca rules and procedures, for reasons that, in the view of the NYSE Arca, make trading in shares inadvisable. In addition, trading is subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules that require trading to be halted for a specified period based on a specified market decline. Additionally, there can be no assurance that the requirements necessary to maintain the listing of USO's shares will continue to be met or will remain unchanged.

The liquidity of the shares may also be affected by the withdrawal from participation of Authorized Participants, which could adversely affect the market price of the shares.

In the event that one or more Authorized Participants which have substantial interests in the shares withdraw from participation, the liquidity of the shares will likely decrease, which could adversely affect the market price of the shares and result in investors incurring a loss on their investment.

Shareholders that are not Authorized Participants may only purchase or sell their shares in secondary trading markets, and the conditions associated with trading in secondary markets may adversely affect investors' investment in the shares.

Only Authorized Participants may create or redeem Redemption Baskets. All other investors that desire to purchase or sell shares must do so through the NYSE Arca or in other markets, if any, in which the shares may be traded. Shares may trade at a premium or discount to NAV per share.

The lack of an active trading market for USO's shares may result in losses on an investor's investment in USO at the time the investor sells the shares.

Although USO's shares are listed and traded on the NYSE Arca, there can be no guarantee that an active trading market for the shares will be maintained. If an investor needs to sell shares at a time when no active trading market for them exists, the price the investor receives upon sale of the shares, assuming they were able to be sold, likely would be lower than if an active market existed.

Limited partners and shareholders do not participate in the management of USO and do not control USCF, so they do not have any influence over basic matters that affect USO.

The limited partners and shareholders take no part in the management or control, and have a minimal voice in USO's operations or business. Limited partners and shareholders must therefore rely upon the duties and judgment of USCF to manage USO's affairs. Limited partners and shareholders have no right to elect USCF on an annual or any other continuing basis. If USCF voluntarily withdraws, however, the holders of a majority of USO's outstanding shares (excluding for purposes of such determination shares owned, if any, by the withdrawing general partner and its affiliates) may elect its successor. USCF may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 2/3 percent of USO's outstanding shares (excluding shares, if any, owned by USCF and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

Limited partners may have limited liability in certain circumstances, including potentially having liability for the return of wrongful distributions.

Under Delaware law, a limited partner might be held liable for USO's obligations as if it were a general partner if the limited partner participates in the control of the partnership's business and the persons who transact business with the partnership think the limited partner is the general partner.

A limited partner will not be liable for assessments in addition to its initial capital investment in any of USO's shares. However, a limited partner may be required to repay to USO any amounts wrongfully returned or distributed to it under some circumstances. Under Delaware law, USO may not make a distribution to limited partners if the distribution causes USO's liabilities (other than liabilities to partners on account of their partnership interests and nonrecourse liabilities) to exceed the fair value of USO's assets. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated the law will be liable to the limited partnership for the amount of the distribution for three years from the date of the distribution.

The LLC Agreement provides limited authority to the Non-Management Directors, and any Director of USCF may be removed by USCF's parent company, which is wholly owned by Concierge Technologies, Inc., a controlled public company where the majority of shares are owned by Nicholas Gerber along with certain other family members and certain other shareholders.

USCF's Board of Directors (the "Board") currently consists of four Management Directors, each of whom are also executive officers or employees of USCF ("Management Directors"), and three Non-Management Directors, each of whom are considered independent for purposes of applicable NYSE Arca and Securities and Exchange Commission ("SEC") rules. Under USCF's Sixth Amended and Restated Limited Liability Company Agreement, dated as of May 15, 2015 (as amended from time to time, the "LLC Agreement"), the Non-Management Directors have only such authority as the Management Directors expressly confer upon them, which means that the Non-Management Directors may have less authority to control the actions of the Management Directors than is typically the case with the independent members of a company's Board. In addition, any Director may be removed by written consent of Wainwright Holdings, Inc. ("Wainwright"), which is the sole member of USCF. The sole shareholder of Wainwright is Concierge Technologies, Inc., a company publicly traded under the ticker symbol "CNCG" ("Concierge"). Mr. Nicholas Gerber along with certain family members and certain other shareholders, own the majority of the shares in Concierge, which is the sole shareholder of Wainwright, the sole member of USCF. Accordingly, although USCF is governed by the Board, which consists of both Management Directors and Non-Management Directors, pursuant to the LLC Agreement, it is possible for Mr. Gerber to exercise his indirect control of Wainwright to effect the removal of any Director (including the Non-Management Directors which comprise the Audit Committee) and to replace that Director with another Director. Having control in one person could have a negative impact on USCF and USO, including their regulatory obligations.

There is a risk that USO will not earn trading gains sufficient to compensate for the fees and expenses that it must pay and as such USO may not earn any profit.

USO pays brokerage charges of approximately 0.140% of average total net assets based on brokerage fees of \$3.50 per buy or sell, management fees of 0.45% of NAV on its average net assets, and OTC spreads and extraordinary expenses (e.g., subsequent offering expenses, other expenses not in the ordinary course of business, including the indemnification of any person against liabilities and obligations to the extent permitted by law and required under the LP Agreement and under agreements entered into by USCF on USO's behalf and the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expenses and the settlement of claims and litigation) that cannot be quantified.

These fees and expenses must be paid in all cases regardless of whether USO's activities are profitable. Accordingly, USO must earn trading gains sufficient to compensate for these fees and expenses before it can earn any profit.

USO is subject to extensive regulatory reporting and compliance.

USO is subject to a comprehensive scheme of regulation under the federal commodities and securities laws. USO could be subject to sanctions for a failure to comply with those requirements, which could adversely affect its financial performance (in the case of financial penalties) or ability to pursue its investment objective (in the case of a limitation on its ability to trade).

Because USO's shares are publicly traded, USO is subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities include the Public Company Accounting Oversight Board (the "PCAOB"), the SEC, the CFTC, the National Futures Association (the "NFA"), and NYSE Arca and these authorities have continued to develop additional regulations or interpretations of existing regulations. USO's ongoing efforts to comply with these regulations and interpretations have resulted in, and are likely to continue resulting in, a diversion of management's time and attention from revenue-generating activities to compliance related activities.

USO is responsible for establishing and maintaining adequate internal control over financial reporting. USO's internal control system is designed to provide reasonable assurance to its management regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may provide only reasonable assurance with respect to financial statement preparation and presentation.

Regulatory changes or actions, including the implementation of new legislation, is impossible to predict but may significantly and adversely affect USO.

The futures markets are subject to comprehensive statutes, regulations, and margin requirements. In addition, the CFTC and futures exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. Regulation of commodity interest transactions in the United States is a rapidly changing area of law and is subject to ongoing modification by governmental and judicial action. Considerable regulatory attention has been focused on non-traditional investment pools that are publicly distributed in the United States. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. Further, various national governments outside of the United States have expressed concern regarding the disruptive effects of speculative trading in the energy markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on USO is impossible to predict, but it could be substantial and adverse.

USO is not a registered investment company so shareholders do not have the protections of the 1940 Act.

USO is not an investment company subject to the Investment Company Act of 1940 ("1940 Act"). Accordingly, investors do not have the protections afforded by that statute, which, for example, requires investment companies to have a majority of disinterested directors and regulates the relationship between the investment company and its investment manager.

Trading in international markets could expose USO to credit and regulatory risk.

USO invests primarily in Oil Futures Contracts, a significant portion of which are traded on United States exchanges, including the NYMEX. However, a portion of USO's trades may take place on markets and exchanges outside the United States. Some non-U.S. markets present risks because they are not subject to the same degree of regulation as their U.S. counterparts. Trading on such non-U.S. markets or exchanges presents risks because they are not subject to the same degree of regulation as their U.S. counterparts, including potentially different or diminished investor protections. In trading contracts denominated in currencies other than U.S. dollars, USO is subject to the risk of adverse exchange-rate movements between the dollar and the functional currencies of such contracts. Additionally, trading on non-U.S. exchanges is subject to the risks presented by exchange controls, expropriation, increased tax burdens and exposure to local economic declines and political instability. An adverse development with respect to any of these variables could reduce the profit or increase the loss earned on trades in the affected international markets.

USO and USCF may have conflicts of interest, which may permit them to favor their own interests to the detriment of shareholders.

USO is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and Authorized Participants. USCF's officers, directors and employees do not devote their time exclusively to USO and also are directors, officers or employees of other entities that may compete with USO for their services. They could have a conflict between their responsibilities to USO and to those other entities. As a result of these and other relationships, parties involved with USO have a financial incentive to act in a manner other than in the best interests of USO and the shareholders. USCF has not established any formal procedure to resolve conflicts of interest. Consequently, investors are dependent on the good faith of the respective parties subject to such conflicts of interest to resolve them equitably. Although USCF attempts to monitor these conflicts, it is extremely difficult, if not impossible, for USCF to ensure that these conflicts do not, in fact, result in adverse consequences to the shareholders.

USO may also be subject to certain conflicts with respect to the Futures Commission Merchant (“FCM”), including, but not limited to, conflicts that result from receiving greater amounts of compensation from other clients, or purchasing opposite or competing positions on behalf of third party accounts traded through the FCM. In addition, USCF’s principals, officers, directors or employees may trade futures and related contracts for their own account. A conflict of interest may exist if their trades are in the same markets and at the same time as USO trades using the clearing broker to be used by USO. A potential conflict also may occur if USCF’s principals, officers, directors or employees trade their accounts more aggressively or take positions in their accounts which are opposite, or ahead of, the positions taken by USO.

USO could terminate at any time and cause the liquidation and potential loss of an investor’s investment and could upset the overall maturity and timing of an investor’s investment portfolio.

USO may terminate at any time, regardless of whether USO has incurred losses, subject to the terms of the LP Agreement. In particular, unforeseen circumstances, including the adjudication of incompetence, bankruptcy, dissolution, or removal of USCF as the general partner of USO could cause USO to terminate unless a majority interest of the limited partners within 90 days of the event elects to continue the partnership and appoints a successor general partner, or the affirmative vote of a majority in interest of the limited partners subject to certain conditions. However, no level of losses will require USCF to terminate USO. USO’s termination would cause the liquidation and potential loss of an investor’s investment. Termination could also negatively affect the overall maturity and timing of an investor’s investment portfolio.

USO does not expect to make cash distributions.

USO has not previously made any cash distributions and intends to reinvest any realized gains in additional Oil Interests rather than distributing cash to limited partners, or other shareholders. Therefore, unlike mutual funds, commodity pools or other investment pools that actively manage their investments in an attempt to realize income and gains from their investing activities and distribute such income and gains to their investors, USO generally does not expect to distribute cash to limited partners. An investor should not invest in USO if the investor will need cash distributions from USO to pay taxes on its share of income and gains of USO, if any, or for any other reason. Nonetheless, although USO does not intend to make cash distributions, the income earned from its investments held directly or posted as margin may reach levels that merit distribution, *e.g.*, at levels where such income is not necessary to support its underlying investments in Oil Interests and investors adversely react to being taxed on such income without receiving distributions that could be used to pay such tax. If this income becomes significant then cash distributions may be made.

An unanticipated number of redemption requests during a short period of time could have an adverse effect on USO’s NAV.

If a substantial number of requests for redemption of Redemption Baskets are received by USO during a relatively short period of time, USO may not be able to satisfy the requests from USO’s assets not committed to trading. As a consequence, it could be necessary to liquidate positions in USO’s trading positions before the time that the trading strategies would otherwise dictate liquidation.

The Fund may potentially lose money on its holdings in money market funds.

The SEC adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended ("1940 Act") which became effective in 2016, to reform money market funds ("MMFs"). While the new rule applies only to MMFs, it may indirectly affect institutional investors such as USO. A portion of USO's assets that are not used for margin or collateral in the Futures Contracts currently are invested in government MMFs. USO does not hold any non-government MMFs and, particularly in light of recent changes to the rule governing the operation of MMFs, does not anticipate investing in any non-government MMFs. However, if USO invests in other types of MMFs besides government MMFs in the future, USO could be negatively impacted by investing in an MMF that does not maintain a stable \$1.00 NAV or that has the potential to impose redemption fees and gates (temporary suspension of redemptions).

The share price of a government MMF can fall below the \$1.00 share price. The government MMFs that USO invests in may have chosen to not rely on the ability to impose fees on shareholder redemptions, or liquidity fees, or temporarily to suspend redemption privileges, or gates, if the government MMF's weekly liquid assets fall below a certain threshold. USO cannot rely on or expect a government MMF's adviser or its affiliates to enter into support agreements or take other actions to maintain the government MMF's \$1.00 share price. The credit quality of a government MMF's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the government MMF's share price. Due to fluctuations in interest rates, the market value of securities held by a government MMF may vary. A government MMF's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. Although such government MMFs seek to preserve the value of an investment at \$1.00 per share, there is no guarantee that they will be able to do so and USO may lose money by investing in a government MMF.

An investment in a government MMF is not insured or guaranteed by the FDIC or any other government agency.

The failure or bankruptcy of a clearing broker or the Fund's Custodian could result in a substantial loss of USO's assets and could impair USO in its ability to execute trades.

In the event of the bankruptcy of a clearing broker or an Exchange's clearing house, USO could be exposed to a risk of loss with respect to its assets that are posted as margin. If such a bankruptcy were to occur, USO would be afforded the protections granted to customers of an FCM, and participants to transactions cleared through a clearing house, under the United States Bankruptcy Code and applicable CFTC regulations. Such provisions generally provide for a pro rata distribution to customers of customer property held by the bankrupt FCM or an Exchange's clearing house if the customer property held by the FCM or the Exchange's clearing house is insufficient to satisfy all customer claims. In any case, there can be no assurance that these protections will be effective in allowing USO to recover all, or even any, of the amounts it has deposited as margin.

Bankruptcy of a clearing FCM can be caused by, among other things, the default of one of the FCM's customers. In this event, the Exchange's clearing house is permitted to use the entire amount of margin posted by USO (as well as margin posted by other customers of the FCM) to cover the amounts owed by the bankrupt FCM. Consequently, USO could be unable to recover amounts due to it on its futures positions, including assets posted as margin, and could sustain substantial losses.

CFTC regulations impose several requirements on FCMs that are designed to protect customers, including mandating certain customer protections and the implementation of risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures and auditing and 20 examination programs. There can be no assurance these regulations will prevent losses to, or not materially adversely affect, USO or its investors.

Notwithstanding that USO could sustain losses upon the failure or bankruptcy of its FCM, the majority of USO's assets are held in Treasuries, cash and/or cash equivalents with Brown Brothers Harriman & Co. (the "Custodian") and would not be impacted by the bankruptcy of an FCM. The failure or bankruptcy of USO's Custodian could result in a substantial loss of USO's assets.

The majority of USO's assets are held in Treasuries, cash and/or cash equivalents with the Custodian. The insolvency of the Custodian could result in a complete loss of USO's assets held by that Custodian, which, at any given time, would likely comprise a substantial portion of USO's total assets.

Third parties may infringe upon or otherwise violate intellectual property rights or assert that USCF has infringed or otherwise violated their intellectual property rights, which may result in significant costs and diverted attention.

It is possible that third parties might utilize USO's intellectual property or technology, including the use of its business methods, trademarks and trading program software, without permission. USCF has a patent for USO's business method and has registered its trademarks. USO does not currently have any proprietary software. However, if it obtains proprietary software in the future, any unauthorized use of USO's proprietary software and other technology could also adversely affect its competitive advantage. USO may not have adequate resources to implement procedures for monitoring unauthorized uses of its patents, trademarks, proprietary software and other technology. Also, third parties may independently develop business methods, trademarks or proprietary software and other technology similar to that of USCF or claim that USCF has violated their intellectual property rights, including their copyrights, trademark rights, trade names, trade secrets and patent rights. As a result, USCF may have to litigate in the future to protect its trade secrets, determine the validity and scope of other parties' proprietary rights, defend itself against claims that it has infringed or otherwise violated other parties' rights, or defend itself against claims that its rights are invalid. Any litigation of this type, even if USCF is successful and regardless of the merits, may result in significant costs, divert its resources from USO, or require it to change its proprietary software and other technology or enter into royalty or licensing agreements.

Due to the increased use of technologies, intentional and unintentional cyber-attacks pose operational and information security risks.

With the increased use of technologies such as the internet and the dependence on computer systems to perform necessary business functions, USO is susceptible to operational and information security risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites. Cyber security failures or breaches of USO's clearing broker or third party service provider (including, but not limited to, index providers, the administrator and transfer agent, the custodian), have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability of USO shareholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs.

In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. USO and its shareholders could be negatively impacted as a result. While USO has established business continuity plans, there are inherent limitations in such plans.

ADDITIONAL INFORMATION ABOUT USO, ITS INVESTMENT OBJECTIVE AND INVESTMENTS

USO is a Delaware limited partnership organized on May 12, 2005. It operates pursuant to the terms of the Seventh Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017 (as amended from time to time, the "LP Agreement"), which grants full management control of USO to USCF. USO maintains its main business office at 1850 Mt. Diablo Boulevard, Suite 640, Walnut Creek, California 94596.

The net assets of USO consist primarily of investments in Oil Futures Contracts and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, Other Oil-Related Investments. Market conditions that USCF currently anticipates could cause USO to invest in Other Oil-Related Investments include those allowing USO to obtain greater liquidity or to execute transactions with more favorable pricing.

USO invests substantially the entire amount of its assets in Oil Futures Contracts while supporting such investments by holding the amounts of its margin, collateral and other requirements relating to these obligations in short-term obligations of the United States of two years or less ("Treasuries"), cash and cash equivalents. The daily holdings of USO are available on USO's website at www.uscfinvestments.com.

USO invests in Oil Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Oil Interests. In pursuing this objective, the primary focus of USCF, is the investment in Oil Futures Contracts and the management of USO's investments in Treasuries, cash and/or cash equivalents for margining purposes and as collateral.

USO seeks to invest in a combination of Oil Interests such that the daily changes in its NAV, measured in percentage terms, will closely track the daily changes in the price of the Benchmark Oil Futures Contract, also measured in percentage terms. As a specific benchmark, USCF endeavors to place USO's trades in Oil Interests and otherwise

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manage USO's investments so that "A" will be within plus/ minus ten percent (10%) of "B", where:

- A is the average daily percentage change in USO's per share NAV for any period of 30 successive valuation days; i.e., any NYSE Arca trading day as of which USO calculates its per share NAV; and
- B is the average daily percentage change in the price of the Benchmark Oil Futures Contract over the same period.

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USCF believes that market arbitrage opportunities will cause the daily changes in USO's share price on the NYSE Arca to closely track the daily changes in USO's per share NAV. USCF further believes that the daily changes in USO's NAV in percentage terms will closely track the daily changes in percentage terms in the Benchmark Oil Futures Contract, less USO's expenses.

The following two graphs demonstrate the correlation between the changes in USO's NAV and the changes in the Benchmark Oil Futures Contract. The first graph exhibits the daily changes in the last 30 valuation days ended December 31, 2018 the second graph measures monthly changes from December 2013 through December 2018.

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

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USCF employs a “neutral” investment strategy in order to track changes in the price of the Benchmark Oil Futures Contract regardless of whether the price goes up or goes down. USO’s “neutral” investment strategy is designed to permit investors generally to purchase and sell USO’s shares for the purpose of investing indirectly in crude oil in a cost-effective manner, and/or to permit participants in the oil or other industries to hedge the risk of losses in their crude oil-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in crude oil and/or the risks involved in hedging may exist. In addition, an investment in USO involves the risk that the daily changes in the price of USO’s shares, in percentage terms, will not accurately track the daily changes in the Benchmark Oil Futures Contract, in percentage terms, and that daily changes in the Benchmark Oil Futures Contract in percentage terms, will not closely correlate with daily changes in the spot prices of light, sweet crude oil, in percentage terms.

As an example, for the year ended December 31, 2018, the actual total return of USO as measured by changes in its per share NAV was -20.61%. This was based on an initial per share NAV of \$12.08 on December 31, 2017 and an ending per share NAV as of December 31, 2018 of \$9.59. During this time period, USO made no distributions to its shareholders. However, if USO’s daily changes in its per share NAV had instead exactly tracked the changes in the daily total return of the Benchmark Oil Futures Contract, USO would have had an estimated per share NAV of \$9.48 as of December 31, 2018, for a total return over the relevant time period of -21.523%. The difference between the actual per share NAV total return of USO of -20.61% and the expected total return based on the Benchmark Oil Futures Contract of -21.523% was an error over the time period of 0.913%, which is to say that USO’s actual total return outperformed the benchmark result by that percentage. USO incurs expenses primarily composed of the management fee, brokerage commissions for the buying and selling of futures contracts, and other expenses. The impact of these expenses tended to cause daily changes in the per share NAV of USO to track slightly lower than daily changes in the price of the Benchmark Oil Futures Contract.

Impact of Contango and Backwardation on Total Returns

Contango and backwardation are natural market forces that have impacted the total return on an investment in USO's shares during the past year relative to a hypothetical direct investment in crude oil. In the future, it is likely that the relationship between the market price of USO's shares and changes in the spot prices of light, sweet crude oil will continue to be impacted by contango and backwardation. It is important to note that this comparison ignores the potential costs associated with physically owning and storing crude oil, which could be substantial.

Several factors determine the total return from investing in futures contracts. One factor arises from "rolling" futures contracts that will expire at the end of the current month (the "near" or "front" month contract) forward each month prior to expiration. For a strategy that entails holding the near month contract, the price relationship between that futures contract and the next month futures contract will impact returns. For example, if the price of the near month futures contract is higher than the next futures month contract (a situation referred to as "backwardation"), then absent any other change, the price of a next month futures contract tends to rise in value as it becomes the near month futures contract and approaches expiration. Conversely, if the price of a near month futures contract is lower than the next month futures contract (a situation referred to as "contango"), then absent any other change, the price of a next month futures contract tends to decline in value as it becomes the near month futures contract and approaches expiration.

As an example, assume that the price of crude oil for immediate delivery, is \$50 per barrel, and the value of a position in the near month futures contract is also \$50. Over time, the price of crude oil will fluctuate based on a number of market factors, including demand for oil relative to supply. The value of the near month futures contract will likewise fluctuate in reaction to a number of market factors. If an investor seeks to maintain a position in a near month futures contract and not take delivery of physical barrels of crude oil, the investor must sell the current near month futures contract as it approaches expiration and invest in the next month futures contract. In order to continue holding a position in the current near month futures contract, this "roll" forward of the futures contract must be executed every month.

If the futures market is in backwardation, *e.g.*, when the price of the near month futures contract is higher than the price of the next month futures contract, the investor would buy a next month futures contract for a lower price than the current near month futures contract. Assuming the price of the next month futures contract was \$49 per barrel, or 2% cheaper than the \$50 near month futures contract, then, hypothetically, and assuming no other changes (*e.g.*, 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 futures contract would rise to \$50 as it approaches expiration. In this example, the value of an investment in the next month futures contract would tend to outperform the spot price of crude oil. As a result, it would be possible for the new near month futures contract to rise 12% while the spot price of crude oil may have risen a lower amount, *e.g.*, only 10%. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the futures contract might have fallen another amount, *e.g.*, only 8%. Over time, if backwardation remained constant, this difference between the spot price and the futures contract price would continue to increase.

If the futures market is in contango, an investor would be buying a next month futures contract for a higher price than the current near month futures contract. Again, assuming the near month futures contract is \$50 per barrel, the price of the next month futures contract might be \$51 per barrel, or 2% more expensive than the front month futures contract. Hypothetically, and assuming no other changes, the value of the \$51 next month futures contract would fall to \$50 as it approaches expiration. In this example, the value of an investment in the second month would tend to underperform the spot price of crude oil. As a result, it would be possible for the new near month futures contract to rise only 10% while the spot price of crude oil may have risen a higher amount, *e.g.*, 12%. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the second month futures contract might have fallen another

amount, e.g., 12%. Over time, if contango remained constant, this difference between the spot price and the futures contract price would continue to increase.

The chart below compares the daily price of the near month crude oil futures contract to the price of 13th month crude oil futures contract (i.e. a contract one year forward) over the last 10 years. When the price of the near month futures contract is higher than the price of the 13th month futures contract, the market would be described as being in backwardation. When the price of the near month futures contract is lower than the 13th month futures contract, the market would be described as being in contango. Although the price of the near month futures contract and the price of the 13th month futures contract tend to move together, it can be seen that at times the near month futures contract prices are higher than the 13th month futures contract prices (backwardation) and, at other times, the near month futures contract prices are lower than the 13th month futures contract prices (contango).

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

An alternative way to view the same data is to subtract the dollar price of the 13th month crude oil futures contract from the dollar price of the near month crude oil futures contract, as shown in the chart below. When the difference is positive, the market is in backwardation. When the difference is negative, the market is in contango. The crude oil market spent time in both backwardation and contango during the last ten years.

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

An investment in a portfolio that owned only the near month crude oil futures contract would likely produce a different result than an investment in a portfolio that owned an equal number of each of the near 12 months' of crude oil futures contracts. Generally speaking, when the crude oil futures market is in backwardation, a portfolio of only the near month crude oil futures contract may tend to have a higher total return than a portfolio of 12 months' of the crude oil futures contract. Conversely, if the crude oil futures market was in contango, the portfolio containing only 12 months' of crude oil futures contracts may tend to outperform the portfolio holding only the near month crude oil futures contract.

Historically, the crude oil futures markets have experienced periods of contango and backwardation, with backwardation being in place roughly as often as contango since oil futures trading started in 1982. Following the global financial crisis in the fourth quarter of 2008, the crude oil market moved into contango and remained in contango for a period of several years. During parts of 2009, the level of contango was unusually steep as a combination of slack U.S. and global demand for crude oil and issues involving the physical transportation and storage of crude oil at Cushing, Oklahoma, the primary pricing point for oil traded in the U.S., led to unusually high inventories of crude oil. A combination of improved transportation and storage capacity, along with growing demand for crude oil globally, moderated the inventory build-up and led to reduced levels of contango by 2011. However, at the end of November, 2014, global crude oil inventories grew rapidly after OPEC decided to defend its market share against U.S. shale-oil producers, resulting in another period during which the crude oil market remained primarily in contango, sometimes steep contango. This period of contango continued through December 31, 2017. In addition, the crude oil markets are expected to remain in contango until U.S. and global oil inventories decline significantly. If OPEC's recent cuts in oil production have their intended effect on the crude oil market then such a decline may occur in 2018.

Periods of contango or backwardation do not materially impact USO's investment objective of having the daily percentage changes in its per share NAV track the daily percentage changes in the price of the Benchmark Oil Futures Contract since the impact of backwardation and contango tend to equally impact the daily percentage changes in price of both USO's shares and the Benchmark Oil 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. In managing USO's assets USCF does not use a technical trading system that issues buy and sell orders. USCF instead employs a quantitative methodology whereby each time a Creation Basket is sold, USCF purchases Oil Interests, such as the Benchmark Oil Futures Contract, that have an aggregate market value that approximates the amount of Treasuries and/or cash received upon the issuance of the Creation Basket.

The specific Oil Futures Contracts purchased depend on various factors, including a judgment by USCF as to the appropriate diversification of USO's investments in futures contracts with respect to the month of expiration, and the prevailing price volatility of particular contracts. While USCF has made significant investments in NYMEX Oil Futures Contracts, for various reasons, including the ability to enter into the precise amount of exposure to the crude oil market, position limits or other regulatory requirements limiting USO's holdings, and market conditions, it may invest in Oil Futures Contracts traded on other exchanges or invest in Other Oil-Related Investments. To the extent that USO invests in Other Oil-Related Investments, it would prioritize investments in contracts and instruments that are economically equivalent to the Benchmark Oil Futures Contract, including cleared swaps that satisfy such criteria, and then, to a lesser extent, it would invest in other types of cleared swaps and other contracts, instruments and non-cleared swaps, such as swaps in the over-the-counter market (or commonly referred to as the "OTC market"). If USO is required by law or regulation, or by one of its regulators, including a futures exchange, to reduce its position in the Benchmark Oil Futures Contracts to the applicable position limit or to a specified accountability level or if market conditions dictate it would be more appropriate to invest in Other Oil-Related Investments, a substantial portion of USO's assets could be invested in accordance with such priority in Other Oil-Related Investments that are intended to replicate the return on the Benchmark Oil Futures Contract. As USO's assets reach higher levels, it is more likely to exceed position limits, accountability levels or other regulatory limits and, as a result, it is more likely that it will invest in accordance with such priority in Other Oil-Related Investments at such higher levels. In addition, market conditions that USCF currently anticipates could cause USO to invest in Other Oil-Related Investments include those allowing USO to obtain greater liquidity or to execute transactions with more favorable pricing. See "Risk Factors Involved With an Investment in USO" for a discussion of the potential impact of regulation on USO's ability to invest in OTC transactions and cleared swaps.

USCF may not be able to fully invest USO's assets in Benchmark Oil Futures Contracts having an aggregate notional amount exactly equal to USO's NAV. For example, as standardized contracts, the Benchmark Oil Futures Contracts are for a specified amount of a particular commodity, and USO's NAV and the proceeds from the sale of a Creation Basket are unlikely to be an exact multiple of the amounts of those contracts. As a result, in such circumstances, USO may be better able to achieve the exact amount of exposure to changes in price of the Benchmark Oil Futures Contract through the use of Other Oil-Related Investments, such as OTC contracts that have better correlation with changes in price of the Benchmark Oil Futures Contract.

USO anticipates that to the extent it invests in Oil Futures Contracts other than contracts on light, sweet crude oil (such as futures contracts for diesel-heating oil, natural gas, and other petroleum-based fuels) and Other Oil-Related Investments, it will enter into various non-exchange-traded derivative contracts to hedge the short-term price movements of such Oil Futures Contracts and Other Oil-Related Investments against the current Benchmark Oil Futures Contract.

USCF does not anticipate letting USO's Oil Futures Contracts expire and taking delivery of the underlying commodity. Instead, USCF will close existing positions, *e.g.*, when it changes the Benchmark Oil Futures Contracts or Other Oil-Related Investments or it otherwise determines it would be appropriate to do so and reinvests the proceeds in new Oil Futures Contracts or Other Oil-Related Investments. Positions may also be closed out to meet orders for

Redemption Baskets and in such case proceeds for such baskets will not be reinvested.

The Benchmark Oil Futures Contract is changed from the near month contract to the next month contract over a four-day period. Each month, the Benchmark Oil Futures Contract changes starting at the end of the day on the date two weeks prior to expiration of the near month contract for that month. During the first three days of the period, the applicable value of the Benchmark Oil Futures Contract is based on a combination of the near month contract and the next month contract as follows: (1) day 1 consists of 75% of the then near month contract's price plus 25% of the price of the next month contract, divided by 75% of the near month contract's prior day's price plus 25% of the price of the next month contract, (2) day 2 consists of 50% of the then near month contract's price plus 50% of the price of the next month contract, divided by 50% of the near month contract's prior day's price plus 50% of the price of the next month contract and (3) day 3 consists of 25% of the then near month contract's price plus 75% of the price of the next month contract, divided by 25% of the near month contract's prior day's price plus 75% of the price of the next month contract. On day 4, the Benchmark Oil Futures Contract is the next month contract to expire at that time and that contract remains the Benchmark Oil Futures Contract until the beginning of the following month's change in the Benchmark Oil Futures Contract over a four-day period.

On each day during the four-day period, USCF anticipates it will "roll" USO's positions in Oil Interests by closing, or selling, a percentage of USO's positions in Oil Interests and reinvesting the proceeds from closing those positions in new Oil Interests that reflect the change in the Benchmark Oil Futures Contract.

The anticipated dates that the monthly four-day roll period will commence are posted on USO's website at www.uscfinvestments.com, and are subject to change without notice.

By remaining invested as fully as possible in Oil Futures Contracts or Other Oil-Related Investments, USCF believes that the daily changes in percentage terms of USO's NAV will continue to closely track the daily changes in percentage terms in the price of the Benchmark Oil Futures Contract. USCF believes that certain arbitrage opportunities result in the price of the shares traded on the NYSE Arca closely tracking the NAV of USO. Additionally, Oil Futures Contracts traded on the NYMEX have closely tracked the spot price of light, sweet crude oil. Based on these expected interrelationships, USCF believes that the changes in the price of USO's shares as traded on the NYSE Arca have closely tracked and will continue to closely track on a daily basis, the changes in the spot price of light, sweet crude oil on a percentage basis.

What are the Trading Policies of USO?

Investment Objectives

The investment objective of USO is for the daily changes in percentage terms of its shares' per share net asset value ("NAV") to reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes in the price of the Benchmark Oil Futures Contract, plus interest earned on USO's collateral holdings, less USO's expenses. The Benchmark Oil Futures Contract is the futures contract on light, sweet crude oil as traded on the New York Mercantile Exchange (the "NYMEX") 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.

Liquidity

USO invests only in Oil Futures Contracts and Other Oil-Related Investments that, in the opinion of USCF, are traded in sufficient volume to permit the ready taking and liquidation of positions in these financial interests and in Other Oil-Related Investments that, in the opinion of USCF, may be readily liquidated with the original counterparty or through a third party assuming the position of USO.

Spot Commodities

While the crude Oil Futures Contracts traded can be physically settled, USO does not intend to take or make physical delivery. USO may from time to time trade in Other Oil-Related Investments, including contracts based on the spot price of crude oil.

Leverage

USCF endeavors to have the value of USO's Treasuries, cash and cash equivalents, whether held by USO or posted as margin or other collateral, at all times approximate the aggregate market value of its obligations under its Oil Futures Contracts and Other Oil-Related Investments. Commodity pools' trading positions in futures contracts or other related investments are typically required to be secured by the deposit of margin funds that represent only a small percentage of a futures contract's (or other commodity interest's) entire market value. While USCF has not and does not intend to leverage USO's assets, it is not prohibited from doing so under the LP Agreement.

Borrowings

Borrowings are not used by USO unless USO is required to borrow money in the event of physical delivery, if USO trades in cash commodities, or for short-term needs created by unexpected redemptions.

OTC Derivatives (Including Spreads and Straddles)

In addition to Oil Futures Contracts, there are also a number of listed options on the Oil Futures Contracts on the principal futures exchanges. These contracts offer investors and hedgers another set of financial vehicles to use in managing exposure to the crude oil market. Consequently, USO may purchase options on crude Oil Futures Contracts on these exchanges in pursuing its investment objective.

In addition to the Oil Futures Contracts and options on the Oil Futures Contracts, there also exists an active non-exchange-traded market in derivatives tied to crude oil. These derivatives transactions (also known as OTC contracts) are usually entered into between two parties in private contracts. Unlike most of the exchange-traded Oil Futures Contracts or exchange-traded options on the Oil Futures Contracts, each party to such contract bears the credit risk of the other party, *i.e.*, the risk that the other party may not be able to perform its obligations under its contract. To reduce the credit risk that arises in connection with such contracts, USO will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. (“ISDA”) 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 the Board.

USO may enter into certain transactions where an OTC component is exchanged for a corresponding futures contract (“Exchange for Related Position” or “EFRP” transactions). In the most common type of EFRP transaction entered into by USO, the OTC component is the purchase or sale of one or more baskets of USO shares. These EFRP transactions may expose USO to counterparty risk during the interim period between the execution of the OTC component and the exchange for a corresponding futures contract. Generally, the counterparty risk from the EFRP transaction will exist only on the day of execution.

USO 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 Oil Futures Contract. USO 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.

During all of 2018, USO has limited its derivatives activities to Oil Futures Contracts and EFRP transactions.

Pyramiding

USO has not and will not employ the technique, commonly known as pyramiding, in which the speculator uses unrealized profits on existing positions as variation margin for the purchase or sale of additional positions in the same

or another commodity interest.

Prior Performance of USO

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

USCF manages USO which is a commodity pool that issues shares traded on the NYSE Arca. The chart below shows, as of December 31, 2018, the number of Authorized Participants, the total number of baskets created and redeemed since inception and the number of outstanding shares for USO.

# of Authorized Participants	Baskets Purchased	Baskets Redeemed	Outstanding Shares
16	28,390	26,858	153,200,000

25

Since the commencement of the offering of USO shares to the public on April 10, 2006 to December 31, 2018, the simple average daily changes in benchmark futures contract was (0.0360)%, while the simple average daily change in the NAV of USO over the same time period was (0.0358)%. The average daily difference was (0.000)% (or (0.01) 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 0.161%, meaning that over this time period USO's tracking error was within the plus or minus ten percent 10% range established as its benchmark tracking goal.

The table below shows the relationship between the trading prices of the shares and the daily NAV of USO, since inception through December 31, 2018. The first row shows the average amount of the variation between USO's closing market price and NAV, computed on a daily basis since inception, while the second and third rows depict the maximum daily amount of the end of day premiums and discounts to NAV since inception, on a percentage basis. USCF believes that maximum and minimum end of day premiums and discounts typically occur because trading in the shares continues on the NYSE Arca until 4:00 p.m. New York time while regular trading in the benchmark futures contract on the NYMEX ceases at 2:30 p.m. New York time and the value of the relevant benchmark futures contract, for purposes of determining its end of day NAV, can be determined at that time.

	USO
Average Difference	\$(.01)
Max Premium %	6.75 %
Max Discount %	(4.51)%

For more information on the performance of USO, see the Performance Tables below.

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

COMPOSITE PERFORMANCE DATA FOR USO

Name of Pool: United States Oil Fund, LP

Type of Pool: Public, Exchange-Listed Commodity Pool

Inception of Trading: April 10, 2006

Aggregate Subscriptions (from inception through December 31, 2018): \$ 67,326,930,079

Net Asset Value as of December 31, 2018: \$1,473,248,482.67

Net Asset Value per Share as of December 31, 2018: \$9.59

Worst Monthly Drawdown: July 2015 (21.48)%

Worst Peak-to-Valley Drawdown: June 2008 — February 2016 (92.07)%

Number of Shares (as of December 31, 2018): 167,200,000

Rates of Return*

Month	2014	2015	2016	2017
January	(1.22)%	(10.47)%	(12.34)	(3.33
February	5.75 %	1.39 %	(6.93)	1.24
March	(0.52)%	(7.76)%	8.34 %	(7.33
April	(0.96)%	21.52 %	15.91 %	(3.20
May	3.72 %	(0.63)%	5.31 %	(2.92
June	3.32 %	(2.16)%	(2.77)%	(5.11
July	(6.38)%	(21.48)%	(15.31)%	8.45
August	(1.57)%	3.00 %	5.61 %	(6.13
September	(4.19)%	(9.62)%	6.38 %	8.30
October	(10.93)%	2.13 %	3.81 %	4.60
November	(17.87)%	(13.10)%	3.96 %	5.13

Gross profit. Gross profit was \$101.91 per barrel

Cost of goods sold increased to \$75.16 per barrel or 42.4% as a percentage of net

In 2007, the Company expects overall production costs increases of approximately

Based on current cost increase knowledge and preliminary pricing expectations,

The Company includes freight charges related to the movement of finished goods

Advertising, promotional and selling. Advertising, promotional and selling expenses

The Company conducts certain advertising and promotional activities in its wholly

Table of Contents

Company's statement of operations as reductions to advertising, promotional and

General and administrative. General and administrative expenses increased by

Stock-Based Compensation Expense. For the year ended December 30, 2006,

For stock options granted prior to January 1, 2006, fair values were estimated on

The Company uses the straight-line attribution method in recognizing stock-bas

Table of Contents

Interest income. Interest income increased by \$1.4 million to \$3.1 million for t

Other income (expense), net. Other income increased by \$0.3 million to incom

Provision for income taxes. The Company's effective income tax rate for the y

Year Ended December 31, 2005 (53 weeks) compared to Year Ended Decembe

Net revenue. Net revenue increased by \$21.1 million or 9.7% to \$238.3 million

Volume. Volume increased by 0.1 million barrels or 7.7% to 1.4 million barrels

Net selling price. The selling price per barrel increased by approximately 1.9%

Significant changes in the package mix could have a material effect on net rever

Gross profit. Gross profit was \$103.72 per barrel or 59.4% as a percentage of n

Cost of goods sold increased to \$70.99 per barrel or 40.6% as a percentage of n

The Company includes freight charges related to the movement of finished goo

Advertising, promotional and selling. Advertising, promotional and selling exp

General and administrative. General and administrative expenses increased by

Table of Contents

Interest income. Interest income increased by \$0.9 million to \$1.8 million for t

Other income (expense), net. Other income increased by \$0.7 million to incom

Provision for income taxes. The Company s effective tax rate increased to 39.

Liquidity and Capital Resources

Cash and short term investments increased to \$82.4 million as of December 30,

Cash flows provided by operating activities were approximately \$29 million dur

The Company used \$9.1 million for the purchase of capital equipment during 20

The Company continues to pursue its strategy of combining brewery ownership

Cash provided by financing activities was \$1.7 million during 2006, a change of

Table of Contents

Repurchase Program, a \$2.2 million increase in excess tax benefits from stock-b

During 2006, the Company's available cash was invested primarily in high-gra

With working capital of \$79.7 million and \$20 million in unused credit facilities

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basi

The Company uses certain Noble hops grown in Germany and certain English h

Table of Contents

Promotional Activities Accrual

Throughout the year, the Company's sales force engages in numerous promotional

Distributor Promotional Discount Allowance

The Company enters into promotional discount agreements with its various who

Stale Beer Accrual

In certain circumstances and with the Company's approval, the Company accep

Allowance for Deposits/First Fill Kegs

The Company purchases kegs from vendors and records these assets in property

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fa

Income Taxes

The Company provides for deferred taxes using an asset and liability approach t

Table of Contents

book and tax basis of the Company's assets and liabilities and carryforwards, s

The calculation of the Company's tax liabilities involves dealing with uncertain

Business Environment

The alcoholic beverage industry is highly regulated at the federal, state and local

The Better Beer category is highly competitive due to the large number of regio

The demand for the Company's products is also subject to changes in drinkers

The Potential Impact of Known Facts, Commitments, Events and Uncertain

Brewing Capacity

The Company continues to pursue its strategy of combining brewery ownership

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cost of the project will ultimately depend on the final specifications. This estimate

The Company believes that it has secured sufficient alternatives in the event that

The Company continues to brew its Samuel Adams Boston Lager® at each of its

In the event of a labor dispute, governmental action, a sudden closure of one of

Hops Purchase Commitments

The Company utilizes several varieties of hops in the production of its products.

During 2006, the Company entered into several hops future contracts in the normal

The Company's accounting policy for hops inventory and purchase commitments

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Contractual Obligations

The following table presents contractual obligations as of December 30, 2006.

Advertising Commitments
Hops Purchase Commitments
Operating Leases
Other

Total Contractual Obligations

The Company's outstanding purchase commitments related to advertising contracts

The Company has entered into contracts for the supply of a portion of its hops requirements

In the normal course of business, the Company enters into various agreements with

The Company's agreements with breweries where its beer is brewed periodically

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements.

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The Company believes that the adoption of SFAS No. 157 will not have a material effect on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, Employer's Accounting for Defined Pension Plans.

Other Risks and Uncertainties

Changes in general economic conditions could result in numerous events that may affect the Company's performance.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in Item 7A.

Item 7A.

In the ordinary course of business, the Company is exposed to the impact of fluctuations in the price of oil.

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The Company enters into hogs purchase contracts in foreign denominated currencies.

Sensitivity Analysis

The Company applies a sensitivity analysis to reflect the impact of a 10% hypothetical change in the price of oil.

There are many economic factors that can affect volatility in foreign exchange rates.

As of December 30, 2006, the Company had no amounts outstanding under its contracts.

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Item 8.

Board of Directors and Stockholders
The Boston Beer Company, Inc.

We have audited the accompanying consolidated balance sheets of The Boston

We conducted our audits in accordance with the standards of the Public Company

In our opinion, the financial statements referred to above present fairly, in all ma

As discussed in Note B to the consolidated financial statements, effective Janua

We also have audited, in accordance with the standards of the Public Company

/s/ Ernst & Young LLP

Boston, Massachusetts
March 9, 2007

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To the Board of Directors and Stockholders
of The Boston Beer Company, Inc.:

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows for the periods ended December 31, 2004 and 2003.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB).

In our opinion, such consolidated financial statements present fairly, in all material aspects, the financial position and results of operations of the Company as of and for the periods ended December 31, 2004 and 2003.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
March 11, 2005

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Current Assets:

Cash and cash equivalents

Short-term investments

Accounts receivable, net of allowance for doubtful accounts of \$451 and \$116 a
respectively

Inventories

Prepaid expenses and other assets

Deferred income taxes

Total current assets

Property, plant and equipment, net

Other assets

Goodwill

Total assets

Current Liabilities:

Accounts payable

Accrued expenses

Total current liabilities

Deferred income taxes

Other liabilities

Total liabilities

Commitments and contingencies

Stockholders' Equity:

Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 9,992,34
December 30, 2006 and December 31, 2005, respectively

Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 4,107,355

Additional paid-in capital

Unearned compensation

Accumulated other comprehensive loss, net of tax

Retained earnings

Total stockholders' equity

Total liabilities and stockholders' equity

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Revenue	
Less excise taxes	
Net revenue	
Cost of goods sold	
Gross profit	
Operating expenses:	
Advertising, promotional and selling expenses	
General and administrative expenses	
Total operating expenses	
Operating income	
Other income, net:	
Interest income	
Other income (expense), net	
Total other income, net	
Income before provision for income taxes	
Provision for income taxes	
Net income	
Net income per common share	basic
Net income per common share	diluted
Weighted-average number of common shares	basic
Weighted-average number of common shares	diluted

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Balance at December 27, 2003

Net income

Stock options exercised, including tax benefit of \$915

Net issuance of investment shares

Amortization of unearned compensation

Treasury stock retirement

Minimum pension liability, net of tax of \$23

Unrealized loss from available-for-sale securities

Total fiscal 2004 comprehensive income

Balance at December 25, 2004

Net income

Stock options exercised, including tax benefit of \$1,172

Net issuance of investment shares

Amortization of unearned compensation

Repurchase of Class A common stock

Minimum pension liability, net of tax of \$2

Total fiscal 2005 comprehensive income

Balance at December 31, 2005

Net income

Stock options exercised, including tax benefit of \$2,240

Net issuance of investment shares

Net issuance of restricted stock awards

Elimination of unearned compensation upon adoption of SFAS No. 123R

Stock-based compensation expense

Repurchase of Class A common stock

Defined benefit plans liability adjustment, net of tax of \$3

Total fiscal 2006 comprehensive income

Balance at December 30, 2006

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Balance at December 27, 2003

Net income

Stock options exercised, including tax benefit of \$915

Net issuance of investment shares

Amortization of unearned compensation

Treasury stock retirement

Minimum pension liability, net of tax of \$23

Unrealized loss from available-for-sale securities

Total fiscal 2004 comprehensive income

Balance at December 25, 2004

Net income

Stock options exercised, including tax benefit of \$1,172

Net issuance of investment shares

Amortization of unearned compensation

Repurchase of Class A common stock

Minimum pension liability, net of tax of \$2

Total fiscal 2005 comprehensive income

Balance at December 31, 2005

Net income

Stock options exercised, including tax benefit of \$2,240

Net issuance of investment shares

Net issuance of restricted stock awards

Elimination of unearned compensation upon adoption of SFAS No. 123R

Stock-based compensation expense

Repurchase of Class A common stock

Defined benefit plans liability adjustment, net of tax of \$3

Total fiscal 2006 comprehensive income

Balance at December 30, 2006

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Cash flows provided by (used in) operating activities:

Net income
Adjustments to reconcile net income to net cash provided by (used in) operating activities:
Depreciation and amortization
Realized loss on sale of available-for-sale securities
(Gain) loss on disposal of property, plant and equipment
Bad debt expense (recovery)
Stock-based compensation expense
Excess tax benefit from stock-based compensation arrangements
Tax benefit from stock options exercised
Deferred income taxes
Purchases of trading securities
Proceeds from sale of trading securities
Changes in operating assets and liabilities:
Accounts receivable
Inventories
Prepaid expenses and other assets
Accounts payable
Accrued expenses
Other liabilities

Net cash provided by (used in) operating activities

Cash flows provided by (used in) investing activities:

Purchases of property, plant and equipment
Proceeds from disposal of property, plant and equipment
Purchases of available-for-sale securities
Proceeds from sale of available-for-sale securities

Net cash provided by (used in) investing activities

Cash flows provided by (used in) financing activities:

Repurchase of Class A Common Stock
Proceeds from exercise of stock options
Excess tax benefit from stock-based compensation arrangements
Net proceeds from sale of investment shares

Net cash provided by (used in) financing activities

Change in cash and cash equivalents
Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Supplemental disclosure of cash flow information:

Income taxes paid

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A.

The Boston Beer Company, Inc. and subsidiaries (the Company) are engaged

B.

Fiscal Year

The Company's fiscal year is a fifty-two or fifty-three week period ending on the

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S.

Reclassifications

In 2005, certain amounts in the accompanying 2004 financial statements were re

Cash and Cash Equivalents

Cash and cash equivalents at December 30, 2006 and December 31, 2005 includ

Short-Term Investments

The Company classifies its investments depending on the Company's intent and

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Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts that is based on historical

Inventories

Inventories consist of raw materials, work in process and finished goods. Raw materials

The provisions for excess or expired inventory are based on management's estimates

The computation of the excess hops inventory requires management to make certain

Property, Plant and Equipment

Property, plant, and equipment are stated at cost. Expenditures for repairs and maintenance

Kegs

Machinery and plant equipment

Office equipment and furniture

Leasehold improvements

Building

Goodwill

Goodwill represents the excess of the purchase price of the Company-owned Company

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Long-Lived Assets

Long-lived assets are recorded at cost. The Company evaluates potential impairment

Income Taxes

The Company provides for deferred taxes using an asset and liability approach to

The Company records estimated income tax reserves as it deems necessary in ac

Revenue Recognition

The Company recognizes revenue on product sales at the time when the product

Cost of Goods Sold

The following expenses are included in cost of goods sold: raw material costs, p

Shipping Costs

Costs incurred for the shipping of products to customers are included in advertis

Advertising and Sales Promotions

The following expenses are included in advertising, promotional and selling exp

Table of Contents

The Company reimburses its wholesalers and retailers for promotional discounts.

The Company conducts certain advertising and promotional activities in its wholesaler and retailer network.

General and Administrative Expenses

The following expenses are included in general and administrative expenses in the accompanying financial statements:

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are discussed in Note 2 of the accompanying financial statements.

Financial Instruments and Fair Value of Financial Instruments

The Company's primary financial instruments at December 30, 2006 and December 31, 2005 are discussed in Note 3 of the accompanying financial statements.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R").

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service period). The amount of compensation cost recognized in the consolidated

As permitted by SFAS No. 123R, the Company elected to use the modified-pros

For stock options granted prior to January 1, 2006, fair values were estimated on

Further, SFAS No. 123R requires that cash retained as a result of tax benefits in

Net Income Per Share

Basic net income per share is calculated by dividing net income by the weighted

Segment Reporting

The Company consists of a single operating segment that produces and sells low

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FAS

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to result in a decrease to the Company's current liabilities and an increase to the

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 158, *Employer's Accounting for*

C. Short-Term Investments

There were no realized gains or losses on short-term investments recorded during

D. Inventories

Inventories consisted of the following:

Raw materials
Work in process
Finished goods

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E. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

Kegs
Machinery and plant equipment
Office equipment and furniture
Leasehold improvements
Land
Building

Less accumulated depreciation

During 2006, the Company recorded \$0.9 million, \$0.3 million and \$0.5 million

The Company recorded depreciation expense related to these assets of \$4.8 million

F. Accrued Expenses

Accrued expenses consisted of the following:

Advertising, promotional and selling expenses
Accrued deposits
Employee wages, related benefits and reimbursements
Income taxes (see Note H)
Other accrued liabilities

G. Long-term Debt and Line of Credit

The Company has a credit facility in place that provides for a \$20.0 million revolving credit facility.

There are also certain restrictive covenants set forth by the debt agreement. Pursuant to the debt agreement, the Company is required to maintain certain financial ratios and to provide certain information to the lender.

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assets without the lender's prior written consent, will not make or maintain any

H.

Significant components of the Company's deferred tax assets and liabilities are

Deferred tax assets:

Deferred compensation

Accrued expenses

Stock-based compensation expense

Long-term liabilities

Other

Total deferred tax assets

Deferred tax liabilities:

Property, plant and equipment

Prepaid expenses

Goodwill

Other

Total deferred tax liabilities

Net deferred tax assets (liabilities)

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Significant components of the income tax provision are as follows:

Current: