

United States 12 Month Natural Gas Fund, LP  
Form 424B3  
April 27, 2018

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**Registration No. 333-210296**

## **PROSPECTUS**

**United States 12 Month Natural Gas Fund, LP®\***

**24,650,000 Shares**

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

The United States 12 Month Natural Gas Fund, LP (“UNL”) is an exchange traded fund organized as a limited partnership that issues shares that trade on the NYSE Arca stock exchange (“NYSE Arca”). UNL’s investment objective is to track a benchmark of short-term natural gas futures contracts. UNL pays its general partner, United States Commodity Funds LLC (“USCF”), a limited liability company, a management fee and incurs operating costs. USCF and UNL are located at 1999 Harrison Street, Suite 1530, Oakland, CA 94612. The telephone number for both USCF and UNL 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 \$9.12 (the net asset value as of February 28, 2018), the investment would have to generate a 0.110% return or \$0.01. The amount for this breakeven analysis takes into account a fee waiver, which USCF may terminate at any time in its discretion. Please see page 31 for more information.

UNL is an exchange traded fund. This means that most investors who decide to buy or sell shares of UNL 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 “UNL” 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 and redeem shares in blocks of 50,000 shares called “baskets” through UNL’s marketing agent, ALPS Distributors, Inc. (the “Marketing Agent”). The price of a basket is equal to the net asset value (“NAV”) of 50,000 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 UNL’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 UNL’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 UNL, 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 natural gas futures contracts in which UNL 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 natural gas and the natural gas futures contracts that serve as UNL’s investment benchmark. Investing in UNL involves risks similar to those involved with an investment directly in the natural gas market, the correlation risk described above, and other significant risks. See “**Risk Factors Involved with an Investment in UNL**” beginning on page 4.

The offering of UNL'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 UNL are available or practicable. UNL 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.**

UNL 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 April 27, 2018.**

## 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 31 AND A STATEMENT OF THE PERCENTAGE RETURN NECESSARY TO BREAK EVEN, THAT IS, TO RECOVER THE AMOUNT OF YOUR INITIAL INVESTMENT, AT PAGE 31.**

**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 A 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 UNL and its shares, it does not contain or summarize all of the information about UNL 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 UNL” beginning on page 4, before making an investment decision about the shares. For a glossary of defined terms, see Appendix A.*

United States 12 Month Natural Gas Fund, LP (“UNL”), 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”). UNL 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”).

### UNL’s Investment Objective and Strategy

The investment objective of UNL 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 price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the prices of specified short-term futures contracts on natural gas called the “Benchmark Futures Contracts”, plus interest earned on UNL’s collateral holdings, less UNL’s expenses.

### What are the “Benchmark Futures Contracts”?

The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the New York Mercantile Exchange (the “NYMEX”) that are the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months’ contracts, except when the near month contract is within two weeks of expiration, in which case they are measured by the futures contracts that are the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

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

In addition, USCF believes that market arbitrage opportunities will cause daily changes in UNL’s share price on the NYSE Arca on a percentage basis to closely track daily changes in UNL’s per share NAV on a percentage basis. USCF further believes that the daily changes in prices of the Benchmark Futures Contracts have historically closely tracked the daily changes in the spot price of natural gas. USCF believes that the net effect of these two expected relationships will be that the daily changes in the price of UNL’s shares on the NYSE Arca on a percentage basis will continue to closely track the daily changes in the spot price of natural gas on a percentage basis, less UNL’s expenses.

Specifically, UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL'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 Futures Contracts over the same period.

Investors should be aware that UNL's investment objective is *not* for its NAV or market price of shares to equal, in dollar terms, the spot price of natural gas or any particular futures contract based on natural gas *nor* is UNL'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 UNL's shares during the past year relative to a hypothetical direct investment in natural gas and, in the future, it is likely that the relationship between the market price of UNL's shares and changes in the spot prices of natural gas 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 natural gas, which could be substantial.)



## **Principal Investment Risks of an Investment in UNL**

An investment in UNL 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 UNL as a means of investing indirectly in natural gas. There are significant risks and hazards inherent in the natural gas industry that may cause the price of natural gas to widely fluctuate.

### **Correlation Risk**

To the extent that investors use UNL as a means of indirectly investing in natural gas, there is the risk that the daily changes in the price of UNL's shares on the NYSE Arca on a percentage basis will not closely track the daily changes in the spot price of natural gas 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 UNL's NAV; the changes in UNL's NAV do not correlate closely with the changes in the average price of the Benchmark Futures Contracts; or the changes in the average price of the Benchmark Futures Contracts do not closely correlate with the changes in the cash or spot price of natural gas. This is a risk because if these correlations do not exist, then investors may not be able to use UNL as a cost-effective way to indirectly invest in natural gas or as a hedge against the risk of loss in natural gas-related transactions.

USCF believes that holding futures contracts whose expiration dates are spread out over a 12 month period of time will cause the total return of such a portfolio to vary compared to a portfolio that holds only a single month's contract (such as the near month contract). In particular, USCF believes that the total return of a portfolio holding contracts with a range of expiration months will be impacted differently by the price relationship between different contract months of the same commodity future compared to the total return of a portfolio consisting of the near month contract. For example, in cases in which the near month contract's price is higher than the price of contracts that expire later in time (a situation known as "backwardation" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to rise as it approaches expiration. Conversely, in cases in which the near month contract's price is lower than the price of contracts that expire later in time (a situation known as "contango" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to decline as it approaches expiration. The total return of a portfolio that owned the near month contract and "rolled" forward each month by selling the near month contract as it approached expiration and purchasing the next month contract to expire would be positively impacted by a backwardation market, and negatively impacted by a contango market. Depending on the exact price relationship of the different month's prices, portfolio expenses, and the overall movement of natural gas prices, the impact of backwardation and contango could have a major impact on the total return of such a portfolio over time. USCF believes that based on historical evidence, a portfolio that held futures contracts with a range of expiration dates spread out over a 12 month period of time would typically be impacted less by the positive effect of backwardation and the negative effect of contango compared to a portfolio that held contracts of a single near month. As a result, absent the impact of any other factors, a portfolio of 12 different monthly contracts would tend to have a lower return than a near month only portfolio in a backwardation market and a higher total return in a contango market. However, there can be no assurance that such historical relationships would provide the same or similar results in the future.

### **Tax Risk**

UNL 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**

UNL may also invest in Other Natural Gas-Related Investments, many of which are negotiated over-the-counter or “OTC” contracts that are not as liquid as Futures Contracts and expose UNL to credit risk that its counterparty may not be able to satisfy its obligations to UNL.

### **Other Risks**

UNL 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, UNL generally does not distribute cash to limited partners or other shareholders. You should not invest in UNL if you will need cash distributions from UNL to pay taxes on your share of income and gains of UNL, if any, or for any other reason.

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

UNL 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 UNL. USCF’s persons are directors, officers or employees of other entities that may compete with UNL for their services, including other commodity pools (funds) that USCF manages. USCF could have a conflict between its responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL and the shareholders.

### UNL’s Fees and Expenses

**This table describes the fees and expenses that you may pay if you buy and hold shares of UNL. You should note that you may pay brokerage commissions on purchases and sales of UNL’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 56.**

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

Management Fees <sup>(1)</sup>	0.75 %
Other Expenses <sup>(1)</sup>	0.74 %
Expense Waiver <sup>(2)</sup>	(0.59)%
Net Expenses Excluding Management Fees	0.15 %
Total Annual Fund Operating Expenses After Fee Waiver	0.90 %

(1) Based on amounts for the year ended December 31, 2017. 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	\$78,805
Professional Expenses	\$71,772
Brokerage commissions	\$2,209
Independent Director and Officer Expenses	\$1,929
License fees	\$1,576

These amounts are based on UNL’s average total net assets, which are the sum of daily total net assets of UNL divided by the number of calendar days in the year. For the year ended December 31, 2017, UNL’s average total net assets were \$10,507,374.

(2) USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL’s NAV, on an annualized basis. USCF has no obligation to continue such payments. If this agreement were terminated, the Annual Fund Operating Expenses could increase, which would negatively impact your total return from an investment in UNL.

## **RISK FACTORS INVOLVED WITH AN INVESTMENT IN UNL**

*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 UNL's financial statements and related notes, that are incorporated by reference. See "Incorporation by Reference of Certain Information", page 59.*

UNL's investment objective is for the daily changes in percentage terms of its shares' per share NAV to reflect the daily changes in percentage terms of the spot price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the average of the prices of 12 futures contracts on natural gas traded on the New York Mercantile Exchange (the "NYMEX"), consisting of the near month contract to expire and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months (the "Benchmark Futures Contracts"), plus interest earned on UNL's collateral holdings, less UNL's expenses. UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL'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 Futures Contracts over the same period. UNL's investment strategy is designed to provide investors with a means of investing indirectly in natural gas and to hedge against movements in the spot price of natural gas. An investment in UNL involves investment risk similar to a direct investment in Natural Gas Interests. An investment in UNL involves investment risk similar to a direct investment in Futures Contracts and Other Natural Gas-Related Investments, and correlation risk, or the risk that investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price they pay for their shares closely correlates with the price of natural gas. In addition to investment risk and correlation risk, an investment UNL involves tax risks, OTC and other risks.

### **Investment Risk**

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

The net assets of UNL consist primarily of investments in Futures Contracts and, to a lesser extent, in Other Natural Gas-Related Investments. The NAV of UNL'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 natural gas in the marketplace. Natural gas prices depend on local, regional and global events or conditions that affect supply and demand for natural gas.

***Economic conditions impacting natural gas.*** The demand for natural gas 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 natural gas demand and therefore may have an adverse impact on natural gas prices.

***Other natural gas demand-related factors.*** Other factors that may affect the demand for natural gas and therefore its price, include technological improvements in energy efficiency; seasonal weather patterns, which affect the demand for natural gas associated with heating; increased competitiveness of alternative energy sources that have so far generally not been competitive with natural gas 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 natural gas supply-related factors.*** Natural gas prices also vary depending on a number of factors affecting supply. For example, increased supply from the development of new natural gas sources and technologies to enhance recovery from existing sources tends to reduce natural gas prices to the extent such supply increases are not offset by

commensurate growth in demand. Similarly, increases in industry refining or manufacturing capacity may impact the supply of natural gas. Natural gas supply levels can also be affected by factors that reduce available supplies, such as 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 natural gas industry to find, produce, and transport natural gas, which in turn, may affect the supply of and demand for natural gas.

***Other factors impacting the natural gas market.*** The supply of and demand for natural gas 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.

### **Correlation Risk**

Investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price investors pay for their shares closely correlates with the price of natural gas. Investing in UNL'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 average of the prices of the Benchmark Futures Contracts.
  - Daily percentage changes in the average of the prices of the Benchmark Futures Contracts may not closely correlate with daily percentage changes in the price of natural gas.
- The market price at which investors buy or sell shares may be significantly less or more than NAV.***

UNL's NAV per share will change throughout the day as fluctuations occur in the market value of UNL'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 natural gas and the Benchmark Futures Contracts 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 UNL's shares may also be influenced by non-concurrent trading hours between the NYSE Arca and the various futures exchanges on which natural gas 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 natural gas trades may not necessarily coincide during all of this time. For example, while the shares trade on the NYSE Arca until 4:00 p.m. Eastern Time, liquidity in the natural gas 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 natural gas 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.

***Daily percentage changes in UNL's NAV may not correlate with daily percentage changes in the average of the prices of the Benchmark Futures Contracts.***

It is possible that the daily percentage changes in UNL's NAV per share may not closely correlate to daily percentage changes in the average of the prices of the Benchmark Futures Contracts. Non-correlation may be attributable to disruptions in the market for natural gas, the imposition of position or accountability limits by regulators or exchanges, or other extraordinary circumstances. As UNL approaches or reaches position limits with respect to the Benchmark Futures Contracts and other Futures Contracts or in view of market conditions, UNL may begin investing in Other Natural Gas-Related Investments. In addition, UNL is not able to replicate exactly the changes in the price of the Benchmark Futures Contract because the total return generated by UNL is reduced by expenses and transaction costs, including those incurred in connection with UNL's trading activities, and increased by interest income from UNL's holdings of Treasuries (defined below). Tracking the Benchmark Futures Contracts requires trading of UNL's portfolio with a view to tracking the Benchmark Futures Contracts 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 Futures Contracts may not correlate with daily percentage changes in the spot price of natural gas.***

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

***Natural forces in the natural gas futures market known as “backwardation” and “contango” may increase UNL’s tracking error and/or negatively impact total return.***

The design of UNL’s Benchmark Futures Contracts is such that every month it begins by using the near month contract to expire and the contracts for the following 11 months until the near month contract is within two weeks of expiration, when, over a one day period, it transitions to the next month contract to expire and the contracts for the following 11 months as its benchmark contracts and keeps those contracts as its benchmark until it becomes the near month contract and close to expiration. In the event of a natural gas 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 natural gas prices the value of the benchmark contract would tend to rise as it approaches expiration. Conversely, in the event of a natural gas 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 natural gas prices the value of the Benchmark Futures Contracts would tend to decline as it approaches expiration. When compared to total return of other price indices, such as the spot price of natural gas, the impact of backwardation and contango may cause the total return of UNL’s per share NAV to vary significantly. Moreover, absent the impact of rising or falling natural gas prices, a prolonged period of contango could have a significant negative impact on UNL’s per share NAV and total return and investors could lose part or all of their investment. See “Additional Information About UNL, 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 average of the prices of the Benchmark Futures Contracts.***

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 UNL is not) may hold, own or control. These levels and position limits apply to the futures contracts that UNL invests in to meet its investment objective. 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.

The accountability levels for the Benchmark Futures Contracts and other Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor’s positions. The current accountability level for investments for any one-month in a Benchmark Futures Contract is 6,000 contracts. In addition, the NYMEX imposes an accountability level for all months of 12,000 net futures contracts for natural gas. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its natural gas contract as the NYMEX. If UNL and the Related Public Funds exceed these accountability levels for investments in the futures contracts for natural gas, the NYMEX and ICE Futures will monitor such exposure and may ask for further information on their activities, including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of UNL and the Related Public Funds. If deemed necessary by the NYMEX and/or ICE Futures, UNL could be ordered to reduce its Natural Gas NG Futures Contracts to below the 6,000 single month and/or 12,000 all month accountability level. As of December 31, 2017, UNL held 292 Natural Gas NG Futures Contracts traded on the NYMEX and did not hold any Futures Contracts traded on ICE Futures. For the year ended December 31, 2017, UNL did not exceed accountability levels imposed by the NYMEX and ICE Futures, however, the aggregated total of the Related Public Funds did exceed the accountability levels.



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 Commodity Futures Trading Commission (“CFTC”) authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and the ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that UNL will run up against such position limits because UNL’s investment strategy is to close out its positions and “roll” from the near month contracts to expire to the next month contracts during a one day period beginning two weeks from expiration of the contracts. For the year ended December 31, 2017, UNL did not exceed any position limits imposed by the NYMEX and ICE Futures.

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 UNL, but the effect may be substantial and adverse. By way of example, the Position Limit Rules may negatively impact the ability of UNL to meet its investment objectives through limits that may inhibit USCF's ability to sell additional Creation Baskets of UNL.

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 agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for agricultural and certain energy products (e.g., oil and natural gas). As a result, UNL 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 purposes of position limits, a market participant is generally required 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 market participant (the "Aggregation Rules"). The Aggregation Rules will also apply to the Position Limit Rules if and when such Position Limit Rules are adopted.

## **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 UNL'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 UNL in making allocations for tax purposes and other factors, an investor's allocable share of UNL'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, UNL 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 UNL 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 UNL is in many respects uncertain. UNL 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 UNL's allocation methods and require UNL to reallocate items of income, gain, deduction, loss or credit in a manner that adversely affects investors.

UNL 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 UNL is required to pay any U.S. federal income taxes on any imputed understatement, the resulting tax liability would reduce the net assets of UNL and would likely have an adverse impact on the value of the shares. Under certain circumstances, UNL 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 UNL to make this election is uncertain. If the election is made, UNL 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.

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

UNL has received an opinion of counsel that, under current U.S. federal income tax laws, UNL 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 UNL's annual gross income consists of "qualifying income" as defined in the Code, (ii) UNL is organized and operated in accordance with its governing agreements and applicable law and (iii) UNL does not elect to be taxed as a corporation for federal income tax purposes. Although USCF anticipates that UNL has satisfied and will continue to satisfy the "qualifying income" requirement for all of its taxable years, that result cannot be assured. UNL 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 UNL 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, UNL 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 UNL as a corporation could materially reduce the after-tax return on an investment in shares and could substantially reduce the value of the shares.

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

UNL 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 UNL on its income. Instead, UNL 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 UNL.

This must be reported without regard to the amount (if any) of cash or property the shareholder receives as a distribution from UNL during the taxable year. A shareholder, therefore, may be allocated income or gain by UNL 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 UNL 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 UNL. It is each shareholder's responsibility to file the appropriate U.S. federal, state, local and foreign tax returns.

***If UNL 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, UNL 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, UNL 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 UNL 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 U.S. 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 UNL 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 UNL.

## **OTC Contract Risk**

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

UNL 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 UNL, in which case UNL could suffer significant losses on these contracts.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, UNL may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. UNL 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 UNL'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 natural gas production or exports, or another major export, can also make it difficult to liquidate a position. Because both Futures Contracts and Other-Natural-Gas Related Investments may be illiquid, UNL's Natural Gas 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 UNL 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 UNL'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.

***UNL is not actively managed and tracks the Benchmark Futures Contracts during periods in which the prices of the Benchmark Futures Contracts are flat or declining as well as when the prices are rising.***

UNL is not actively managed by conventional methods. Accordingly, if UNL's investments in Natural Gas Interests are declining in value, UNL 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 a Benchmark Futures Contract. USCF will seek to cause the NAV of UNL's shares to track the Benchmark Futures Contracts 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 UNL's shares, which would adversely impact an investor's ability to sell shares.***

UNL's shares are listed for trading on the NYSE Arca under the market symbol "UNL." 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 UNL'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 directly purchase shares from or redeem shares with UNL through Creation Baskets or 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 UNL's shares may result in losses on an investor's investment in UNL at the time the investor sells the shares.***

Although UNL'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 UNL and do not control USCF, so they do not have any influence over basic matters that affect UNL.***

The limited partners and shareholders take no part in the management or control, and have a minimal voice in UNL's operations or business. Limited partners and shareholders must therefore rely upon the duties and judgment of USCF to manage UNL'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 UNL'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 UNL'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 UNL'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 UNL's shares. However, a limited partner may be required to repay to UNL any amounts wrongfully returned or distributed to it under some circumstances. Under Delaware law, UNL may not make a distribution to limited partners if the distribution causes UNL's liabilities (other than liabilities to partners on account of their partnership interests and nonrecourse liabilities) to exceed the fair value of UNL'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, 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 of 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 UNL, including their regulatory obligations.

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

UNL pays brokerage charges of approximately 0.02% of average total net assets based on brokerage fees of \$3.50 per buy or sell, management fees of 0.75% 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 UNL'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 UNL's activities are profitable. Accordingly, UNL must earn trading gains sufficient to compensate for these fees and expenses before it can earn any profit.

***Regulation of the commodity interests and energy markets is extensive and constantly changing; future regulatory developments are impossible to predict but may significantly and adversely affect UNL.***

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, 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 UNL is impossible to predict, but it could be substantial and adverse.

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

Historically, Futures Contracts and Other-Natural-Gas 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, UNL'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 UNL's shares. In such a case, UNL may have no gains to offset losses from other investments, and investors may suffer losses on their investment in UNL 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 natural gas prices and natural gas-linked instruments, including Futures Contracts and Other-Natural-Gas Related Investments, than on traditional securities. These additional variables may create additional investment risks that subject UNL'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 natural gas and prices of other financial assets, such as stocks and bonds, are negatively correlated. In the absence of negative correlation, UNL cannot be expected to be automatically profitable during unfavorable periods for the stock market, or vice versa.

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

UNL 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 UNL to credit and regulatory risk.***

UNL invests primarily in Futures Contracts, a significant portion of which are traded on United States exchanges, including the NYMEX. However, a portion of UNL'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, UNL 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.

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

UNL 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 UNL and also are directors, officers or employees of other entities that may compete with UNL for their services. They could have a conflict between their responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL 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.

UNL 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 accounts. A conflict of interest may exist if their trades are in the same markets and at the same time as UNL trades using the clearing broker to be used by UNL. 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 UNL.

***UNL 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.***

UNL may terminate at any time, regardless of whether UNL 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 UNL could cause UNL 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 UNL. UNL'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.

***UNL does not expect to make cash distributions.***

UNL has not previously made any cash distributions and intends to reinvest any realized gains in additional Natural Gas Interests rather than distributing cash to limited partners. 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, UNL generally does not expect to distribute cash to limited partners. An investor should not invest in UNL if the investor will need cash distributions from UNL to pay taxes on its share of income and gains of UNL, if any, or for any other reason. Nonetheless, although UNL 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 Natural Gas 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 UNL's NAV.***

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

***Money Market Reform***

The SEC adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, 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 UNL. A portion of UNL's assets that are not used for margin or collateral in the Futures Contracts currently are invested in government MMFs. UNL 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 UNL invests in other types of MMFs besides government MMFs in the future, UNL 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 failure or bankruptcy of a clearing broker could result in a substantial loss of UNL's assets and could impair UNL in its ability to execute trades.***

In the event of the bankruptcy of a clearing member or an exchange's clearing house, UNL 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, UNL 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 UNL 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 UNL (as well as margin posted by other customers of the FCM) to cover the amounts owed by the bankrupt FCM. Consequently, UNL 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, risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures and auditing and examination programs. There can be no assurance these regulations will prevent losses to, or not materially adversely affect, UNL or its investors.

Notwithstanding that UNL could sustain losses upon the failure or bankruptcy of its FCM, the majority of UNL'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 UNL's Custodian could result in a substantial loss of UNL's assets.***

The majority of UNL's assets are held in Treasuries, cash and/or cash equivalents with the Custodian. The failure or insolvency of the Custodian could result in a complete loss of UNL's assets held by the Custodian, which, at any given time, would likely comprise a substantial portion of UNL'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 UNL's intellectual property or technology, including the use of its business methods, trademarks and trading program software, without permission. USCF has a patent for UNL's business method and has registered its trademarks. UNL does not currently have any proprietary software. However, if it obtains proprietary software in the future, any unauthorized use of UNL's proprietary software and other technology could also adversely affect its competitive advantage. UNL 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 UNL, 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, UNL 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 UNL'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 UNL 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. UNL and its shareholders could be negatively impacted as a result. While UNL has established business continuity plans, there are inherent limitations in such plans.

**ADDITIONAL INFORMATION ABOUT UNL, ITS INVESTMENT OBJECTIVE AND INVESTMENTS**

UNL is a Delaware limited partnership organized on June 27, 2007. It operates pursuant to the terms of the Third 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 UNL to USCF. UNL maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612.



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

UNL invests substantially the entire amount of its assets in 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 UNL are available on UNL's website at [www.uscfinvestments.com](http://www.uscfinvestments.com).

UNL invests in Natural Gas 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 Natural Gas Interests. In pursuing this objective, the primary focus of USCF is the investment in Futures Contracts and the management of UNL's investments in Treasuries, cash and/or cash equivalents for margining purposes and as collateral.

UNL seeks to invest in a combination of Natural Gas 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 Futures Contracts, also measured in percentage terms. As a specific benchmark, USCF endeavors to place UNL's trades in Natural Gas Interests and otherwise manage UNL's investments so that "A" will be within plus/minus ten percent (10%) of "B", where:

• A is the average daily percentage change in UNL's per share NAV for any period of 30 successive valuation days, *i.e.*, any NYSE Arca trading day as of which UNL calculates its per share NAV; and

• B is the average daily percentage change in the average of the prices of the Benchmark Futures Contracts over the same period.

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

The following two graphs demonstrate the correlation between the changes in the NAV of UNL and the changes in the Benchmark Futures Contracts. The first graph exhibits the daily changes for the last 30 valuation days ended December 31, 2017; the second graph measures monthly changes from December 2012 through December 2017.

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

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

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

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

For the year ended December 31, 2017, the actual total return of UNL as measured by changes in its per share NAV was (21.19)%. This is based on an initial per share NAV of \$11.75 as of December 31, 2016 and an ending per share NAV as of December 31, 2017 of \$9.26. During this time period, UNL made no distributions to its shareholders. However, if UNL’s daily changes in its per share NAV had instead exactly tracked the changes in the daily total return of the Benchmark Futures Contracts, UNL would have had an estimated per share NAV of \$9.22 as of December 31, 2017, for a total return over the relevant time period of (21.53)%. The difference between the actual per share NAV total return of UNL of (21.19)% and the expected total return based on the Benchmark Futures Contracts of (21.53)% was an error over the time period of 0.34%, which is to say that UNL’s actual total return underperformed the benchmark result by that percentage. UNL incurs expenses primarily composed of the management fee, brokerage commissions for the buying and selling of futures contracts, and other expenses.

**Impact of Contango and Backwardation on Total Returns**

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 natural gas for immediate delivery, is \$3 per MMBtu, and the value of a position in the near month futures contract is also \$3. Over time, the price of natural gas 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 MMBtu of natural gas, 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.

Contango and backwardation are natural market forces that have impacted the total return on an investment in UNL’s shares during the past year relative to a hypothetical direct investment in natural gas. In the future, it is likely that the relationship between the market price of UNL’s shares and changes in the spot prices of natural gas 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 natural gas, which could be substantial.

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 \$2.94 per MMBtu, or 2% cheaper than the \$3 near month futures contract, then, hypothetically, and assuming no other changes (*e.g.*, to either prevailing natural gas 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 \$2.94 next month futures contract would rise to \$3 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 natural gas. As a result, it would be possible for the new near month futures contract to rise 12% while the spot price of natural gas may have risen a lower amount, *e.g.*, only 10%. Similarly, the spot price of natural gas 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 \$3 per MMBtu, the price of the next month futures contract might be \$3.06 per MMBtu, or 2% more expensive than the front month futures contract. Hypothetically, and assuming no other changes, the value of the \$3.06 next month futures contract would fall to \$3 as it approaches expiration. In this example, the value of an investment in the second month would tend to underperform the spot price of natural gas. As a result, it would be possible for the new near month futures contract to rise only 10% while the spot price of natural gas may have risen a higher amount, *e.g.*, 12%. Similarly, the spot price of natural gas 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 natural gas futures contract to the price of 13th month natural gas 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 13<sup>th</sup> month futures contract prices (contango).



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

An alternative way to view the same data is to subtract the dollar price of the 13th month natural gas futures contract from the dollar price of the near month natural gas 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 natural gas market spent time in both backwardation and contango during the last ten years. The chart below shows the results from subtracting the average dollar price of the near 12 month contracts from the near month price for the 10 year period between December 31, 2007 and December 31, 2017. Investors will note that the natural gas market spent time in both backwardation and contango.

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

An investment in a portfolio that owned only the near month natural gas 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 natural gas futures contracts. Generally speaking, when the natural gas futures market is in backwardation, a portfolio of only the near month natural gas futures contract may tend to have a higher total return than a portfolio of 12 months' of the natural gas futures contract. Conversely, if the natural gas futures market was in contango, the portfolio containing only 12 months' of natural gas futures contracts may tend to outperform the portfolio holding only the near month natural gas futures contract.

Historically, the natural gas 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 natural gas 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 natural gas and issues involving the physical transportation and storage of natural gas at Cushing, Oklahoma, the primary pricing point for oil traded in the U.S., led to unusually high inventories of natural gas. A combination of improved transportation and storage capacity, along with growing demand for natural gas globally, moderated the inventory build-up and led to reduced levels of contango by 2011. However, at the end of November, 2014, global natural gas inventories grew rapidly after OPEC decided to defend its market share against U.S. shale-oil producers, resulting in another period during which the natural gas market remained primarily in contango, sometimes steep contango. This period of contango continued through December 31, 2016. In addition, the natural gas 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 natural gas market then such a decline may occur in 2017.

Periods of contango or backwardation do not materially impact UNL'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 Futures Contract since the impact of backwardation and contango tend to equally impact the daily percentage changes in price of both UNL's shares and the Benchmark Futures Contract. It is impossible to predict with any degree of certainty whether backwardation or contango will occur in the future. It is likely that both conditions will occur during different periods and, because of the seasonal nature of natural gas demand, both may occur within a single year's time.

In managing UNL's assets USCF does not use a technical trading system that issues buy and sell orders. USCF employs a quantitative methodology whereby each time a Creation Basket is sold, USCF purchases Natural Gas Interests, such as the Benchmark Futures Contracts, that have an aggregate market value that approximates the amount of Treasuries and/or cash received from the sale of the Creation Basket.

The specific Futures Contracts purchased depend on various factors, including a judgment by USCF as to the appropriate diversification of UNL'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 Futures Contracts, for various reasons, including the ability to enter into the precise amount of exposure to the natural gas market, position limits or other regulatory requirements limiting UNL's holdings, and market conditions, it may invest in Futures Contracts traded on other exchanges or invest in Other Natural Gas-Related Investments. To the extent that UNL invests in Other Natural Gas-Related Investments, it would prioritize investments in contracts and instruments that are economically equivalent to the Benchmark Futures Contracts, 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 (or commonly referred to as the OTC market). If UNL is required by law or regulation, or by one of its regulators, including a futures exchange, to reduce its position in the 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 Natural Gas-Related Investments, a substantial portion of UNL's assets could be invested in accordance with such priority in Other Natural Gas-Related Investments that are intended to replicate the return on the Benchmark Futures Contracts. As UNL'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 Natural Gas-Related Investments at such higher levels. In addition, market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing. See *"Risk Factors Involved with an Investment in UNL"* for a discussion of the potential impact of regulation on UNL's ability to invest in OTC transactions and cleared swaps.

USCF may not be able to fully invest UNL's assets in the Benchmark Futures Contracts having an aggregate notional amount exactly equal to UNL's NAV. For example, as standardized contracts, the Futures Contracts are for a specified amount of a particular commodity, and UNL'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, UNL may be better able to achieve the exact amount of exposure to changes in price of the Benchmark Futures Contracts through the use of Other Natural Gas-Related Investments, such as OTC contracts that have better correlation with changes in price of the Benchmark Futures Contracts.

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

USCF does not anticipate letting UNL's Futures Contracts expire and taking delivery of the underlying commodity. Instead, USCF closes existing positions, e.g., when it changes the Benchmark Futures Contracts or Other Natural



Gas-Related Investments or it otherwise determines it would be appropriate to do so and reinvests the proceeds in new Natural Gas Interests. 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 Futures Contracts are changed from the near month contract to expire and the 11 following months to the next month contract to expire and the 11 following months during one day each month. On that day, USCF anticipates it will “roll” UNL’s positions by closing, or selling, its natural gas interests and reinvests the proceeds from closing these positions in new natural gas interests.

The anticipated dates that the monthly roll period will commence are posted on UNL’s website at [www.uscfinvestments.com](http://www.uscfinvestments.com), and are subject to change without notice.

By remaining invested as fully as possible in Natural Gas Interests, USCF believes that the daily changes in percentage terms in UNL's per share NAV will continue to closely track the daily changes in percentage terms in the average of the prices of the Benchmark Futures Contracts. USCF believes that certain arbitrage opportunities result in the price of the shares traded on the NYSE Arca closely tracking the per share NAV of UNL. Additionally, Futures Contracts traded on the NYMEX have closely tracked the spot price of natural gas. Based on these expected interrelationships, USCF believes that the daily changes in the price of UNL's shares traded on the NYSE Arca, on a percentage basis, have closely tracked and will continue to closely track on a daily basis, the changes in the spot price of natural gas on a percentage basis.

## **What are the Trading Policies of UNL?**

### ***Investment Objective***

The investment objective of UNL 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 price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the price of a specified short-term futures contracts on natural gas called the "Benchmark Futures Contracts," plus interest earned on UNL's collateral holdings, less UNL's expenses. The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the NYMEX that is the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

### ***Liquidity***

UNL invests only in Futures Contracts and Other Natural Gas-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 Other Natural Gas-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 UNL.

### ***Spot Commodities***

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

### ***Leverage***

USCF endeavors to have the value of UNL's Treasuries, cash and cash equivalents, whether held by UNL or posted as margin or other collateral, at all times approximate the aggregate market value of its obligations under its Futures Contracts and Other Natural Gas-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 UNL's assets, it is not prohibited from doing so under the LP Agreement.

### ***Borrowings***

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

***OTC Derivatives (including Spreads and Straddles)***

In addition to Futures Contracts, there are also a number of listed options on the 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 natural gas market. Consequently, UNL may purchase options on natural gas Futures Contracts on these exchanges in pursuing its investment objective.

In addition to the Futures Contracts and options on the Futures Contracts, there also exists an active non-exchange-traded market in derivatives tied to natural gas. These derivatives transactions (also known as OTC contracts) are usually entered into between two parties in private contracts. Unlike most of the exchange-traded Futures Contracts or exchange-traded options on the 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, UNL 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.

UNL may enter into certain transactions where an OTC component is exchanged for a corresponding futures contract (an “Exchange for Related Position” or “EFRP” transactions). In the most common type of EFRP transaction entered into by UNL, the OTC component is the purchase or sale of one or more baskets of UNL shares. These EFRP transactions may expose UNL 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.

UNL may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of tracking the price of the Benchmark Futures Contract. UNL 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 2017 and through February 28, 2018, UNL limited its derivatives activities to Futures Contracts and EFRP transactions.

UNL did not engage in trading in futures contracts listed on a foreign exchange or forward contracts, including options on such contracts. UNL does not anticipate engaging in trading in futures contracts listed on a foreign exchange, forward contracts or options on such contracts, but it may do so as outlined in UNL’s listing exemptive order or as permitted under current regulations.

### ***Pyramiding***

UNL 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 UNL**

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

USCF manages UNL which is a commodity pool that issues shares traded on the NYSE Arca. The chart below shows, as of February 28, 2018, the number of Authorized Participants, the total number of baskets created and redeemed since inception and the number of outstanding shares for UNL.

<b># of Authorized Participants</b>	<b>Baskets Redeemed</b>	<b>Baskets Purchased</b>	<b>Outstanding Shares</b>
10	86	86	800,000

Since the commencement of the offering of UNL shares to the public on November 18, 2009 to February 28, 2018, the simple average daily change in the average price of its Benchmark Futures Contracts was (0.064)%, while the simple average daily change in the per share NAV of UNL over the same time period was (0.066)%. The average daily difference was (0.002)% (or (0.2) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the average price of the Benchmark Futures Contracts, the average error in daily tracking by the per

share NAV was (0.062)%, meaning that over this time period UNL's tracking error was within the plus or minus 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 UNL, since inception through February 28, 2018. The first row shows the average amount of the variation between UNL'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 Contracts on the NYMEX ceases at 2:30 p.m. New York time and the value of the relevant Benchmark Futures Contracts, for purposes of determining its end of day NAV, can be determined at that time.

# UNL

Average Difference \$0.00  
 Max Premium % 6.15 %  
 Max Discount % (6.58)%

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

## PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

### COMPOSITE PERFORMANCE DATA FOR UNL

Name of Commodity Pool: United States 12 Month Natural Gas Fund, LP

Type of Commodity Pool: Exchange traded security

Inception of Trading: November 18, 2009

Aggregate Subscriptions (from inception through February 28, 2018): \$139,082,689

Total Net Assets as of February 28, 2018: \$7,298,481.23

NAV per Share as of February 28, 2018: \$9.12

Worst Monthly Percentage Draw-down: December 2014 (19.94)%

Worst Peak-to-Valley Draw-down: December 2009 - February 2016 (85.18)%

Month	Rates of Return*					
	2013	2014	2015	2016	2017	2018
January	0.23 %	7.81 %	(5.99 )%	(1.95 )%	(8.94 )%	4.32 %
February	1.22 %	2.58 %	1.09 %	(16.37)%	(8.22 )%	(5.59)%
March	10.30%	(3.11 )%	(3.15 )%	9.66 %	8.45 %	
April	6.74 %	7.69 %	1.19 %	9.61 %	1.78 %	
May	(8.02 )%	(6.34 )%	(3.69 )%	(0.63 )%	(5.81 )%	
June	(9.09 )%	(1.21 )%	4.40 %	11.76 %	(1.86 )%	
July	(1.63 )%	(10.38)%	(3.12 )%	(0.75 )%	(4.59 )%	
August	2.07 %	3.76 %	(3.95 )%	(2.65 )%	5.13 %	
September	(2.14 )%	(0.82 )%	(5.45 )%	(1.36 )%	0.40 %	
October	(3.13 )%	(5.88 )%	(9.04 )%	1.78 %	(3.90 )%	
November	6.67 %	0.71 %	(5.26 )%	3.88 %	0.62 %	
December	5.05 %	(19.94)%	0.00 %	9.61 %	(4.34 )%	
Annual Rate of Return	6.33 %	(25.27)%	(29.00)%	20.88 %	(21.19)%	(1.51)%**

\* The monthly rate of return is calculated by dividing the ending NAV of a given month by the ending NAV of the previous month, subtracting 1 and multiplying this number by 100 to arrive at a percentage increase or decrease.

\*\*Through February 28, 2018.

Draw-down: Losses experienced by the fund over a specified period. Draw-down is measured on the basis of monthly returns only and does not reflect intra-month figures.



**Worst Monthly Percentage Draw-down:** The largest single month loss sustained during the most recent five calendar years and year-to-date.

**Worst Peak-to-Valley Draw-down:** The largest percentage decline in the NAV per share over the history of the fund. This need not be a continuous decline, but can be a series of positive and negative returns where the negative returns are larger than the positive returns. Worst Peak-to-Valley Draw-down represents the greatest cumulative percentage decline in month-end per share NAV is not equaled or exceeded by a subsequent month-end per share NAV.

## **UNL'S OPERATIONS**

### **USCF and its Management and Traders**

USCF is a single member limited liability company that was formed in the state of Delaware on May 10, 2005. USCF maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612. USCF is a wholly-owned subsidiary of Wainwright Holdings, Inc., a Delaware corporation ("Wainwright"), which is an intermediate holding company that owns USCF and another advisor of exchange traded funds and mutual funds. Wainwright is a wholly owned subsidiary of Concierge Technologies, Inc. (publicly traded under the ticker CNCG) ("Concierge"), a publicly traded holding company that owns various financial and non-financial businesses. Mr. Nicholas Gerber (discussed below), along with certain family members and certain other shareholders, owns the majority of the shares in Concierge. Wainwright is a holding company that currently holds both USCF, as well as USCF Advisers LLC, an investment adviser registered under the Investment Advisers Act of 1940, as amended. USCF Advisers LLC serves as the investment adviser for the USCF SummerHaven SHPEN Index Fund ("BUYN"), the USCF SummerHaven SHPEI Index Fund ("BUY"), each a series of the USCF ETF Trust, as well as the USCF Commodity Strategy Fund, a series of the USCF Mutual Funds Trust. USCF ETF Trust and USCF Mutual Funds Trust are registered under the Investment Company Act of 1940, as amended (the "1940 Act"). USCF Advisers LLC was also the investment adviser for the Stock Split Index Fund ("TOFR") and the USCF Restaurant Leaders Fund ("MENU"), each a series of the USCF ETF Trust, until October 2017 when both funds liquidated all of their assets and distributed cash pro rata to all remaining shareholders. The Board of Trustees for the USCF ETF Trust and USCF Mutual Funds Trust consist of different independent trustees than those independent directors who serve on the Board of Directors of USCF. USCF is a member of the National Futures Association (the "NFA") and registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission (the "CFTC") on December 1, 2005 and as a swaps firm on August 8, 2013.

USCF serves as general partner of UNL. USCF also serves as the general partner of the United States Natural Gas Fund, LP ("UNG"), the United States 12 Month Oil Fund, LP ("USL"), the United States Gasoline Fund, LP ("UGA"), the United States Diesel-Heating Oil Fund, LP ("UHN"), the United States Oil Fund, LP ("USO"), the United States Short Oil Fund, LP ("DNO") and the United States Brent Oil Fund, LP ("BNO"). USCF is also the sponsor of the United States Commodity Index Fund ("USCI"), the United States Copper Index Fund ("CPER"), the United States Agriculture Index Fund ("USAG"), and the USCF Canadian Crude Oil Index Fund ("UCCO"), each a series of the United States Commodity Index Funds Trust. UCCO is currently in registration and has not commenced operations.

In addition, USCF is the sponsor of the USCF Funds Trust, and two of its series: the United States 3x Oil Fund ("USOU") and the United States 3x Short Oil Fund ("USOD"), which commenced operations on July 20, 2017.

All funds listed previously, other than UCCO, are referred to collectively herein as the "Related Public Funds."

The Related Public Funds are subject to reporting requirements under the Securities Exchange Act of 1934, as amended ("Exchange Act") and, if registered under the 1940 Act, a Related Public Fund also must comply with the reporting requirements under the 1940 Act. For more information about each of the Related Public Funds, investors in



UNL may call 1-800-920-0259 or visit [www.uscfinvestments.com](http://www.uscfinvestments.com) or the Securities and Exchange Commission's (the "SEC") website at [www.sec.gov](http://www.sec.gov).

USCF is required to evaluate the credit risk of UNL to the futures commission merchant ("FCM"), oversee the purchase and sale of UNL's shares by certain authorized participants ("Authorized Participants"), review daily positions and margin requirements of UNL and manage UNL's investments. USCF also pays the fees of ALPS Distributors, Inc., which serves as the marketing agent for UNL (the "Marketing Agent"), and Brown Brothers Harriman & Co. ("BBH&Co."), which serves as the administrator (the "Administrator") and the custodian (the "Custodian") for UNL. In no event may the aggregate compensation paid for the Marketing Agent and any affiliate of USCF for distribution-related services in connection with the offering of shares exceed ten percent (10%) of the gross proceeds of this offering.

The limited partners take no part in the management or control, and have a minimal voice in UNL's operations or business. Limited partners 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 UNL'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 UNL'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.

The business and affairs of USCF are managed by the Board, which is comprised of the Management Directors, each of whom are also executive officers and employees of USCF, and three independent directors who meet the independent director requirements established by the NYSE Arca Equities Rules and the Sarbanes-Oxley Act of 2002. The Management Directors have the authority to manage USCF pursuant to the terms of the LLC Agreement. Through its Management Directors, USCF manages the day-to-day operations of UNL. The Board has an audit committee, which is made up of the three independent directors (Gordon L. Ellis, Malcolm R. Fobes III and Peter M. Robinson,). The audit committee is governed by an audit committee charter that is posted on UNL's website at [www.uscfinvestments.com](http://www.uscfinvestments.com). The Board has determined that each member of the audit committee meets the financial literacy requirements of the NYSE Arca and the audit committee charter. The Board has further determined that each of Messrs. Ellis and Fobes have accounting or related financial management expertise, as required by the NYSE Arca, such that each of them is considered an "Audit Committee Finance Expert" as such term is defined in Item 407(d)(5) of Regulation S-K.

UNL has no executive officers. Pursuant to the terms of the LP Agreement, UNL's affairs are managed by USCF.

The following are individual Principals, as that term is defined in CFTC Rule 3.1, for USCF: John P. Love, Stuart P. Crumbaugh, Nicholas D. Gerber, Melinda D. Gerber, Andrew Ngim, Robert Nguyen, Peter Robinson, Scott Schoenberger, Gordon Ellis, Malcolm Fobes, Ray Allen, Kevin Baum, Carolyn Yu, and Wainwright Holdings Inc. The individuals who are Principals due to their positions are John P. Love, Stuart P. Crumbaugh, Nicholas D. Gerber, Andrew Ngim, Robert Nguyen, Peter Robinson, Gordon Ellis, Malcolm Fobes, Ray Allen, Kevin Baum and Carolyn Yu. In addition, Wainwright is a Principal because it is the sole member of USCF. None of the Principals owns or has any other beneficial interest in UNL. Ray Allen and Andrew Ngim make trading and investment decisions for UNL. Andrew Ngim and Ray Allen direct the execution of trades on behalf of UNL. In addition, Nicholas D. Gerber, John P. Love, Robert Nguyen, Ray Allen, Kevin Baum, Kathryn Rooney, Maya Lowry, and Ryan Katz are registered with the CFTC as Associated Persons of USCF and are NFA Associate Members. John P. Love, Robert Nguyen, Ray Allen, Kevin Baum, Kathryn Rooney, Maya Lowry, and Ryan Katz are also registered with the CFTC as Swaps Associated Persons.

**Ray W. Allen**, 61, Portfolio Manager of USCF since January 2008. Mr. Allen was the portfolio manager of: (1) UGA from February 2008 until March 2010, and then portfolio manager since May 2015, (2) UHN from April 2008 until March 2010, and then portfolio manager since May 2015, (3) UNL from November 2009 until March 2010, and then portfolio manager since May 2015. In addition, he has been the portfolio manager of: (1) DNO since September 2009, (2) USO and USL since March 2010, (3) BNO since June 2010, (4) UNG since May 2015, and (5) USOU and USOD since July 2017. Mr. Allen also has served as the portfolio manager of the USCF Commodity Strategy Fund, a series of USCF Mutual Funds Trust, since October 2017. Mr. Allen has been a principal of USCF listed with the CFTC and NFA since March 2009 and has been registered as an associated person of USCF since July 2015 and from March 2008 to November 2012. Additionally, Mr. Allen has been approved as an NFA swaps associated person of USCF since July 2015. As of February 2017, he also is an associated person and swap associated person of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Allen earned a B.A. in Economics from the University of California at Berkeley and holds an NFA Series 3

registration.

**Kevin A. Baum**, 47, has served as a Portfolio Manager of USCF since March 2016 and as the Chief Investment Officer of USCF since September 1, 2016. Prior to joining USCF, Mr. Baum temporarily retired from December 2015 to March 2016. Mr. Baum served as the Vice President and Senior Portfolio Manager for Invesco PowerShares Capital Management LLC, an investment manager that manages a family of exchange-traded funds, from October 2014 through December 2015. Mr. Baum was temporarily retired from May 2012 through September 2014. From May 1993 to April 2012, Mr. Baum worked as the Senior Portfolio Manager, Head of Commodities for OppenheimerFunds, Inc., a global asset manager. Mr. Baum has been an NFA member since March 2016 and a principal, swap associated person, and associated person of USCF since April 2016 and, as of January 2017, a branch manager of USCF. As of February 2017, he also is an associated person, swap associated person, and branch manager of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Baum is a CFA Charterholder, CAIA Charterholder, and earned a B.B.A. in Finance from Texas Tech University.

**Stuart P. Crumbaugh**, 54, Chief Financial Officer, Secretary and Treasurer of USCF since May 2015 and also the Chief Financial Officer of Concierge Technologies, Inc., the parent of Wainwright Holdings, Inc. (“Wainwright”) since December 2017. In addition, Mr. Crumbaugh has served as a director of Wainwright, the parent and sole member of USCF, since December 2016. Mr. Crumbaugh has been a principal of USCF listed with the CFTC and NFA since July 1, 2015 and, as of January 2017, he is a principal of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Since June 2015, Mr. Crumbaugh has been the Treasurer and Secretary of USCF Advisers LLC. He also serves as a Management Trustee of USCF ETF Trust from May 2015 to present and as Management Trustee of the USCF Mutual Funds Trust from October 2016 to present. Mr. Crumbaugh joined USCF as the Assistant Chief Financial Officer on April 6, 2015. Prior to joining USCF, Mr. Crumbaugh was the Vice President Finance and Chief Financial Officer of Sikka Software Corporation, a software service healthcare company providing optimization software and data solutions from April 2014 to April 6, 2015. Mr. Crumbaugh served as a consultant providing technical accounting, IPO readiness and M&A consulting services to various early stage companies with the Connor Group, a technical accounting consulting firm, for the periods of January 2014 through March 2014; October 2012 through November 2012; and January 2011 through February 2011. From December 2012 through December 2013, Mr. Crumbaugh was Vice President, Corporate Controller and Treasurer of Auction.com, LLC, a residential and commercial real estate online auction company. From March 2011 through September 2012, Mr. Crumbaugh was Chief Financial Officer of IP Infusion Inc., a technology company providing network routing and switching software enabling software-defined networking solutions for major mobile carriers and network infrastructure providers. Mr. Crumbaugh earned a B.A. in Accounting and Business Administration from Michigan State University in 1987 and is a Certified Public Accountant – Michigan (inactive).

**Nicholas D. Gerber**, 55, Chairman of the Board of Directors of USCF since June 2005. Mr. Gerber also served as President and Chief Executive Officer of USCF from June 2005 through June 2015 and Vice President since June 2015. Mr. Gerber co-founded USCF in 2005 and prior to that, he co-founded Ameristock Corporation in March 1995, a California-based investment adviser registered under the Investment Advisers Act of 1940 from March 1995 until January 2013. From January 26, 2015 to the present, Mr. Gerber is also the Chief Executive Officer, President and Secretary of Concierge Technologies, Inc. (“Concierge”), which is a company publicly traded under the ticker symbol “CNGC.” Concierge is the sole shareholder of Wainwright. From August 1995 to January 2013, Mr. Gerber served as Portfolio Manager of Ameristock Mutual Fund, Inc. On January 11, 2013, the Ameristock Mutual Fund, Inc. merged with and into the Drexel Hamilton Centre American Equity Fund, a series of Drexel Hamilton Mutual Funds. Drexel Hamilton Mutual Funds is not affiliated with Ameristock Corporation, the Ameristock Mutual Fund, Inc. or USCF. From the period June 2014 to the present, Mr. Gerber also serves as Chairman of the Board of Trustees of USCF ETF Trust, an investment company registered under the Investment Company Act of 1940, as amended, and has previously served as President of USCF Advisers LLC. From October 2016 to the present, Mr. Gerber also serves as Chairman of the Board of Trustees of USCF Mutual Funds Trust, an investment company registered under the Investment Company Act of 1940, as amended. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. In addition to his role as Chairman of the Board of USCF ETF Trust, he also served as its President and Chief Executive Officer from June 2014 until December 2015. Mr. Gerber also has served USCF Advisers on the Board of Managers since June 2013 and as the Vice President since June 2015. In the above roles, Mr. Gerber has gained extensive experience in evaluating and retaining third-party service providers, including custodians, accountants, transfer agents, and distributors. Mr. Gerber has been a principal of USCF listed with the CFTC and NFA since November 2005, an NFA associate member and associated person of USCF since December 2005 and a Branch Manager of USCF since May 2009. Mr. Gerber is a principal of USCF Advisers LLC as of January 2017. Additionally, as of February 2017, he is an associated person, swap associated person, and branch manager of USCF Advisers LLC. Mr. Gerber earned an MBA degree in finance from the University of San Francisco, a B.A. from Skidmore College and holds an NFA Series 3 registration.

**John P. Love**, 46, President and Chief Executive Officer of USCF since June 2015 and Management Director of USCF since October 2016. Mr. Love previously served as a Senior Portfolio Manager for the Related Public Funds from March 2010 through June 2015. Prior to that, while still at USCF, he was a Portfolio Manager beginning with the launch of USO in April 2006. Mr. Love was the portfolio manager of USO from April 2006 until March 2010 and the portfolio manager for USL from December 2007 until March 2010. Mr. Love has been the portfolio manager of UNG since April 2007, and the portfolio manager of UGA, UHN, and UNL since March 2010. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. He also acted as co-portfolio manager of the Stock Split Index Fund, a series of the USCF ETF Trust for the period from September 2014 to December 2015, when he was promoted to the position of President and Chief Executive Officer upon Mr. Gerber's resignation from those positions. In addition, Mr. Love has served as on the Board of Managers of USCF Advisers LLC since November 2016 and as its President since June 2015. Mr. Love also is a director of Wainwright Holdings Inc., a position he has held since December 2016. Mr. Love has been a principal of USCF listed with the CFTC and NFA since January 17, 2006. Mr. Love has been registered as an associated person of USCF since February 2015 and from December 1, 2005 to April 16, 2009. Mr. Love has also been registered as a branch manager of USCF since March 2016. Additionally, Mr. Love has been approved as an NFA swaps associated person since February 2015. Mr. Love is a principal of USCF Advisers LLC as of January 2017. Additionally, as of February 2017, he is an associated person, swap associated person, and branch manager of USCF Advisers LLC. Mr. Love earned a B.A. from the University of Southern California, holds an NFA Series 3 and FINRA Series 7 registrations and is a CFA Charterholder.

**Andrew F Ngim**, 57, co-founded USCF in 2005 and has served as a Management Director since May 2005 and, since August 15, 2016, has served as the Chief Operating Officer of USCF. Mr. Ngim has served as the portfolio manager for USCI, CPER and USAG since January 2013. Mr. Ngim also served as USCF's Treasurer from June 2005 to February 2012. In addition, he has been on the Board of Managers and has served as the Assistant Secretary and Assistant Treasurer of USCF Advisers since its inception in June 2013. Prior to and concurrent with his services to USCF and USCF Advisers, from January 1999 to January 2013, Mr. Ngim served as a Managing Director for Ameristock Corporation, a California-based investment adviser, which he co-founded in March 1995, and was Co-Portfolio Manager of Ameristock Mutual Fund, Inc. from January 2000 to January 2013. Mr. Ngim also served as portfolio manager of (1) the Stock Split Index Fund from September 2014 to October 2017, and (2) the USCF Restaurant Leaders Fund from November 2016 to October 2017, both series of the USCF ETF Trust. From December 2017 to the present, Mr. Ngim also serves as the portfolio manager for the USCF SummerHaven SHPEI Index Fund and the USCF SummerHaven SHPEN Index Fund, both of which are series of the USCF ETF Trust. Mr. Ngim serves as a Management Trustee of the USCF ETF Trust from August 2014 to the present and as a Management Trustee for the USCF Mutual Funds Trust from October 2016 to present. Mr. Ngim has been a principal of USCF listed with the CFTC and NFA since November 2005 and a principal of USCF Advisers LLC since January 2017. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Ngim earned his B.A. from the University of California at Berkeley.

**Robert L. Nguyen**, 58, Management Director and principal since July 2015. Mr. Nguyen served on the Board of Wainwright from December 2014 to December 2016. Mr. Nguyen co-founded USCF in 2005 and served as a Management Director until March 2012. Mr. Nguyen was an Investment Manager with Ribera Investment Management, an investment adviser registered under the Investment Advisers Act of 1940, from January 2013 to March 2015. Prior to and concurrent with his services to USCF, from January 2000 to January 2013, Mr. Nguyen served as a Managing Principal for Ameristock Corporation, a California-based investment adviser registered under the Investment Advisers Act of 1940, which he co-founded in March 1995. Mr. Nguyen was a principal of USCF listed with the CFTC and NFA from November 2005 through March 2012 and an associated person of USCF listed with the CFTC and NFA from November 2007 through March 2012. Mr. Nguyen has been a principal of USCF listed with the CFTC and NFA since July 2015 and an associated person and a swap associated person of USCF listed with the CFTC and NFA since December 2015. As of February 2017, he also is an associated person and swap associated person of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Nguyen earned his B.S. from California State University at Sacramento, and holds NFA Series 3 and FINRA Series 7 registrations.

**Carolyn M. Yu**, 59, General Counsel and Chief Compliance Officer of USCF since May 2015 and February 2013, respectively, and from August 2011 through April 2015, Ms. Yu served as Assistant General Counsel. Since May 2015, Ms. Yu has served as Chief Legal Officer and Chief Compliance Officer of USCF Advisers LLC and USCF ETF Trust as well as Chief AML Officer of USCF ETF Trust. Prior to May 2015, Ms. Yu was the Assistant Chief Compliance Officer and AML Officer of the USCF ETF Trust. Previously, Ms. Yu served as Branch Chief with the Securities Enforcement Branch for the State of Hawaii, Department of Commerce and Consumer Affairs from February 2008 to August 2011. Since August 2013, in the case of USCF, and January 2017, in the case of USCF Advisers LLC, Ms. Yu has been a principal listed with the CFTC and NFA. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Ms. Yu earned her JD from Golden Gate University School of Law and a B.S. in business administration from San Francisco State University.

**Gordon L. Ellis**, 71, Independent Director of USCF since September 2005. Previously, Mr. Ellis was a founder of International Absorbents, Inc., Director and Chairman since July 1985 and July 1988, respectively, and Chief

Executive Officer and President since November 1996. He also served as Chairman of Absorption Corp., a wholly-owned subsidiary of International Absorbents, Inc., which is a leading developer and producer of environmentally friendly pet care and industrial products, from May July 1985 until July 2010 when it was sold to Kinderhook Industries, a private investment banking firm and remained as a director until March 2013 when Absorption Corp was sold again to J. Rettenmaier & Söhne Group, a German manufacturing firm. Concurrent with that, he founded and has served as Chairman from November 2010 to present of Lupaka Gold Corp., a firm that acquires, explores, develops, and evaluates gold mining properties in Peru, South America. Mr. Ellis has his Chartered Directors designation from The Director's College (a joint venture of McMaster University and The Conference Board of Canada). He has been a principal of USCF listed with the CFTC and NFA since November 2005. Mr. Ellis is an engineer and earned an MBA in international finance.

**Malcolm R. Fobes III**, 53, Independent Director of USCF and Chairman of USCF's audit committee since September 2005. He founded and is the Chairman and Chief Executive Officer of Berkshire Capital Holdings, Inc., a California-based investment adviser registered under the Investment Advisers Act of 1940 that has been sponsoring and providing portfolio management services to mutual funds since June 1997. Mr. Fobes serves as Chairman and President of The Berkshire Funds, a mutual fund investment company registered under the Investment Company Act of 1940. Since 1997, Mr. Fobes has also served as portfolio manager of the Berkshire Focus Fund, a mutual fund registered under the Investment Company Act of 1940, which concentrates its investments in the electronic technology industry. He was also contributing editor of *Start a Successful Mutual Fund: The Step-by-Step Reference Guide to Make It Happen* (JV Books, 1995). Mr. Fobes has been a principal of USCF listed with the CFTC and NFA since November 2005. He earned a B.S. in finance with a minor in economics from San Jose State University in California.

**Peter M. Robinson**, 60, Independent Director of USCF since September 2005. Mr. Robinson has been a Research Fellow since 1993 with the Hoover Institution, a public policy think tank located on the campus of Stanford University. He authored three books and has been published in the *New York Times*, *Red Herring*, and *Forbes ASAP* and is the editor of *Can Congress Be Fixed?: Five Essays on Congressional Reform* (Hoover Institution Press, 1995). Mr. Robinson has been a principal of USCF listed with the CFTC and NFA since December 2005. He earned an MBA from the Stanford University Graduate School of Business, graduated from Oxford University in 1982 after studying politics, philosophy, and economics and graduated summa cum laude from Dartmouth College in 1979.

## **UNL's Service Providers**

### **Custodian, Registrar, Transfer Agent, and Administrator**

In its capacity as the Custodian for UNL, BBH&Co holds UNL's Treasuries, cash and/or cash equivalents pursuant to a custodial agreement. In addition, in its capacity as Administrator for UNL, BBH&Co. performs certain administrative and accounting services for UNL and prepares certain SEC, NFA and CFTC reports on behalf of UNL.

Currently, USCF pays BBH & Co. for its services, in the foregoing capacities, a minimum amount of \$75,000 annually for its custody, fund accounting and fund administration services rendered to UNL and each of the Related Public Funds, as well as a \$20,000 annual fee for its transfer agency services. In addition, USCF pays BBH&Co. an asset-based charge of (a) 0.06% for the first \$500 million of UNL and the Related Public Funds' combined net assets, (b) 0.0465% for UNL and the Related Public Funds' combined net assets greater than \$500 million but less than \$1 billion, and (c) 0.035% once UNL and the Related Public Funds' combined net assets exceed \$1 billion. The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds \$75,000. USCF also pays transaction fees ranging from \$7 to \$15 per transaction.

BBH&Co.'s principal business address is 50 Post Office Square, Boston, MA 02110. BBH&Co. is a private bank founded in 1818 and is not a publicly held company nor is it insured by the Federal Deposit Insurance Corporation. BBH&Co. is authorized to conduct a commercial banking business in accordance with the provisions of Article IV of the New York State Banking Law, New York Banking Law §§160 § 181, and is subject to regulation, supervision, and examination by the New York State Department of Financial Services. BBH&Co. is also licensed to conduct a commercial banking business by the Commonwealths of Massachusetts and Pennsylvania and is subject to supervision and examination by the banking supervisors of those states.

### **Marketing Agent**

UNL also employs ALPS Distributors, Inc. ("ALPS Distributors") as the Marketing Agent, which is further discussed under "What is the Plan of Distribution?" USCF pays the Marketing Agent an annual fee. In no event may the aggregate



compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with the offering of shares exceed ten percent (10%) of the gross proceeds of the offering.

ALPS Distributors' principal business address is 1290 Broadway, Suite 1100, Denver, CO 80203. ALPS Distributors is a broker-dealer registered with the FINRA and a member of the Securities Investor Protection Corporation.

### **Relationship with Charles Schwab & Co., Inc.**

USCF or the Marketing Agent, or an affiliate of USCF or the Marketing Agent, may directly or indirectly make cash payments to certain broker-dealers for participating in activities that are designed to make registered representatives and other professionals more knowledgeable about exchange-traded funds and exchange-traded products, including UNL and the Related Public Funds, or for other activities, such as participation in marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems. USCF and/or the Marketing Agent have, or may in the future have, arrangements to make payments, other than for the educational programs and marketing activities described above, to Charles Schwab & Co., Inc. (“Schwab”). Pursuant to the arrangement between USCF and Schwab, Schwab has agreed to promote certain exchange-traded funds and exchange-traded products to Schwab’s customers, which may include UNL and certain of the Related Public Funds, and not to charge certain of its customers any commissions when those customers purchase or sell shares of participating exchange-traded funds and exchange-traded products. Payments to a broker-dealer or intermediary may create potential conflicts of interest between the broker-dealer or intermediary and its clients. These amounts, which may be significant, are paid by USCF and/or the Marketing Agent from their own resources and not from the assets of UNL or the Related Public Funds.

### **Futures Commission Merchant**

On October 8, 2013, USCF entered into a Futures and Cleared Derivatives Transactions Customer Account Agreement with RBC Capital Markets, LLC (“RBC Capital” or “RBC”) to serve as UNL’s FCM, effective October 10, 2013. This agreement requires RBC Capital to provide services to UNL, as of October 10, 2013, in connection with the purchase and sale of Futures Contracts and Other Natural Gas-Related Investments that may be purchased or sold by or through RBC Capital for UNL’s account. For the period October 10, 2013 and after, UNL pays RBC Capital commissions for executing and clearing trades on behalf of UNL.

RBC Capital’s primary address is 3 World Financial Center 200 Vesey St. New York, New York 10281. Effective October 10, 2013, RBC Capital became the futures clearing broker for UNL. RBC Capital is registered in the United States with FINRA as a broker-dealer and with the CFTC as a FCM. RBC Capital is a member of various U.S. futures and securities exchanges.

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

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

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

On April 27, 2017, pursuant to an offer of settlement, a Panel of the Chicago Board of Trade Business Conduct Committee (“Panel”) found that RBC Capital engaged in EFRP transactions which failed to satisfy the Rules of the Chicago Board of Trade (the “Exchange”) in one or more ways. Specifically, the Panel found that RBC Capital traders entered into EFRP trades in which RBC Capital accounts were on both sides of the transactions. While the purpose of the transactions was to transfer positions between the RBC Capital accounts, the Panel found that the manner in which the trades occurred violated the Exchange’s prohibition on wash trades. The Panel found that RBC Capital thereby violated CBOT Rules 534 and (legacy) 538.B. and C. In accordance with the settlement offer, the Panel ordered RBC Capital to pay a \$175,000 fine.

On June 18, 2015, in connection with the Municipalities Continuing Disclosure Cooperation initiative of the U.S. Securities and Exchange Commission (“SEC”), the SEC commenced and settled an administrative proceeding against RBC Capital for willful violations of Sections 17(a)(2) of the Securities Act of 1933, as amended (“1933 Act”) after the firm self-reported instances in which it conducted inadequate due diligence in certain municipal securities offerings and as a result, failed to form a reasonable basis for believing the truthfulness of certain material representations in official statements issued in connection with those offerings. RBC Capital paid a fine of \$500,000.

RBC Capital and certain affiliates were named as defendants in a lawsuit relating to their role in transactions involving investments made by a number of Wisconsin school districts in certain collateralized debt obligations. These transactions were also the subject of a regulatory investigation, which was resolved in 2011. RBC Capital reached a final settlement with all parties in the civil litigation, and the civil action against RBC Capital was dismissed with prejudice on December 6, 2016.

On July 31, 2015, RBC Capital was added as a new defendant in a pending putative class action initially filed in November 2013 in the United States District Court for the Southern District of New York. The action is brought against multiple foreign exchange dealers and alleges collusive behavior, among other allegations, in foreign exchange trading. Various regulators are also conducting inquiries regarding potential violations of law by a number of banks and other entities, including RBC Capital, regarding foreign exchange trading. In September 2017, the U.S. District Court entered an order preliminarily approving a pending settlement with class plaintiffs. Canadian class actions and one other U.S. action that is purportedly brought on behalf of different classes of plaintiffs remain pending.

On April 13, 2015, RBC Capital’s affiliate, Royal Bank of Canada Trust Company (Bahamas) Limited (RBC Bahamas), was charged in France with complicity in tax fraud. RBC Bahamas believes that its actions did not violate French law and contested the charge in the French court. The trial of this matter has concluded and a verdict was delivered on January 12, 2017, acquitting the company and the other defendants. The French prosecutor’s office has appealed.

Thornburg Mortgage Inc. (now known as “TMST”) and RBC Capital were parties to a master repurchase agreement executed in September 2003 whereby TMST financed its purchase of residential mortgage-backed securities. Upon TMST’s default during the financial crisis, RBC Capital valued TMST’s collateral at allegedly deflated prices. After TMST’s bankruptcy filing, TMST’s trustee brought suit against RBC Capital in 2011 for breach of contract. In 2015, TMST was awarded more than \$45 million in damages. RBC Capital has appealed. The appeals court set a briefing schedule and simultaneously ordered the parties to participate in a mediation. The parties have subsequently reached an agreement to settle the matter; a motion to approve the settlement was filed with the bankruptcy court on January 10, 2016 and granted on February 27, 2017.

On October 14, 2014, the Delaware Court of Chancery (the “Court of Chancery”) in a class action brought by former shareholders of Rural/Metro Corporation, held RBC Capital liable for aiding and abetting a breach of fiduciary duty by three Rural/Metro directors, but did not make an additional award for attorney’s fees. A final judgment was entered on February 19, 2015 in the amount of US\$93 million plus post judgment interest. RBC Capital appealed the Court of Chancery’s determination of liability and quantum of damages, and the plaintiffs cross-appealed the ruling on additional attorneys’ fees. On November 30, 2015, the Delaware Supreme Court affirmed the Court of Chancery with respect to both the appeal and cross-appeal. RBC Capital is cooperating with an investigation by the SEC relating to this matter. In particular, the SEC contended that RBC Capital caused materially false and misleading information to be included in the proxy statement that Rural filed to solicit shareholder approval for the sale in violation of section 14(A) of the Exchange Act and Rule 14A-9 thereunder. On August 31, 2016, RBC Capital was ordered by the SEC to cease and desist and paid \$500,000 in disgorgement, plus interest of \$77,759 and a civil penalty of \$2 million.

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

Please see RBC Capital's Form BD, which is available on the FINRA BrokerCheck program, for more details.

RBC Capital will act only as clearing broker for UNL and as such will be paid commissions for executing and clearing trades on behalf of UNL. RBC Capital has not passed upon the adequacy or accuracy of this prospectus. RBC Capital will not act in any supervisory capacity with respect to USCF or participate in the management of USCF or UNL.

RBC Capital is not affiliated with UNL or USCF. Therefore, neither USCF nor UNL believes that there are any conflicts of interest with RBC Capital or its trading principals arising from its acting as UNL's FCM.

Currently, USCF does not employ commodity trading advisors for the trading of UNL contracts. USCF currently does, however, employ SummerHaven Investment Management, LLC as a commodity trading advisor for USCF's own account and for USCI, CPER and USAG. If, in the future, USCF does employ commodity trading advisors for UNL, it will choose each advisor based on arm's-length negotiations and will consider the advisor's experience, fees and reputation.

### UNL's Fees and Expenses

**This table describes the fees and expenses that you may pay if you buy and hold shares of UNL. You should note that you may pay brokerage commissions on purchases and sales of UNL'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 56.**

#### Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

Management Fees <sup>(1)</sup>	0.75 %
Other Expenses <sup>(1)</sup>	0.74 %
Expense Waiver <sup>(2)</sup>	(0.59)%
Net Expenses Excluding Management Fees	0.15 %
Total Annual Fund Operating Expenses After Fee Waiver	0.90 %

Based on amounts for the year ended December 31, 2017, which is incorporated by reference into this prospectus.

See "Incorporation By Reference of Certain Information," page 59. The individual expense amounts in dollar terms (1) 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	\$78,805
Professional Expenses	\$71,772
Brokerage commissions	\$2,209
Independent Director and Officer Expenses	\$1,929
License fees	\$1,576

These amounts are based on UNL's average total net assets, which are the sum of daily total net assets of UNL divided by the number of calendar days in the year. For the year ended December 31, 2017, UNL's average total net assets were \$10,507,374.

USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis. USCF has no obligation to continue such payment. If this (2) agreement were terminated, the Annual Fund Operating Expenses could increase, which would negatively impact your total return from an investment in UNL.

### Breakeven Analysis

The breakeven analysis below indicates the approximate dollar returns and percentage required for the redemption value of a hypothetical initial investment in a single share to equal the amount invested twelve months after the investment was made. For purposes of this breakeven analysis, we have assumed an initial selling price of \$9.12 per share which equals the NAV per share on February 28, 2018. In order for a hypothetical investment in shares to break even over the next 12 months, assuming a selling price of \$9.12, the investment would have to generate a 0.110% return or \$0.01.

This breakeven analysis refers to the redemption of baskets by Authorized Participants and is not related to any gains an individual investor would have to achieve in order to break even. The breakeven analysis is an approximation only.

Assumed initial selling price per share	\$9.12
Management Fee (0.750%)( <sup>1</sup> )	\$0.068
Creation Basket Fee (0.01%)( <sup>2</sup> )	\$(0.001)
Estimated Brokerage Fee (0.021%)( <sup>3</sup> )	\$0.002
Interest Income (0.770%)( <sup>4</sup> )	\$(0.070)
New York Mercantile Exchange Licensing Fee (0.015%)( <sup>5</sup> )	\$0.001
Independent Director and Officer Expenses (0.018%)( <sup>6</sup> )	\$0.002
Professional Expenses (0.683%)( <sup>7</sup> )	\$0.062
Amount of trading income (loss) required for the redemption value at the end of one year to equal the initial selling price of the share	\$0.064
Percentage of initial selling price per share	0.702 %
Expense Waiver (0.59%)( <sup>8</sup> )	\$(0.054)
Amount of trading income (loss) required for the redemption value at the end of one year to equal the initial selling price of the unit (inclusive of credit)	\$0.01
Percentage of initial selling price per unit (inclusive of credit)	0.110 %

UNL is contractually obligated to pay USCF a management fee of 0.750% per annum on its average total net assets. "Average total net assets" are the sum of the daily total net assets of UNL (the NAV of UNL calculated as set forth in "Calculating Per Share NAV" beginning on page 52) divided by the number of calendar days in the year. On days when markets are closed, the daily total net assets are the daily total net assets from the last day when the market was open. See page 52 for a discussion of net assets of UNL.

Authorized Participants are required to pay a Creation Basket fee of \$350 for each order they place to create one or more baskets. This breakeven analysis assumes a hypothetical investment in a single share, which would equal the \$350 Creation Basket fee divided by the total number of outstanding shares plus the 50,000 shares created by the Creation Basket. This calculation will always result in a value that is below 0.010%, but for purposes of this breakeven analysis we assume a creation basket fee of 0.010%.

This amount is based on the actual brokerage fees for UNL calculated on an annualized basis and includes an estimated half-turn commission of \$3.50. A half-turn commission is the commissions liability related to FCM transaction fees for futures contracts on a half-turn basis.

UNL earns interest on cash and cash equivalents held at the FCM and Custodian, treasuries, and money market funds at an estimated interest rate of 0.770%. This is a blended rate based on the rate of interest earned on all of the foregoing as of December 31, 2017. The actual rate may vary.

The NYMEX Licensing Fee is 0.015% of the aggregate net assets of UNL and the Related Public Funds (except for BNO, USCI, CPER, USAG, USOU and USOD). For more information see "UNL's Fees and Expenses."

Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance. The foregoing assumes that the average total net assets of UNL as of December 31, 2017, which were \$10,507,374, were aggregated with the average total net assets of the Related Public Funds as of December 31, 2017, that the aggregate fees paid to the independent directors for 2017 was \$536,375 and that the allocable portion of the fees borne by UNL based on the proportion of its average total net assets when aggregated with the average total net assets of the Related Public Funds equals \$1,929.

Professional Expenses include expenses for legal, audit, tax accounting and printing. UNL estimates the costs attributable to Professional Expenses for 2017 is \$71,772. The number in the break-even table assumes UNL had \$10,507,374 in average total net assets during the calendar year ended December 31, 2017.

USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis.

### Conflicts of Interest

There are present and potential future conflicts of interest in UNL's structure and operation you should consider before you purchase shares. USCF will use this notice of conflicts as a defense against any claim or other proceeding made.



If USCF is not able to resolve these conflicts of interest adequately, it may impact UNL and the Related Public Funds' ability to achieve their investment objectives.

UNL and USCF may have inherent conflicts to the extent USCF attempts to maintain UNL's asset size in order to preserve its fee income and this may not always be consistent with UNL's objective of having the value of its share's NAV track changes in the average price of the Benchmark Future Contracts.

USCF's officers, directors and employees, do not devote their time exclusively to UNL. These persons are directors, officers or employees of other entities which may compete with UNL for their services, including the Related Public Funds. They could have a conflict between their responsibilities to UNL and to those other entities.

USCF has adopted policies that prohibit their principals, officers, directors and employees from trading futures and related contracts in which either UNL or any of the Related Public Funds invests. These policies are intended to prevent conflicts of interest occurring where USCF, or their principals, officers, directors or employees could give preferential treatment to their own accounts or trade their own accounts ahead of or against UNL or any of the Related Public Funds.

USCF has sole current authority to manage the investments and operations of UNL, and this may allow it to act in a way that furthers its own interests which may create a conflict with your best interests. Limited partners have limited voting control, which will limit their ability to influence matters such as amendment of the LP Agreement, change in UNL's basic investment policy, dissolution of UNL, or the sale or distribution of UNL's assets.

USCF serves as the general partner to UNL and general partner or sponsor to the Related Public Funds, UCCO and the REX Funds. USCF may have a conflict to the extent that its trading decisions for UNL may be influenced by the effect they would have on the other funds it manages. By way of example, if, as a result of reaching position limits imposed by the NYMEX, UNL purchased gasoline futures contracts, this decision could impact UNL's ability to purchase additional gasoline futures contracts, if the number of contracts held by funds managed by USCF reached the maximum allowed by the NYMEX. Similar situations could adversely affect the ability of any fund to track its benchmark futures contract.

In addition, USCF is required to indemnify the officers and directors of the other funds, if the need for indemnification arises. This potential indemnification will cause USCF's assets to decrease. If USCF's other sources of income are not sufficient to compensate for the indemnification, then USCF may terminate and you could lose your investment.

Whenever a conflict of interest exists or arises between USCF on the one hand, and the partnership or any limited partner, on the other hand, any resolution or course of action by USCF in respect of such conflict of interest shall be permitted and deemed approved by all partners and shall not constitute a breach of the LP Agreement or of any agreement contemplated hereby or of a duty stated or implied by law or equity, if the resolution or course of action is, or by operation of the LP Agreement is deemed to be, fair and reasonable to the partnership. If a dispute arises, under the LP Agreement it will be resolved either through negotiations with USCF or by courts located in the State of Delaware.

Under the LP Agreement, any resolution is deemed to be fair and reasonable to the partnership if the resolution is:

- approved by the audit committee, although no party is obligated to seek approval and USCF may adopt a resolution or course of action that has not received approval;

- on terms no less favorable to the limited partners than those generally being provided to or available from unrelated third parties; or

- fair to the limited partners, taking into account the totality of the relationships of the parties involved including other transactions that may be particularly favorable or advantageous to the limited partners.

The previous risk factors and conflicts of interest are complete as of the date of this prospectus; however, additional risks and conflicts may occur which are not presently foreseen by USCF. You may not construe this prospectus as

legal or tax advice. Before making an investment in this fund, you should read this entire prospectus, which can be found on UNL's website at [www.uscfinvestments.com](http://www.uscfinvestments.com). You should also consult with your personal legal, tax, and other professional advisors.

***Interests of Named Experts and Counsel***

USCF has employed Eversheds Sutherland (US) LLP to prepare this prospectus. Neither the law firm nor any other expert hired by UNL to give advice on the preparation of this offering document has been hired on a contingent fee basis. None of them have any present or future expectation of interest in USCF, Marketing Agent, Authorized Participants, Custodian, Administrator or other service providers to UNL.

## **Ownership or Beneficial Interest in UNL**

As of February 28, 2018, no person owned more than five percent (5%) of the shares of UNL. Also, as of such date, USCF and the principals of USCF do not own any of the shares of UNL.

## **USCF's Responsibilities and Remedies**

Pursuant to the DRULPA ("Delaware Revised Uniform Limited Partnership Act"), parties may contractually modify or even eliminate fiduciary duties in a limited partnership agreement to the limited partnership itself, or to another partner or person otherwise bound by the limited partnership agreement. Parties may not, however, eliminate the implied covenant of good faith and fair dealing. Where parties unambiguously provide for fiduciary duties in a limited partnership agreement, those expressed duties become the standard that courts will use to determine whether such duties were breached. For this reason, UNL's limited partnership agreement does not explicitly provide for any fiduciary duties so that common law fiduciary duty principles will apply to measure USCF's conduct.

A prospective investor should be aware that USCF has a responsibility to limited partners of UNL to exercise good faith and fairness in all dealings. The fiduciary responsibility of a general partner to limited partners is a developing and changing area of the law and limited partners who have questions concerning the duties of USCF should consult with their counsel. In the event that a limited partner of UNL believes that USCF has violated its fiduciary duty to the limited partners, he may seek legal relief individually or on behalf of UNL under applicable laws, including under DRULPA and under commodities laws, to recover damages from or require an accounting by USCF. Limited partners may also have the right, subject to applicable procedural and jurisdictional requirements, to bring class actions in federal court to enforce their rights under the federal securities laws and the rules and regulations promulgated thereunder by the SEC. Limited partners who have suffered losses in connection with the purchase or sale of the shares may be able to recover such losses from USCF where the losses result from a violation by USCF of the federal securities laws. State securities laws may also provide certain remedies to limited partners.

Limited partners should be aware that performance by USCF of its fiduciary duty to is measured by the terms of the LP Agreement as well as applicable law. Limited partners are afforded certain rights to institute reparations proceedings under the Commodity Exchange Act ("CEA") for violations of the CEA or of any rule, regulation or order of the CFTC by USCF.

## **Liability and Indemnification**

Under the LP Agreement, neither a general partner nor any employee or other agent of UNL nor any officer, director, stockholder, partner, employee or agent of a general partner (a "Protected Person") shall be liable to any partner or UNL for any mistake of judgment or for any action or inaction taken, nor for any losses due to any mistake of judgment or to any action or inaction or to the negligence, dishonesty or bad faith of any officer, director, stockholder, partner, employee, agent of UNL or any officer, director, stockholder, partner, employee or agent of such general partner, provided that such officer, director, stockholder, partner, employee, or agent of the partner or officer, director, stockholder, partner, employee or agent of such general partner was selected, engaged or retained by such general partner with reasonable care, except with respect to any matter as to which such general partner shall have been finally adjudicated in any action, suit or other proceeding not to have acted in good faith in the reasonable belief that such Protected Person's action was in the best interests of UNL and except that no Protected Person shall be relieved of any liability to which such Protected Person would otherwise be subject by reason of willful misfeasance, gross negligence or reckless disregard of the duties involved in the conduct of the Protected Person's office.

UNL shall, to the fullest extent permitted by law, but only out of UNL assets, indemnify and hold harmless a general partner and each officer, director, stockholder, partner, employee or agent thereof (including persons who serve at UNL's request as directors, officers or trustees of another organization in which UNL has an interest as a shareholder,

creditor or otherwise) and their respective Legal Representatives and successors (hereinafter referred to as a “Covered Person”) against all liabilities and expenses, including but not limited to amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonably incurred by any Covered Person in connection with the defense or disposition of any action, suit or other proceedings, whether civil or criminal, before any court or administrative or legislative body, in which such Covered Person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of an alleged act or omission as a general partner or director or officer thereof, or by reason of its being or having been such a general partner, director or officer, except with respect to any matter as to which such Covered Person shall have been finally adjudicated in any such action, suit or other proceeding not to have acted in good faith in the reasonable belief that such Covered Person’s action was in the best interest of UNL, and except that no Covered Person shall be indemnified against any liability to UNL or limited partners to which such Covered Person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such Covered Person’s office. Expenses, including counsel fees so incurred by any such Covered Person, may be paid from time to time by UNL in advance of the final disposition of any such action, suit or proceeding on the condition that the amounts so paid shall be repaid to UNL if it is ultimately determined that the indemnification of such expenses is not authorized hereunder.

## **Meetings**

Meetings of limited partners may be called by USCF and may be called by it upon the written request of limited partners holding at least 20% of the outstanding shares of UNL. USCF shall deposit written notice to all limited partners of the meeting and the purpose of the meeting, which shall be held on a date not less than 30 nor more than 60 days after the date of mailing of such notice, at a reasonable time and place. USCF may also call a meeting upon not less than 20 and not more than 60 days prior notice.

Each limited partner appoints USCF and each of its authorized officers as its attorney-in-fact with full power and authority in its name, place and stead to execute, swear to, acknowledge, deliver, file and record all ballots, consents, approval waivers, certificates and other instruments necessary or appropriate, in the sole discretion of USCF, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the partner of UNL. However, when the LP Agreement establishes a percentage of the limited partners required to take any action, USCF may exercise such power of attorney made only after the necessary vote, consent or approval of the limited partners.

## **Termination Events**

UNL will dissolve at any time upon the happening of any of the following events:

- The bankruptcy, dissolution, withdrawal, or removal of USCF, unless a majority in interest of the limited partners within 90 days after such event elects to continue UNL and appoints a successor general partner; or
- The affirmative vote of a majority in interest of the limited partners, provided that prior to or concurrently with such vote, there shall have been established procedures for the assumption of UNL's obligations arising under any agreement to which UNL is a party and which is still in force immediately prior to such vote regarding termination, and there shall have been an irrevocable appointment of an agent who shall be empowered to give and receive notices, reports and payments under such agreements, and hold and exercise such other powers as are necessary to permit all other parties to such agreements to deal with such agent as if the agent were the sole owner of UNL's interest, which procedures are agreed to in writing by each of the other parties to such agreements.

## **Provisions of Law**

According to applicable law, indemnification of USCF is payable only if USCF determined, in good faith, that the act, omission or conduct that gave rise to the claim for indemnification was in the best interest of UNL and the act, omission or activity that was the basis for such loss, liability, damage, cost or expense was not the result of negligence or misconduct and such liability or loss was not the result of negligence or misconduct by USCF, and such indemnification or agreement to hold harmless is recoverable only out of the assets of UNL and not from the members, individually.

## ***Provisions of Federal and State Securities Laws***

This offering is made pursuant to federal and state securities laws. The SEC and state securities agencies take the position that indemnification of USCF that arises out of an alleged violation of such laws is prohibited unless certain conditions are met.

Those conditions require that no indemnification of USCF or any underwriter for UNL may be made in respect of any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws unless: (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the party seeking indemnification and the court approves the indemnification; (ii) such claim has been dismissed with

prejudice on the merits by a court of competent jurisdiction as to the party seeking indemnification; or (iii) a court of competent jurisdiction approves a settlement of the claims against the party seeking indemnification and finds that indemnification of the settlement and related costs should be made, provided that, before seeking such approval, USCF or other indemnitee must apprise the court of the position held by regulatory agencies against such indemnification. These agencies are the SEC and the securities administrator of the State or States in which the plaintiffs claim they were offered or sold membership interests.

***Provisions of the 1933 Act and NASAA Guidelines***

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to USCF or its directors, officers, or persons controlling UNL, UNL has been informed that SEC and the various State administrators believe that such indemnification is against public policy as expressed in the 1933 Act and the North American Securities Administrators Association, Inc. ("NASAA") commodity pool guidelines and is therefore unenforceable.

## **Books and Records**

UNL keeps its books of record and account at its office located at 1999 Harrison Street, Suite 1530 Oakland, California 94612 or at the offices of the Administrator at its office located at 50 Post Office Square, Boston, Massachusetts, 02110, or such office, including of an administrative agent, as it may subsequently designate upon notice. These books and records are open to inspection by any person who establishes to UNL's satisfaction that such person is a limited partner upon reasonable advance notice at all reasonable times during the usual business hours of UNL.

UNL keeps a copy of UNL's LP Agreement on file in its office which is available for inspection on reasonable advance notice at all reasonable times during its usual business hours by any limited partner.

## **Statements, Filings, and Reports**

At the end of each fiscal year, UNL will furnish to banks, broker dealers and trust companies ("DTC Participants") for distribution to each person who is a shareholder at the end of the fiscal year an annual report containing UNL's audited financial statements and other information about UNL. USCF is responsible for the registration and qualification of the shares under the federal securities laws and federal commodities laws and any other securities and blue sky laws of the United States or any other jurisdiction as USCF may select. USCF is responsible for preparing all reports required by the SEC, CFTC and the NYSE Arca, but has entered into an agreement with the Administrator to prepare these reports as required by the SEC, CFTC and the NYSE Arca on UNL's behalf.

The financial statements of UNL will be audited, as required by law and as may be directed by USCF, by an independent registered public accounting firm designated from time to time by USCF. The accountants report will be furnished by UNL to shareholders upon request. UNL will make such elections, file such tax returns, and prepare, disseminate and file such tax reports, as it is advised by its counsel or accountants are from time to time required by any applicable statute, rule or regulation.

## ***Reports to Limited Partners***

In addition to periodic reports filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, all of which can be accessed on the SEC's website at [www.sec.gov](http://www.sec.gov) or on UNL's website at [www.uscfinvestments.com](http://www.uscfinvestments.com), UNL, pursuant to the LP Agreement, will provide the following reports to limited partners in the manner prescribed below:

*Annual Reports.* Within 90 days after the end of each fiscal year, USCF shall cause to be delivered to each limited partner who was a limited partner at any time during the fiscal year, an annual report containing the following:

- financial statements of the partnership, including, without limitation, a balance sheet as of the end of the partnership's fiscal year and statements of income, partners' equity and changes in financial position, for such fiscal (i) year, which shall be prepared in accordance with accounting principles generally accepted in the United States of America consistently applied and shall be audited by a firm of independent certified public accountants registered with the Public Company Accounting Oversight Board,
- (ii) a general description of the activities of the partnership during the period covered by the report, and
- a report of any material transactions between the partnership and USCF or any of its affiliates, including fees or (iii) compensation paid by the partnership and the services performed by USCF or any such affiliate for such fees or compensation.

*Quarterly Reports.* Within 45 days after the end of each quarter of each fiscal year, USCF shall cause to be delivered to each limited partner who was a limited partner at any time during the quarter then ended, a quarterly report



containing a balance sheet and statement of income for the period covered by the report, each of which may be unaudited but shall be certified by USCF as fairly presenting the financial position and results of operations of the partnership during the period covered by the report. The report shall also contain a description of any material event regarding the business of the partnership during the period covered by the report.

*Monthly Reports.* Within 30 days after the end of each month, USCF shall cause to be posted on UNL's website and upon request, to be delivered to each limited partner who was a limited partner at any time during the month then ended, a monthly report containing an account statement, which will include a statement of income (loss) and a statement of changes in NAV, for the prescribed period. In addition, the account statement will disclose any material business dealings between the partnership, USCF, commodity trading advisor (if any), FCM, or the principals thereof that previously have not been disclosed in this prospectus or any amendment thereto, other account statements or annual reports.

UNL will provide information to its shareholders to the extent required by applicable SEC, CFTC, and NYSE Arca requirements. An issuer, such as UNL, of exchange-traded securities may not always readily know the identities of the investors who own those securities. UNL will post the same information that would otherwise be provided in UNL's reports to limited partners described above including its monthly account statements, which will include, without limitation, UNL's NAV, on UNL's website [www.uscfinvestments.com](http://www.uscfinvestments.com).

### **Fiscal Year**

The fiscal year of UNL is the calendar year. USCF may select an alternate fiscal year.

### **Governing Law; Consent To Delaware Jurisdiction**

The rights of USCF, UNL, DTC (as registered owner of UNL's global certificate for shares) and the shareholders, are governed by the laws of the State of Delaware. USCF, UNL and DTC and, by accepting shares, each DTC Participant and each shareholder, consent to the jurisdiction of the courts of the State of Delaware and any federal courts located in Delaware. Such consent is not required for any person to assert a claim of Delaware jurisdiction over USCF or UNL.

### **Legal Matters**

#### ***Litigation and Claims***

Within the past 5 years of the date of this prospectus, there have been no material administrative, civil or criminal actions against USCF, UNL, or any principal or affiliate of any of them. This includes any actions pending, on appeal, concluded, threatened, or otherwise known to them.

#### ***Legal Opinion***

Eversheds Sutherland (US) LLP is counsel to advise UNL and USCF with respect to the shares being offered hereby and has passed upon the validity of the shares being issued hereunder. Eversheds Sutherland (US) LLP has also provided USCF with its opinion with respect to federal income tax matters addressed herein.

#### ***Experts***

Spicer Jeffries LLP, an independent registered public accounting firm, has audited the statements of financial condition of UNL as of December 31, 2017 and December 31, 2016, including the schedule of investments as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' capital and cash flows for the years ended December 31, 2017, 2016 and 2015, that appear in the annual report on Form 10-K that is incorporated by reference. The financial statements of UNL in the Form 10-K were included herein in reliance upon the report of Spicer Jeffries LLP dated March 21, 2018, given on its authority of such firm as experts in accounting and auditing.

BPM LLP, an independent registered public accounting firm, has audited the statements of financial condition of United States Commodity Funds, LLC as of December 31, 2017 and December 31, 2016 that appear in the annual report on Form 10-K of UNL that is incorporated by reference herein. Such financial statements are included in reliance upon the report of such firm, dated February 28, 2018, given their authority as experts in accounting and auditing.

### **U.S. Federal Income Tax Considerations**

The following discussion summarizes the material U.S. federal income tax consequences of the purchase, ownership and disposition of shares in UNL, and the U.S. federal income tax treatment of UNL, as of the date hereof. This discussion is applicable to a beneficial owner of shares who purchases shares in the offering to which this prospectus relates, including a beneficial owner who purchases shares from an Authorized Participant. Except where noted otherwise, it deals only with shares held as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, tax-exempt entities, insurance companies, persons holding shares as a part of a position in a “straddle” or as part of a “hedging,” “conversion” or other integrated transaction for federal income tax purposes, traders in securities or commodities that elect to use a mark-to-market method of accounting, or holders of shares whose “functional currency” is not the U.S. dollar. Furthermore, the discussion below is based upon the provisions of the Code, as amended, and regulations (“Treasury Regulations”), rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below.

Persons considering the purchase, ownership or disposition of shares should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a “U.S. shareholder” of a share means a beneficial owner of a share that is a U.S. person. A “U.S. person,” for United States federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust (X) that is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Code or (Y) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person. A “non-U.S. shareholder” is a holder that is not a U.S. shareholder and a “non-U.S. person” is an individual or entity that is not a U.S. person. If a partnership holds our shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares, you should consult your own tax advisor regarding the tax consequences.

USCF on behalf of UNL, has received the opinion of Eversheds Sutherland (US) LLP, counsel to UNL, that the material U.S. federal income tax consequences to UNL and to U.S. shareholders and non-U.S. shareholders will be as described below. In rendering its opinion, Eversheds Sutherland (US) LLP has relied on the facts described in this prospectus as well as certain factual representations made by UNL and USCF. The opinion of Eversheds Sutherland (US) LLP is not binding on the IRS, and as a result, the IRS may not agree with the tax positions taken by UNL. If challenged by the IRS, UNL’s tax positions might not be sustained by the courts. No ruling has been requested from the IRS with respect to any matter affecting UNL or prospective investors.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISOR AS TO HOW U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN UNL APPLY TO YOU AND AS TO HOW THE APPLICABLE STATE, LOCAL OR FOREIGN TAXES APPLY TO YOU.

### ***Tax Status of UNL***

UNL is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law. Under the Code, an entity classified as a partnership that is deemed to be a “publicly traded partnership” is generally taxable as a corporation for federal income tax purposes. The Code provides an exception to this general rule for a publicly traded partnership whose gross income for each taxable year of its existence consists of at least 90% “qualifying income” (“qualifying income exception”). For this purpose, section 7704 defines “qualifying income” as including, in pertinent part, interest (other than from a financial business), dividends and gains from the sale or disposition of capital assets held for the production of interest or dividends. In addition, in the case of a partnership a principal activity of which is the buying and selling of commodities (other than as inventory) or of futures, forwards and options with respect to commodities, “qualifying income” includes income and gains from such commodities and futures, forwards and options with respect to commodities. UNL and USCF have represented the following to Eversheds Sutherland (US) LLP:

At least 90% of UNL’s gross income for each taxable year will constitute “qualifying income” within the meaning of Code section 7704 (as described above);

UNL is organized and operated in accordance with its governing agreements and applicable law;

UNL has not elected, and will not elect, to be classified as a corporation for U.S. federal income tax purposes.

Based in part on these representations, Eversheds Sutherland (US) LLP is of the opinion that UNL will be classified as a partnership for federal income tax purposes and that it is not taxable as a corporation for such purposes. UNL’s taxation as a partnership rather than a corporation will require USCF to conduct UNL’s business activities in such a

manner that it satisfies the qualifying income exception on a continuing basis. No assurance can be given that UNL's operations for any given year will produce income that satisfies the requirements of the qualifying income exception. Eversheds Sutherland (US) LLP will not review UNL's ongoing compliance with these requirements and will have no obligation to advise UNL or UNL's shareholders in the event of any subsequent change in the facts, representations or applicable law relied upon in reaching its opinion.

If UNL failed to satisfy the qualifying income exception in any year, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, UNL would be taxable as a corporation for federal income tax purposes and would pay federal income tax on its income at regular corporate rates. In that event, shareholders would not report their share of UNL's income or loss on their returns.

In addition, distributions to shareholders would be treated as dividends to the extent of UNL's current and accumulated earnings and profits. Subject to holding period and other requirements, any such dividend would be a qualifying dividend subject to U.S. federal income tax at the lower maximum tax rates applicable to long-term capital gains. To the extent a distribution exceeded UNL's earnings and profits, the distribution would be treated as a return of capital to the extent of a shareholder's basis in its shares, and thereafter as gain from the sale of shares. Accordingly, if UNL were to be taxable as a corporation, it would likely have a material adverse effect on the economic return from an investment in UNL and on the value of the shares.

The remainder of this summary assumes that UNL is classified as a partnership for federal income tax purposes and that it is not taxable as a corporation.

## ***U.S. Shareholders***

### ***Tax Consequences of Ownership of Shares***

***Taxation of UNL's Income.*** No U.S. federal income tax is paid by UNL on its income. Instead, UNL files annual information returns, 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, deduction and credit of UNL. For example, shareholders must take into account their share of ordinary income realized by UNL from accruals of interest on Treasuries and other investments, and their share of gain from Natural Gas Interests. These items must be reported without regard to the amount (if any) of cash or property the shareholder receives as a distribution from UNL during the taxable year. Consequently, a shareholder may be allocated income or gain by UNL but receive no cash distribution with which to pay its tax liability resulting from the allocation, or may receive a distribution that is insufficient to pay such liability. Because USCF currently does not intend to make distributions, it is likely that in any year UNL realizes net income and/or gain that a U.S. shareholder will be required to pay taxes on its allocable share of such income or gain from sources other than UNL distributions. In addition, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their "net investment income," which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). The income subject to the additional 3.8% tax includes any income from businesses involved in the trading of financial instruments or commodities.

***Allocations of UNL's Profit and Loss.*** Under Code section 704, the determination of a partner's distributive share of any item of income, gain, loss, deduction or credit is governed by the applicable organizational document unless the allocation provided by such document lacks "substantial economic effect."

An allocation that lacks substantial economic effect nonetheless will be respected if it is in accordance with the partners' interests in the partnership, determined by taking into account all facts and circumstances relating to the economic arrangements among the partners. Subject to the discussion below, concerning certain conventions to be used by UNL, allocations of UNL income pursuant to the Partnership Agreement should be considered as having substantial economic effect or as being in accordance with a shareholder's interest in UNL.

In general, UNL applies a monthly closing-of-the-books convention in determining allocations of economic profit or loss to shareholders. Income, gain, loss and deduction are determined on a monthly "mark-to-market" basis, taking into account our accrued income and deductions and realized and unrealized gains and losses for the month. Items of taxable income, deduction, gain, loss and credit recognized by UNL for federal income tax purposes for any taxable year are allocated among holders in a manner that equitably reflects the allocation of economic profit or loss.

For any applicable period ending on or before December 31, 2017, under the monthly allocation convention used by UNL, the investor who holds a share as of the close of business on the last trading day of the current month is treated

for purposes of making allocations as if it owned the share throughout the current month regardless of when such shareholder acquired such share. For example, an investor who buys a share on April 10 of a year and sells it on May 20 of the same year will be allocated all of the tax items attributable to April (because he is deemed to hold it through the month of April) but will not be allocated any of the tax items attributable to May. The tax items attributable to that share for May will be allocated to the person who is the actual or deemed holder of the share as of the close of business on the last trading day of May.

Effective for any applicable period beginning on or after January 1, 2018, UNL intends to modify its monthly allocation convention. Under the modified monthly allocation convention for any such period, an investor who holds a share as of the close of business on the last trading day of the previous month, such investor will be treated for purposes of making allocations as if it owned the share throughout the current month even if such investor disposes of such share during the current month. For example, an investor who buys a share on April 10 of a year and sells it on May 20 of the same year will be allocated all of the tax items attributable to May (because he is deemed to hold it through the last day of May) but will not be allocated any of the tax items attributable to April. The tax items attributable to that share for April will be allocated to the person who is the actual or deemed holder of the share as of the close of business on the last trading day of March.

Under the monthly convention, an investor who purchases and sells a share during the same month, and therefore does not hold (and is not deemed to hold) the share at the close of business on the last trading day of either that month or the previous month, will receive no allocations with respect to that share for any period. Accordingly, investors may receive no allocations with respect to shares that they actually held, or may receive allocations with respect to shares attributable to periods that they did not actually hold the shares. As a result of the transition to the new monthly convention, an investor who holds shares as of the last business day of December 2017 will be treated for purposes of making allocations as if it owned the share throughout December 2017 and January 2018 regardless of when such investor acquired or sold such share and therefor will be allocated the tax items for that month, as well as the tax items for December 2017 and January 2018.

By investing in shares, a U.S. Shareholder agrees that, in the absence of new legislation, regulatory or administrative guidance, or judicial rulings to the contrary, it will file its U.S. income tax returns in a manner that is consistent with the monthly allocation convention as described above and with the IRS Schedule K-1 or any successor form provided to shareholders by UNL.

In addition, for any month in which a Creation Basket is issued or a Redemption Basket is redeemed, UNL generally will credit or debit the “book” capital accounts of its existing shareholders with any unrealized gain or loss on UNL’s assets. The capital accounts as adjusted in this manner will be used in making tax allocations intended to account for the differences between the tax basis and fair market value of the assets of UNL at the time new shares are issued or outstanding shares are redeemed (so-called “reverse Code section 704(c) allocations”). The intended effect of these adjustments is to equitably allocate among shareholders any unrealized appreciation or depreciation in UNL’s assets existing at the time of a contribution or redemption for book and tax purposes.

UNL applies certain conventions in determining and allocating items for tax purposes in order to reduce the complexity and costs of administration. USCF believes that application of these conventions is consistent with the intent of the partnership provisions of the Code and the applicable Treasury Regulations, and that the resulting allocations will have substantial economic effect or otherwise should be respected as being in accordance with shareholders’ interests in UNL for federal income tax purposes. The Code and existing Treasury Regulations do not expressly permit adoption of these conventions although the monthly allocation convention described above is consistent with methods permitted under the applicable Treasury Regulations, as well as the legislative history for the provisions that require allocations to appropriately reflect changes in ownership interests. It is possible that the IRS could successfully challenge UNL’s allocations methods on the ground that they do not satisfy the technical requirements off the Code or Treasury Regulations, requiring a shareholder to report a greater or lesser share of items of income, gain, loss, deduction, or credit than if our method were respected. USCF is authorized to revise our allocation method to conform to any method permitted under future Treasury Regulations.

The assumptions and conventions used in making tax allocations may cause a shareholder to be allocated more or less income or loss for federal income tax purposes than its proportionate share of the economic income or loss realized by UNL during the period it held its shares. This “mismatch” between taxable and economic income or loss in some cases may be temporary, reversing itself in a later period when the shares are sold, but could be permanent.

*Section 754 Election.* UNL has made the election permitted by section 754 of the Code, which election is irrevocable without the consent of the Service. The effect of this election is that, in connection with secondary market sales, we adjust the purchaser’s proportionate share of the tax basis of our assets to fair market value, as reflected in the price paid for the shares, as if the purchaser had directly acquired an interest in our assets. The section 754 election is intended to eliminate disparities between a partner’s basis in its partnership interest and its share of the tax bases of the partnership’s assets, so that the partner’s allocable share of taxable gain or loss on a disposition of an asset will correspond to its share of the appreciation or depreciation in the value of the asset since it acquired its interest. Depending on the price paid for shares and the tax bases of UNL’s assets at the time of the purchase, the effect of the



section 754 election on a purchaser of shares may be favorable or unfavorable. In order to make the appropriate basis adjustments in a cost-effective manner, UNL will use certain simplifying conventions and assumptions. In particular, all transfers of shares in UNL will be deemed to take place at a price (the “single monthly price”) equal to the value of such share at the end of the Business Day during the month in which the transfer takes place on which the value of a share is lowest at close of the market. Adjustments to be made under Sections 734(b) and 743(b) of the Code will be made using the same monthly convention, including by reference to the single monthly price. It is possible the IRS will successfully assert that the conventions and assumptions applied are improper and require different basis adjustments to be made, which could adversely affect some shareholders.

*Mark to Market of Certain Exchange-Traded Contracts.* For federal income tax purposes, UNL generally is required to use a “mark-to-market” method of accounting under which unrealized gains and losses on instruments constituting “section 1256 contracts” are recognized currently. A section 1256 contract is defined as: (1) a futures contract that is traded on or subject to the rules of a national securities exchange which is registered with the SEC, a domestic board of trade designated as a contract market by the CFTC, or any other board of trade or exchange designated by the Secretary of the Treasury, and with respect to which the amount required to be deposited and the amount that may be withdrawn depends on a system of “marking to market”; (2) a forward contract on exchange-traded foreign currencies, where the contracts are traded in the interbank market; (3) a non-equity option traded on or subject to the rules of a qualified board or exchange; (4) a dealer equity option; or (5) a dealer securities futures contract.

Under these rules, section 1256 contracts held by UNL at the end of each taxable year, including for example Futures Contracts and options on Futures Contracts traded on a U.S. exchange or board of trade or certain foreign exchanges, are treated as if they were sold by UNL for their fair market value on the last business day of the taxable year. A shareholder’s distributive share of UNL’s net gain or loss with respect to each section 1256 contract generally is treated as long-term capital gain or loss to the extent of 60 percent thereof, and as short-term capital gain or loss to the extent of 40 percent thereof, without regard to the actual holding period (“60-40 treatment”).

Many of UNL’s Futures Contracts and some of their other commodity interests will qualify as “section 1256 contracts” under the Code. Gain or loss recognized through disposition, termination or marking-to-market of UNL’s section 1256 contracts will be subject to 60-40 treatment and allocated to shareholders in accordance with the monthly allocation convention. Cleared swaps and other commodity swaps will most likely not qualify as section 1256 contracts. If a commodity swap is not treated as a section 1256 contract, any gain or loss on the swap recognized at the time of disposition or termination will be long-term or short-term capital gain or loss depending on the holding period of the swap.

*Limitations on Deductibility of Losses and Certain Expenses.* A number of different provisions of the Code may defer or disallow the deduction of losses or expenses allocated to you by UNL, including but not limited to those described below.

A shareholder’s deduction of its allocable share of any loss of UNL is limited to the lesser of (1) the tax basis in its shares or (2) in the case of a shareholder that is an individual or a closely held corporation, the amount which the shareholder is considered to have “at risk” with respect to our activities. In general, the amount at risk will be your invested capital plus your share of any recourse debt of UNL for which you are liable. Losses in excess of the lesser of tax basis or the amount at risk must be deferred until years in which UNL generates additional taxable income against which to offset such carryover losses or until additional capital is placed at risk.

Noncorporate taxpayers are permitted to deduct capital losses only to the extent of their capital gains for the taxable year plus \$3,000 of other income. Unused capital losses can be carried forward and used to offset capital gains in future years. In addition, a noncorporate taxpayer may elect to carry back net losses on section 1256 contracts to each of the three preceding years and use them to offset section 1256 contract gains in those years, subject to certain limitations. Corporate taxpayers generally may deduct capital losses only to the extent of capital gains, subject to special carryback and carryforward rules.

For taxable years beginning before January 1, 2026, otherwise deductible expenses incurred by noncorporate taxpayers constituting “miscellaneous itemized deductions,” generally including investment-related expenses (other than interest and certain other specified expenses), are not deductible. For taxable years beginning on or after January 1, 2026, such miscellaneous itemized deductions are deductible only to the extent they exceed 2 percent of the taxpayer’s adjusted gross income for the year. Although the matter is not free from doubt, we believe management fees we pay to USCF and other expenses we incur will constitute investment-related expenses subject to the miscellaneous itemized

deduction limitation, rather than expenses incurred in connection with a trade or business, and will report these expenses consistent with that interpretation. In addition, for taxable years beginning on or after January 1, 2026, the Code imposes additional limitations on the amount of certain itemized deductions allowable to individuals with adjusted gross income in excess of certain amounts by reducing the otherwise allowable portion of such deductions by an amount equal to the lesser of:

- 3% of the individual's adjusted gross income in excess of certain threshold amounts; or
  - 80% of the amount of certain itemized deductions otherwise allowable for the taxable year.
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For taxable years beginning before January 1, 2026, noncorporate shareholders are entitled to a deduction (subject to certain limitations) equal to their “combined qualified business income.” “Combined qualified business income” for this purpose includes 20% of a noncorporate taxpayer’s “qualified publicly traded partnership income.” In general, “qualified publicly traded partnership income” includes a noncorporate taxpayer’s allocable share of “qualified items” of income, gain, deduction, and loss. A “qualified item” for this purpose is an item of income, gain deduction, or loss that is effectively connected with a U.S. trade or business and includible income for the year. As discussed below, although the matter is not free from doubt, UNL believes that the activities directly conducted by UNL will not result in UNL being engaged in a trade or business within in the United States. *See* “Non-U.S. Shareholders—Withholding on Allocations and Distributions” below. As a result, we do not anticipate that any of our items of income, gain, deduction, or loss will be reported as “qualified publicly traded partnership income” eligible for the deduction for “combined qualified business income.” “Qualified publicly traded partnership income” also includes any gain or loss from the sale of an interest in a partnership to extent attributable to “unrealized receivables” or “inventory” under section 751. (For a discussion of section 751, *see* “Tax Consequences of Disposition of Shares” below.) A noncorporate taxpayer that recognizes any gain or loss from the sale of an interest in UNL that is attributable to “unrealized receivables” or “inventory” under section 751 should consult with such taxpayer’s tax advisor to determine whether any portion of such gain or loss constitutes “qualified publicly traded partnership income” eligible for the deduction for “combined qualified business income.”

A taxpayer is generally prohibited from deducting business interest to the extent that it exceeds the sum of (i) business interest income of such taxpayer, (ii) 30% of the adjusted taxable income of such taxpayer, plus (iii) the floor plan financing interest of such taxpayer. In the case of partnerships, this determination is made at the partnership level. To the extent that the business income of the partnership exceeds the amount necessary to absorb all of the partnership’s business interest, such excess amount is allocated to the partners as excess business income, which amount may be used against any business interest of the partner (but not any other partnerships). To the extent that the partnership has any disallowed business interest expense, such amount is allocated among the partners, reduces the partners’ outside basis in their partnership interests by their allocable shares, and is carried forward to future years. Such carry forward may only be used as a deduction to the extent that the partnership has excess business income in the future. In the event that a partner transfers a partnership interest with any excess business interest carry forward amounts, such amounts increase the partner’s basis in its partnership interest immediately before the transfer. Although it is not free from doubt, UNL does not anticipate that it will be treated as engaged in a trade or business. As a result, UNL does not anticipate that any portion of its interest expense (if any) will constitute business interest or that shareholders will be allocated any excess business income as a result of holding UNL shares.

Noncorporate shareholders generally may deduct “investment interest expense” only to the extent of their “net investment income.” Investment interest expense of a shareholder will generally include any interest accrued by UNL and any interest paid or accrued on direct borrowings by a shareholder to purchase or carry its shares, such as interest with respect to a margin account. Net investment income generally includes gross income from property held for investment (including “portfolio income” under the passive loss rules but not, absent an election, long-term capital gains or certain qualifying dividend income) less deductible expenses other than interest directly connected with the production of investment income.

To the extent that we allocate losses or expenses to you that must be deferred or disallowed as a result of these or other limitations in the Code, you may be taxed on income in excess of your economic income or distributions (if any) on your shares. As one example, you could be allocated and required to pay tax on your share of interest income accrued by UNL for a particular taxable year, and in the same year be allocated a share of a capital loss that you cannot deduct currently because you have insufficient capital gains against which to offset the loss. As another example, you could be allocated and required to pay tax on your share of interest income and capital gain for a year, but be unable to deduct some or all of your share of management fees and/or margin account interest incurred by you with respect to your shares. Shareholders are urged to consult their own professional tax advisors regarding the effect of limitations under the Code on your ability to deduct your allocable share of UNL’s losses and expenses.

*Tax Basis of Shares*

A shareholder's tax basis in its shares is important in determining (1) the amount of taxable gain or loss it will realize on the sale or other disposition of its shares, (2) the amount of non-taxable distributions that it may receive from UNL and (3) its ability to utilize its distributive share of any losses of UNL on its tax return. A shareholder's initial tax basis of its shares will equal its cost for the shares plus its share of UNL's liabilities (if any) at the time of purchase. In general, a shareholder's "share" of those liabilities will equal the sum of (i) the entire amount of any otherwise nonrecourse liability of UNL as to which the shareholder or an affiliate is the creditor (a "partner nonrecourse liability") and (ii) a *pro rata* share of any nonrecourse liabilities of UNL that are not partner nonrecourse liabilities as to any shareholder.

A shareholder's tax basis in its shares generally will be (1) increased by (a) its allocable share of UNL's taxable income and gain and (b) any additional contributions by the shareholder to UNL and (2) decreased (but not below zero) by (a) its allocable share of UNL's tax deductions and losses and (b) any distributions by UNL to the shareholder. For this purpose, an increase in a shareholder's share of UNL's liabilities will be treated as a contribution of cash by the shareholder to UNL and a decrease in that share will be treated as a distribution of cash by UNL to the shareholder. Pursuant to certain IRS rulings, a shareholder will be required to maintain a single, "unified" basis in all shares that it owns. As a result, when a shareholder that acquired its shares at different prices sells less than all of its shares, such shareholder will not be entitled to specify particular shares (*e.g.*, those with a higher basis) as having been sold. Rather, it must determine its gain or loss on the sale by using an "equitable apportionment" method to allocate a portion of its unified basis in its shares to the shares sold.

*Treatment of UNL Distributions.* If UNL makes non-liquidating distributions to shareholders, such distributions generally will not be taxable to the shareholders for federal income tax purposes except to the extent that the sum of (i) the amount of cash and (ii) the fair market value of marketable securities distributed exceeds the shareholder's adjusted basis of its interest in UNL immediately before the distribution. Any cash distributions in excess of a shareholder's tax basis generally will be treated as gain from the sale or exchange of shares.

#### *Tax Consequences of Disposition of Shares*

If a shareholder sells its shares, it will recognize gain or loss equal to the difference between the amount realized and its adjusted tax basis for the shares sold. A shareholder's amount realized will be the sum of the cash or the fair market value of other property received plus its share of any UNL debt outstanding.

Gain or loss recognized by a shareholder on the sale or exchange of shares held for more than one year will generally be taxable as long-term capital gain or loss; otherwise, such gain or loss will generally be taxable as short-term capital gain or loss. A special election is available under the Treasury Regulations that will allow shareholders to identify and use the actual holding periods for the shares sold for purposes of determining whether the gain or loss recognized on a sale of shares will give rise to long-term or short-term capital gain or loss. It is expected that most shareholders will be eligible to elect, and generally will elect, to identify and use the actual holding period for shares sold. If a shareholder fails to make the election or is not able to identify the holding periods of the shares sold, the shareholder may have a split holding period in the shares sold. Under such circumstances, a shareholder will be required to determine its holding period in the shares sold by first determining the portion of its entire interest in UNL that would give rise to long-term capital gain or loss if its entire interest were sold and the portion that would give rise to short-term capital gain or loss if the entire interest were sold. The shareholder would then treat each share sold as giving rise to long-term capital gain or loss and short-term capital gain or loss in the same proportions as if it had sold its entire interest in UNL.

Under Section 751 of the Code, a portion of a shareholder's gain or loss from the sale of shares (regardless of the holding period for such shares), will be separately computed and taxed as ordinary income or loss to the extent attributable to "unrealized receivables" or "inventory" owned by UNL. The term "unrealized receivables" includes, among other things, market discount bonds and short-term debt instruments to the extent such items would give rise to ordinary income if sold by UNL. However, the short-term capital gain on section 1256 contracts resulting from 60-40 treatment, described above, should not be subject to this rule.

If some or all of your shares are lent by your broker or other agent to a third party — for example, for use by the third party in covering a short sale — you may be considered as having made a taxable disposition of the loaned shares, in which case —

- you may recognize taxable gain or loss to the same extent as if you had sold the shares for cash;
- any of UNL's income, gain, loss or deduction allocable to those shares during the period of the loan will not be reportable by you for tax purposes; and

- any distributions you receive with respect to the shares will be fully taxable, most likely as ordinary income.

Shareholders desiring to avoid these and other possible consequences of a deemed disposition of their shares should consider modifying any applicable brokerage account agreements to prohibit the lending of their shares.

#### *Other Tax Matters*

*Information Reporting.* We report tax information to the beneficial owners of shares. The IRS has ruled that assignees of partnership interests who have not been admitted to a partnership as partners but who have the capacity to exercise substantial dominion and control over the assigned partnership interests will be considered beneficial owners for

federal income tax purposes. On the basis of such ruling, except as otherwise provided herein, we treat the following persons as partners for federal income tax purposes: (1) assignees of shares who are pending admission as limited partners, and (2) shareholders whose shares are held in street name or by another nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their shares. UNL will furnish shareholders each year with tax information on IRS Schedule K-1 (Form 1065), which will be used by the shareholders in completing their tax returns.

Persons who hold an interest in UNL as a nominee for another person are required to furnish to us the following information: (1) the name, address and taxpayer identification number of the beneficial owner and the nominee; (2) whether the beneficial owner is (a) a person that is not a U.S. person, (b) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (c) a tax-exempt entity; (3) the amount and description of shares acquired or transferred for the beneficial owner; and (4) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales. Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and certain information on shares they acquire, hold or transfer for their own account. The nominee is required to supply the beneficial owner of the shares with the information furnished to us. Penalties may apply for failure to report required information.

*Additional 3.8% Tax on Net Investment Income.* Individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their “net investment income,” which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). The income subject to the additional 3.8% tax includes any income from businesses involved in the trading of financial instruments or commodities.

*Partnership Audit Procedures.* The IRS may audit the federal income tax returns filed by UNL. Partnerships are generally treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS, and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined at the partnership level in a unified partnership proceeding rather than in separate proceedings with the shareholders.

UNL 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 shareholder 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 UNL is required to pay any U.S. federal income taxes on any imputed understatement, the resulting tax liability would reduce the net assets of UNL and would likely have an adverse impact on the value of the shares. Under certain circumstances, UNL 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 UNL to make this election is uncertain. If the election is made, UNL 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. The Code generally requires UNL to designate one person as the “partnership representative” who has sole authority to conduct an audit with the IRS, challenge any adjustment in a court of law, and settle any audit or other proceeding. The LP Agreement appoints USCF as the partnership representative of UNL.

*Tax Shelter Disclosure Rules.* In certain circumstances the Code and Treasury Regulations require that the IRS be notified of taxable transactions through a disclosure statement attached to a taxpayer’s United States federal income tax return. These disclosure rules may apply to transactions irrespective of whether they are structured to achieve particular tax benefits. They could require disclosure by UNL or shareholders if a shareholder incurs a loss in excess a specified threshold from a sale or redemption of its shares or possibly in other circumstances. While these rules generally do not require disclosure of a loss recognized on the disposition of an asset in which the taxpayer has a “qualifying basis” (generally a basis equal to the amount of cash paid by the taxpayer for such asset), they apply to a loss recognized with respect to interests in a pass-through entity, such as the shares, even if the taxpayer’s basis in such interests is equal to the amount of cash it paid. In addition, under recently enacted legislation, significant penalties



may be imposed in connection with a failure to comply with these reporting requirements. *Investors should consult their own tax advisors concerning the application of these reporting requirements to their specific situation.*

*Tax-Exempt Organizations.* Subject to numerous exceptions, qualified retirement plans and individual retirement accounts, charitable organizations and certain other organizations that otherwise are exempt from federal income tax (collectively “exempt organizations”) nonetheless are subject to the tax on unrelated business taxable income (“UBTI”). Generally, UBTI means the gross income derived by an exempt organization from a trade or business that it regularly carries on, the conduct of which is not substantially related to the exercise or performance of its exempt purpose or function, less allowable deductions directly connected with that trade or business. If UNL were to regularly carry on (directly or indirectly) a trade or business that is unrelated with respect to an exempt organization shareholder, then in computing its UBTI, the shareholder must include its share of (1) UNL’s gross income from the unrelated trade or business, whether or not distributed, and (2) UNL’s allowable deductions directly connected with that gross income.

UBTI generally does not include dividends, interest, or payments with respect to securities loans and gains from the sale of property (other than property held for sale to customers in the ordinary course of a trade or business). Nonetheless, income on, and gain from the disposition of, “debt-financed property” is UBTI. Debt-financed property generally is income-producing property (including securities), the use of which is not substantially related to the exempt organization’s tax-exempt purposes, and with respect to which there is “acquisition indebtedness” at any time during the taxable year (or, if the property was disposed of during the taxable year, the 12-month period ending with the disposition). Acquisition indebtedness includes debt incurred to acquire property, debt incurred before the acquisition of property if the debt would not have been incurred but for the acquisition, and debt incurred subsequent to the acquisition of property if the debt would not have been incurred but for the acquisition and at the time of acquisition the incurrence of debt was foreseeable. The portion of the income from debt-financed property attributable to acquisition indebtedness is equal to the ratio of the average outstanding principal amount of acquisition indebtedness over the average adjusted basis of the property for the year. UNL currently does not anticipate that it will borrow money to acquire investments; however, UNL cannot be certain that it will not borrow for such purpose in the future. In addition, an exempt organization shareholder that incurs acquisition indebtedness to purchase its shares in UNL may have UBTI.

The federal tax rate applicable to an exempt organization shareholder on its UBTI generally will be either the corporate or trust tax rate, depending upon the shareholder’s form of organization. UNL may report to each such shareholder information as to the portion, if any, of the shareholder’s income and gains from UNL for any year that will be treated as UBTI; the calculation of that amount is complex, and there can be no assurance that UNL’s calculation of UBTI will be accepted by the Service. An exempt organization shareholder will be required to make payments of estimated federal income tax with respect to its UBTI.

*Regulated Investment Companies.* Interests in and income from “qualified publicly traded partnerships” satisfying certain gross income tests are treated as qualifying assets and income, respectively, for purposes of determining eligibility for regulated investment company (“RIC”) status. A RIC may invest up to 25% of its assets in interests in a qualified publicly traded partnership. The determination of whether a publicly traded partnership such as UNL is a qualified publicly traded partnership is made on an annual basis. UNL expects to be a qualified publicly traded partnership in each of its taxable years. However, such qualification is not assured.

### ***Non-U.S. Shareholders***

Generally, non-U.S. persons who derive U.S. source income or gain from investing or engaging in a U.S. business are taxable on two categories of income. The first category consists of amounts that are fixed, determinable, annual and periodic income, such as interest, dividends and rent that are not connected with the operation of a U.S. trade or business (“FDAP”). The second category is income that is effectively connected with the conduct of a U.S. trade or business (“ECI”). FDAP income (other than interest that is considered “portfolio interest”) is generally subject to a 30 percent withholding tax, which may be reduced for certain categories of income by a treaty between the U.S. and the recipient’s country of residence. In contrast, ECI is generally subject to U.S. tax on a net basis at graduated rates upon the filing of a U.S. tax return. Where a non-U.S. person has ECI as a result of an investment in a partnership, the ECI is subject to a withholding tax at a rate of 37% (39.6% for taxable years beginning after December 31, 2025) individual shareholders and a rate of 21% for corporate shareholders.

*Withholding on Allocations and Distributions.* The Code provides that a non-U.S. person who is a partner in a partnership that is engaged in a U.S. trade or business during a taxable year will also be considered to be engaged in a U.S. trade or business during that year. Classifying an activity by a partnership as an investment or an operating business is a factual determination. Under certain safe harbors in the Code, an investment fund whose activities consist of trading in stocks, securities, or commodities for its own account generally will not be considered to be engaged in a U.S. trade or business unless it is a dealer in such stocks, securities, or commodities. This safe harbor

applies to investments in commodities only if the commodities are of a kind customarily dealt in on an organized commodity exchange and if the transaction is of a kind customarily consummated at such place. Although the matter is not free from doubt, UNL believes that the activities directly conducted by UNL will not result in UNL being engaged in a trade or business within in the United States. However, there can be no assurance that the IRS would not successfully assert that UNL's activities constitute a U.S. trade or business.

In the event that UNL's activities were considered to constitute a U.S. trade or business, UNL would be required to withhold at the highest rate specified in Code section 1 (currently 37% (39.6% for taxable years beginning after December 31, 2026)) on allocations of our income to individual non-U.S. Shareholders and the highest rate specified in Code section 11(b) (currently 21%) on allocations of our income to corporate non-U.S. Shareholders, when such income is allocated or distributed. A non-U.S. shareholder with ECI will generally be required to file a U.S. federal income tax return, and the return will provide the non-U.S. shareholder with the mechanism to seek a refund of any withholding in excess of such shareholder's actual U.S. federal income tax liability. Any amount withheld by UNL on behalf of a non-U.S. shareholder will be treated as a distribution to the non-U.S. shareholder to the extent possible. In some cases, UNL may not be able to match the economic cost of satisfying its withholding obligations to a particular non-U.S. shareholder, which may result in such cost being borne by UNL, generally, and accordingly, by all shareholders.

If UNL is not treated as engaged in a U.S. trade or business, a non-U.S. shareholder may nevertheless be treated as having FDAP income, which would be subject to a 30 percent withholding tax (possibly subject to reduction by treaty), with respect to some or all of its distributions from UNL or its allocable share of UNL income. Amounts withheld on behalf of a non-U.S. shareholder will be treated as being distributed to such shareholder.

To the extent any interest income allocated to a non-U.S. shareholder that otherwise constitutes FDAP is considered “portfolio interest,” neither the allocation of such interest income to the non-U.S. shareholder nor a subsequent distribution of such interest income to the non-U.S. shareholder will be subject to withholding, provided that the non-U.S. shareholder is not otherwise engaged in a trade or business in the U.S. and provides UNL with a timely and properly completed and executed IRS Form W-8BEN, W-8BEN-E, or other applicable form. In general, “portfolio interest” is interest paid on debt obligations issued in registered form, unless the “recipient” owns 10 percent or more of the voting power of the issuer.

Most of UNL’s interest income qualifies as “portfolio interest.” In order for UNL to avoid withholding on any interest income allocable to non-U.S. shareholders that would qualify as “portfolio interest,” it will be necessary for all non-U.S. shareholders to provide UNL with a timely and properly completed and executed Form W-8BEN or W-8BEN-E (or other applicable form). If a non-U.S. shareholder fails to provide a properly completed Form W-8BEN, W-8BEN-E, or other applicable form, USCF may request that the non-U.S. shareholder provide, within 15 days after the request by USCF, a properly completed Form W-8BEN, W-8BEN-E, or other applicable form. If a non-U.S. shareholder fails to comply with this request, the shares owned by such non-U.S. shareholder will be subject to redemption.

*Gain from Sale of Shares.* Gain from the sale or exchange of the shares may be taxable to a non-U.S. shareholder if the non-U.S. shareholder is a nonresident alien individual who is present in the U.S. for 183 days or more during the taxable year. In such case, the nonresident alien individual will be subject to a 30 percent withholding tax on the amount of such individual’s gain. In addition, if UNL is treated as being engaged in a U.S. trade or business, a portion of the gain on the sale or exchange will be treated as effectively connected income subject to U.S. federal income tax to the extent that a sale of UNL’s assets would give rise to effectively connected income. Although the transferee of a partnership interest is generally required to withhold 10% of the proceeds from the sale of a partnership interest acquired from a non-U.S. partner if any portion of the gain would be treated as effectively connected income, the IRS has issued a notice in which it has indicated that such withholding requirement will not apply to transferees of publicly traded partnership interests until the IRS and Treasury issue regulations implementing such provision. However, this does not relieve a non-U.S. shareholder from U.S. income tax on any gain treated as effectively connected income.

*Branch Profits Tax on Corporate Non-U.S. Shareholders.* In addition to the taxes noted above, any non-U.S. shareholders that are corporations may also be subject to an additional tax, the branch profits tax, at a rate of 30 percent. The branch profits tax is imposed on a non-U.S. corporation’s dividend equivalent amount, which generally consists of the corporation’s after-tax earnings and profits that are effectively connected with the corporation’s U.S. trade or business but are not reinvested in a U.S. business. This tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the non-U.S. shareholder is a “qualified resident.”

*Prospective non-U.S. shareholders should consult their tax advisor with regard to these and other issues unique to non-U.S. shareholders.*

## **Backup Withholding**

UNL may be required to withhold U.S. federal income tax (“backup withholding”) at a rate of 28% from all taxable distributions payable to: (1) any shareholder who fails to furnish UNL with his, her or its correct taxpayer identification number or a certificate that the shareholder is exempt from backup withholding, and (2) any shareholder with respect to whom the IRS notifies UNL that the shareholder has failed to properly report certain interest and

dividend income to the IRS and to respond to notices to that effect. Backup withholding is not an additional tax and may be returned or credited against a taxpayer's regular federal income tax liability if appropriate information is provided to the IRS.

## **Tax Agent**

The beneficial owners who are of a type, as identified by the nominee through whom their Shares are held, that do not ordinarily have U.S. federal tax return filing requirements, collectively, Certain K-1 shareholders, have designated the General Partner as their tax agent, or the Tax Agent, in dealing with the Partnership. In light of such designation and pursuant to Treasury Regulation section 1.6031(b)-1T(c), as amended from time to time, the Partnership will provide to the Tax Agent Certain K-1 shareholders' statements as such term is defined under Treasury Regulation section 1.6031(b)-1T(a)(3), as amended from time to time.

## **Foreign Account Tax Compliance Act Provisions**

Legislation commonly referred to as the "Foreign Account Tax Compliance Act," or "FATCA," generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions ("FFIs") unless such FFIs (1) enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners) or (2) reside in a jurisdiction that has entered into an intergovernmental agreement ("IGA") with the United States to collect and share such information and comply with the terms of such IGA and any enabling legislation or regulations. The types of income subject to the tax include U.S.-source interest and dividends, and, after December 31, 2018, the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding tax on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. Depending on the status of a non-U.S. shareholder and the status of the intermediaries through which they hold their shares, Non-U.S. shareholders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a non-U.S. shareholder might be eligible for refunds or credits of such taxes.

## **Other Tax Considerations**

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 UNL 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 UNL. It is each shareholder's responsibility to file the appropriate U.S. federal, state, local, and foreign tax returns. Eversheds Sutherland (US) LLP has not provided an opinion concerning any aspects of state, local or foreign tax or U.S. federal tax other than those U.S. federal income tax issues discussed herein.

## **Investment by ERISA Accounts**

### ***General***

Most employee benefit plans and individual retirement accounts ("IRAs") are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Code, or both. This section discusses certain considerations that arise under ERISA and the Code that a fiduciary of: (i) an employee benefit plan as defined in ERISA; (ii) a plan as defined in Section 4975 of the Code; or (iii) any collective investment vehicle, business trust, investment partnership, pooled separate account or other entity the assets of which are treated as comprised (at least in part) of "plan assets" under the ERISA plan asset rules ("plan asset entity"); who has investment discretion should take into

account before deciding to invest the plan's assets in UNL. Employee benefit plans, plans and plan asset entities are collectively referred to below as plans, and fiduciaries with investment discretion are referred to below as plan fiduciaries.

This summary is based on the provisions of ERISA and the Code as of the date hereof. This summary is not intended to be complete, but only to address certain questions under ERISA and the Code likely to be raised by your advisors. The summary does not include state or local law.

**Potential plan investors are urged to consult with their own professional advisors concerning the appropriateness of an investment in UNL and the manner in which shares should be purchased.**

***Special Investment Considerations***

Each plan fiduciary must consider the facts and circumstances that are relevant to an investment in UNL, including the role that an investment in UNL would play in the plan's overall investment portfolio. Each plan fiduciary, before deciding to invest in UNL, must be satisfied that the investment is prudent for the plan, that the investments of the plan are diversified so as to minimize the risk of large losses and that an investment in UNL complies with the terms of the plan.

### ***UNL and Plan Assets***

A regulation issued under ERISA contains rules for determining when an investment by a plan in an equity interest of a limited partnership will result in the underlying assets of the partnership being deemed plan assets for purposes of ERISA and Section 4975 of the Code. Those rules provide that assets of a limited partnership will not be plan assets of a plan that purchases an equity interest in the partnership if the equity interest purchased is a publicly-offered security. If the underlying assets of a partnership are considered to be assets of any plan for purposes of ERISA or Section 4975 of the Code, the operations of that partnership would be subject to and, in some cases, limited by, the provisions of ERISA and Section 4975 of the Code.

The publicly-offered security exception described above applies if the equity interest is a security that is:

1. freely transferable (determined based on the relevant facts and circumstances);
2. part of a class of securities that is widely held (meaning that the class of securities is owned by 100 or more investors independent of the issuer and of each other); and  
either (a) part of a class of securities registered under Section 12(b) or 12(g) of the Exchange Act or (b) sold to the plan as part of a public offering pursuant to an effective registration statement under the Securities Act of 1933 and
3. the class of which such security is a part is registered under the Exchange Act within 120 days (or such later time as may be allowed by the SEC) after the end of the fiscal year of the issuer in which the offering of such security occurred.

The plan asset regulations under ERISA state that the determination of whether a security is freely transferable is to be made based on all the relevant facts and circumstances. In the case of a security that is part of an offering in which the minimum investment is \$10,000 or less, the following requirements, alone or in combination, ordinarily will not affect a finding that the security is freely transferable: (1) a requirement that no transfer or assignment of the security or rights relating to the security be made that would violate any federal or state law, (2) a requirement that no transfer or assignment be made without advance written notice given to the entity that issued the security, and (3) any restriction on the substitution of an assignee as a limited partner of a partnership, including a general partner consent requirement, provided that the economic benefits of ownership of the assignor may be transferred or assigned without regard to such restriction or consent (other than compliance with any of the foregoing restrictions).

USCF believes that the conditions described above are satisfied with respect to the shares. USCF believes that the shares therefore constitute publicly-offered securities, and the underlying assets of UNL are not considered to constitute plan assets of any plan that purchases shares.

### ***Prohibited Transactions***

ERISA and the Code generally prohibit certain transactions involving the plan and persons who have certain specified relationships to the plan.

In general, shares may not be purchased with the assets of a plan if USCF, the clearing brokers, the trading advisors (if any), or any of their affiliates, agents or employees either:

- exercise any discretionary authority or discretionary control with respect to management of the plan;
- exercise any authority or control with respect to management or disposition of the assets of the plan;
- render investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the plan;
- have any authority or responsibility to render investment advice with respect to any monies or other property of the plan; or
- have any discretionary authority or discretionary responsibility in the administration of the plan.



Also, a prohibited transaction may occur under ERISA or the Code when circumstances indicate that (1) the investment in a share is made or retained for the purpose of avoiding application of the fiduciary standards of ERISA, (2) the investment in a share constitutes an arrangement under which UNL is expected to engage in transactions that would otherwise be prohibited if entered into directly by the plan purchasing the share, (3) the investing plan, by itself, has the authority or influence to cause UNL to engage in such transactions, or (4) a person who is prohibited from transacting with the investing plan may, but only with the aid of certain of its affiliates and the investing plan, cause UNL to engage in such transactions with such person.

### *Special IRA Rules*

Individual retirement accounts (“IRAs”) are not subject to ERISA’s fiduciary standards, but are subject to their own rules, including the prohibited transaction rules of Section 4975 of the Code, which generally mirror ERISA’s prohibited transaction rules. For example, IRAs are subject to special custody rules and must maintain a qualifying IRA custodial arrangement separate and distinct from UNL and its custodial arrangement. Otherwise, if a separate qualifying custodial arrangement is not maintained, an investment in the shares will be treated as a distribution from the IRA. Second, IRAs are prohibited from investing in certain commingled investments, and USCF makes no representation regarding whether an investment in shares is an inappropriate commingled investment for an IRA. Third, in applying the prohibited transaction provisions of Section 4975 of the Code, in addition to the rules summarized above, the individual for whose benefit the IRA is maintained is also treated as the creator of the IRA. For example, if the owner or beneficiary of an IRA enters into any transaction, arrangement, or agreement involving the assets of his or her IRA to benefit the IRA owner or beneficiary (or his or her relatives or business affiliates) personally, or with the understanding that such benefit will occur, directly or indirectly, such transaction could give rise to a prohibited transaction that is not exempted by any available exemption. Moreover, in the case of an IRA, the consequences of a non-exempt prohibited transaction are that the IRA’s assets will be treated as if they were distributed, causing immediate taxation of the assets (including any early distribution penalty tax applicable under Section 72 of the Code), in addition to any other fines or penalties that may apply.

### *Exempt Plans*

Certain employee benefit plans may be governmental plans or church plans. Governmental plans and church plans are generally not subject to ERISA, nor do the above-described prohibited transaction provisions described above apply to them. These plans are, however, subject to prohibitions against certain related-party transactions under Section 503 of the Code, which operate similar to the prohibited transaction rules described above. In addition, the fiduciary of any governmental or church plan must consider any applicable state or local laws and any restrictions and duties of common law imposed upon the plan.

No view is expressed as to whether an investment in UNL (and any continued investment in UNL), or the operation and administration of UNL, is appropriate or permissible for any governmental plan or church plan under Code Section 503, or under any state, county, local or other law relating to that type of plan.

**Allowing an investment in UNL is not to be construed as a representation by USCF, any trading advisor, any clearing broker, the Marketing Agent or legal counsel or other advisors to such parties or any other party that this investment meets some or all of the relevant legal requirements with respect to investments by any particular plan or that this investment is appropriate for any such particular plan. The person with investment discretion should consult with the plan’s attorney and financial advisors as to the propriety of an investment in UNL in light of the circumstances of the particular plan, current tax law and ERISA.**

### **Form of Shares**

**Registered Form.** Shares are issued in registered form in accordance with the LP Agreement. The Administrator has been appointed registrar and transfer agent for the purpose of transferring shares in certificated form. The Administrator keeps a record of all limited partners and holders of the shares in certificated form in the registry (the “Register”). USCF recognizes transfers of shares in certificated form only if done in accordance with the LP Agreement. The beneficial interests in such shares are held in book-entry form through participants and/or accountholders in the Depository Trust Company (“DTC”).

**Book Entry.** Individual certificates are not issued for the shares. Instead, shares are represented by one or more global certificates, which are deposited by the Administrator with DTC and registered in the name of Cede & Co., as nominee for DTC. The global certificates evidence all of the shares outstanding at any time. Shareholders are limited to (1) participants in DTC such as banks, brokers, dealers and trust companies (“DTC Participants”), (2) those who maintain, either directly or indirectly, a custodial relationship with a DTC Participant (“Indirect Participants”), and (3) those banks, brokers, dealers, trust companies and others who hold interests in the shares through DTC Participants or Indirect Participants, in each case who satisfy the requirements for transfers of shares. DTC Participants acting on behalf of investors holding shares through such participants’ accounts in DTC will follow the delivery practice applicable to securities eligible for DTC’s Same-Day Funds Settlement System. Shares are credited to DTC Participants’ securities accounts following confirmation of receipt of payment.

**DTC.** DTC has advised UNL as follows: It is a limited purpose trust company organized under the laws of the State of New York and is a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC Participants and facilitates the clearance and settlement of transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants.

## **Transfer of Shares**

**Transfers of Shares Only Through DTC.** The shares are only transferable through the book-entry system of DTC. Limited partners who are not DTC Participants may transfer their shares through DTC by instructing the DTC Participant holding their shares (or by instructing the Indirect Participant or other entity through which their shares are held) to transfer the shares. Transfers are made in accordance with standard securities industry practice.

Transfers of interests in shares with DTC are made in accordance with the usual rules and operating procedures of DTC and the nature of the transfer. DTC has established procedures to facilitate transfers among the participants and/or accountholders of DTC. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect Participants, the ability of a person or entity having an interest in a global certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a certificate or other definitive document representing such interest.

DTC has advised us that it will take any action permitted to be taken by a shareholder (including, without limitation, the presentation of a global certificate for exchange) only at the direction of one or more DTC Participants in whose account with DTC interests in global certificates are credited and only in respect of such portion of the aggregate principal amount of the global certificate as to which such DTC Participant or Participants has or have given such direction.

**Transfer/Application Requirements.** All purchasers of UNL’s shares, and potentially any purchasers of shares in the future, who wish to become limited partners or other record holders and receive cash distributions, if any, or have certain other rights, must deliver an executed transfer application in which the purchaser or transferee must certify that, among other things, he, she or it agrees to be bound by UNL’s LP Agreement and is eligible to purchase UNL’s securities. Each purchaser of shares offered by this prospectus must execute a transfer application and certification. The obligation to provide the form of transfer application is imposed on the seller of shares or, if a purchase of shares is made through an exchange, the form may be obtained directly through UNL. Further, USCF may request each record holder to furnish certain information, including that record holder’s nationality, citizenship or other related status. A record holder is a shareholder that is, or has applied to be, a limited partner. An investor who is not a U.S. resident may not be eligible to become a record holder or one of UNL’s limited partners if that investor’s ownership would subject UNL to the risk of cancellation or forfeiture of any of UNL’s assets under any federal, state or local law or regulation. If the record holder fails to furnish the information or if USCF determines, on the basis of the information furnished by the holder in response to the request, that such holder is not qualified to become one of UNL’s limited partners, USCF may be substituted as a holder for the record holder, who will then be treated as a non-citizen assignee, and UNL will have the right to redeem those securities held by the record holder.

A transferee’s broker, agent or nominee may complete, execute and deliver a transfer application and certification. UNL may, at its discretion, treat the nominee holder of a share as the absolute owner. In that case, the beneficial holder’s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

A person purchasing UNL’s existing shares, who does not execute a transfer application and certify that the purchaser is eligible to purchase those securities acquires no rights in those securities other than the right to resell those

securities. Whether or not a transfer application is received or the consent of USCF obtained, our shares are securities and are transferable according to the laws governing transfers of securities.

Any transfer of shares will not be recorded by the transfer agent or recognized by USCF unless a completed transfer application is delivered to USCF or the Administrator. When acquiring shares, the transferee of such shares that completes a transfer application will:

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be an assignee until admitted as a substituted limited partner upon the consent and sole discretion of USCF and the recording of the assignment on the books and records of the partnership;

- automatically request admission as a substituted limited partner;
- agree to be bound by the terms and conditions of, and execute, our LP Agreement;
- represent that such transferee has the capacity and authority to enter into our LP Agreement;
- grant powers of attorney to USCF and any liquidator of us; and
- make the consents and waivers contained in our LP Agreement.

An assignee will become a limited partner in respect of the transferred shares upon the consent of USCF and the recordation of the name of the assignee on our books and records. Such consent may be withheld in the sole discretion of USCF.

If consent of USCF is withheld such transferee shall be an assignee. An assignee shall have an interest in the partnership equivalent to that of a limited partner with respect to allocations and distributions, including, without limitation, liquidating distributions, of the partnership. With respect to voting rights attributable to shares that are held by assignees, USCF shall be deemed to be the limited partner with respect thereto and shall, in exercising the voting rights in respect of such shares on any matter, vote such shares at the written direction of the assignee who is the record holder of such shares. If no such written direction is received, such shares will not be voted. An assignee shall have no other rights of a limited partner.

Until a share has been transferred on our books, we and the transfer agent may treat the record holder of the share as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

## **What is the Plan of Distribution?**

### ***Buying and Selling Shares***

Most investors buy and sell shares of UNL in secondary market transactions through brokers. Shares trade on the NYSE Arca under the ticker symbol “UNL”. Shares are bought and sold throughout the trading day like other publicly traded securities. When buying or selling shares through a broker, most investors incur customary brokerage commissions and charges. Investors are encouraged to review the terms of their brokerage account for details on applicable charges.

### ***Marketing Agent and Authorized Participants***

The offering of UNL’s shares is a best efforts offering. UNL continuously offers Creation Baskets consisting of 50,000 shares through the Marketing Agent, to Authorized Participants. Authorized Participants pay a \$350 fee for each order they place to create or redeem one or more Creation Baskets or Redemption Baskets. The Marketing Agent receives, for its services as marketing agent to UNL, a marketing fee of 0.06% on UNL’s assets up to the first \$3 billion; and 0.04% on UNL’s assets in excess of \$3 billion, provided, however, that in no event may the aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with this offering exceed ten percent (10%) of the gross proceeds of this offering.

The offering of baskets is being made in compliance with Conduct Rule 2310 of FINRA. Accordingly, Authorized Participants will not make any sales to any account over which they have discretionary authority without the prior written approval of a purchaser of shares.

The per share price of shares offered in Creation Baskets on any subsequent day is the total NAV of UNL calculated shortly after the close of the core trading session on the NYSE Arca on such day divided by the number of issued and outstanding shares. An Authorized Participant is not required to sell any specific number or dollar amount of shares.

By executing an Authorized Participant Agreement, an Authorized Participant becomes part of the group of parties eligible to purchase baskets from, and put baskets for redemption to, UNL. An Authorized Participant is under no obligation to create or redeem baskets, and an Authorized Participant is under no obligation to offer to the public shares of any baskets it does create.

As of February 28, 2018, UNL had the following Authorized Participants: Citigroup Global Markets, Inc., Credit Suisse Securities USA LLC, Goldman Sachs & Company, JP Morgan Securities, Inc., Merrill Lynch Professional Clearing Corporation, Morgan Stanley & Co. LLC, Nomura Securities International Inc., RBC Capital Markets LLC, SG Americas Securities LLC and Virtu Financial BD LLC.

Because new shares can be created and issued on an ongoing basis, at any point during the life of UNL, a “distribution”, as such term is used in the 1933 Act, will be occurring. Authorized Participants, other broker-dealers and other persons are cautioned that some of their activities may result in their being deemed participants in a distribution in a manner that would render them statutory underwriters and subject them to the prospectus-delivery and liability provisions of the 1933 Act. For example, the Initial Authorized Participant was a statutory underwriter with respect to its initial purchase of Creation Baskets. In addition, any purchaser who purchases shares with a view towards distribution of such shares may be deemed to be a statutory underwriter.

Authorized Participants will comply with the prospectus-delivery requirements in connection with the sale of shares to customers. For example, an Authorized Participant, other broker-dealer firm or its client will be deemed a statutory underwriter if it purchases a basket from UNL, breaks the basket down into the constituent shares and sells the shares to its customers; or if it chooses to couple the creation of a supply of new shares with an active selling effort involving solicitation of secondary market demand for the shares. Authorized Participants may also engage in secondary market transactions in shares that would not be deemed “underwriting”. For example, an Authorized Participant may act in the capacity of a broker or dealer with respect to shares that were previously distributed by other Authorized Participants. A determination of whether a particular market participant is an underwriter must take into account all the facts and circumstances pertaining to the activities of the broker-dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that would lead to designation as an underwriter and subject them to the prospectus-delivery and liability provisions of the 1933 Act.

Dealers who are neither Authorized Participants nor “underwriters” but are nonetheless participating in a distribution (as contrasted to ordinary secondary trading transactions), and thus dealing with shares that are part of an “unsold allotment” within the meaning of Section 4(3)(C) of the 1933 Act, would be unable to take advantage of the prospectus-delivery exemption provided by Section 4(3) of the 1933 Act.

USCF may qualify the shares in states selected by USCF and intends that sales be made through broker-dealers who are members of FINRA. Investors intending to create or redeem baskets through Authorized Participants in transactions not involving a broker-dealer registered in such investor’s state of domicile or residence should consult their legal advisor regarding applicable broker-dealer or securities regulatory requirements under the state securities laws prior to such creation or redemption.

While the Authorized Participants may be indemnified by USCF, they will not be entitled to receive a discount or commission from UNL for their purchases of Creation Baskets.

### **Calculating Per Share NAV**

UNL’s per share NAV is calculated by:

- ¶ Taking the current market value of its total assets;
- ¶ Subtracting any liabilities; and
- ¶ Dividing that total by the total number of outstanding shares.

The Administrator, calculates the per share NAV of UNL once each NYSE Arca trading day. The per share NAV for a normal trading day is released after 4:00 p.m. New York time. Trading during the core trading session on the NYSE Arca typically closes at 4:00 p.m. New York time. The Administrator uses the NYMEX closing price (determined at the earlier of the close of the NYMEX or 2:30 p.m. New York time) for the Futures Contracts traded on the NYMEX, but calculates or determines the value of all other UNL investments (including Futures Contracts not traded on the NYMEX, Other Natural Gas-Related Investments and Treasuries) using market quotations, if available, or other information customarily used to determine the fair value of such investments as of the earlier of the close of the NYSE Arca or 4:00 p.m. New York time in accordance with the current Administrative Agency Agreement among



BBH&Co., UNL and USCF. “Other information” customarily used in determining fair value includes information consisting of market data in the relevant market supplied by one or more third parties including, without limitation, relevant rates, prices, yields, yield curves, volatilities, spreads, correlations or other market data in the relevant market; or information of the types described above from internal sources if that information is of the same type used by UNL in the regular course of its business for the valuation of similar transactions. The information may include costs of funding, to the extent costs of funding are not and would not be a component of the other information being utilized. Third parties supplying quotations or market data may include, without limitation, dealers in the relevant markets, end-users of the relevant product, information vendors, brokers and other sources of market information.

In addition, in order to provide updated information relating to UNL for use by investors and market professionals, the NYSE Arca calculates and disseminates throughout the core trading session on each trading day an updated indicative fund value. The indicative fund value is calculated by using the prior day's closing per share NAV of UNL as a base and updating that value throughout the trading day to reflect changes in the most recently reported trade price for the active natural gas Futures Contracts on the NYMEX. The prices reported for those Futures Contract months are adjusted based on the prior day's spread differential between settlement values for the relevant contract and the spot month contract. In the event that the spot month contract is also the Benchmark Futures Contracts, the last sale price for that contract is not adjusted. The indicative fund value share basis disseminated during NYSE Arca core trading session hours should not be viewed as an actual real time update of the per share NAV, because the per share NAV is calculated only once at the end of each trading day based upon the relevant end of day values of UNL's investments.

The indicative fund value is disseminated on a per share basis every 15 seconds during regular NYSE Arca core trading session hours of 9:30 a.m. New York time to 4:00 p.m. New York time. The normal trading hours of the NYMEX are 9:00 a.m. New York time to 2:30 p.m. New York time. This means that there is a gap in time at the beginning and the end of each day during which UNL's shares are traded on the NYSE Arca, but real-time NYMEX trading prices for Futures Contracts traded on the NYMEX are not available. During such gaps in time, the indicative fund value will be calculated based on the end of day price of such Futures Contracts from the NYMEX's immediately preceding trading session. In addition, other Futures Contracts, Other Natural Gas-Related Investments and Treasuries held by UNL will be valued by the Administrator, using rates and points received from client-approved third party vendors (such as Reuters and WM Company) and advisor quotes. These investments will not be included in the indicative fund value.

The NYSE Arca disseminates the indicative fund value through the facilities of CTA/CQ High Speed Lines. In addition, the indicative fund value is published on the NYSE Arca's website and is available through on-line information services such as Bloomberg and Reuters.

Dissemination of the indicative fund value provides additional information that is not otherwise available to the public and is useful to investors and market professionals in connection with the trading of UNL shares on the NYSE Arca. Investors and market professionals are able throughout the trading day to compare the market price of UNL and the indicative fund value. If the market price of UNL shares diverges significantly from the indicative fund value, market professionals will have an incentive to execute arbitrage trades. For example, if UNL appears to be trading at a discount compared to the indicative fund value, a market professional could buy UNL shares on the NYSE Arca and sell short Futures Contracts. Such arbitrage trades can tighten the tracking between the market price of UNL and the indicative fund value and thus can be beneficial to all market participants.

UNL reserves the right to adjust the Share price of UNL in the future to maintain convenient trading ranges for investors. Any adjustments would be accomplished through stock splits or reverse stock splits. Such splits would decrease (in the case of a split) or increase (in the case of a reverse split) the proportionate net asset value per Share, but would have no effect on the net assets of the Fund or the proportionate voting rights of shareholders or limited partners.

### **Creation and Redemption of Shares**

UNL creates and redeems shares from time to time, but only in one or more Creation Baskets or Redemption Baskets. The creation and redemption of baskets are only made in exchange for delivery to UNL or the distribution by UNL of the amount of Treasuries and any cash represented by the baskets being created or redeemed, the amount of which is based on the combined NAV of the number of shares included in the baskets being created or redeemed determined after 4:00 p.m. New York time on the day the order to create or redeem baskets is properly received.

Authorized Participants are the only persons that may place orders to create and redeem baskets. Authorized Participants must be (1) registered broker-dealers or other securities market participants, such as banks and other financial institutions, that are not required to register as broker-dealers to engage in securities transactions as described below, and (2) DTC Participants. To become an Authorized Participant, a person must enter into an Authorized Participant Agreement with USCF on behalf of UNL. The Authorized Participant Agreement provides the procedures for the creation and redemption of baskets and for the delivery of the Treasuries and any cash required for such creations and redemptions. The Authorized Participant Agreement and the related procedures attached thereto may be amended by UNL, without the consent of any limited partner or shareholder or Authorized Participant. Authorized Participants pay a transaction fee of \$350 to UNL for each order they place to create one or more Creation Baskets or to redeem one or more Redemption Baskets. The transaction fee may be reduced, increased or otherwise changed by USCF. Authorized Participants who make deposits with UNL in exchange for baskets receive no fees, commissions or other form of compensation or inducement of any kind from either UNL or USCF, and no such person will have any obligation or responsibility to USCF or UNL to effect any sale or resale of shares. Certain Authorized Participants are expected to be capable of participating directly in the physical natural gas market and the natural gas futures market. In some cases, Authorized Participants or their affiliates may from time to time buy natural gas or sell natural gas or Natural Gas Interests and may profit in these instances. USCF believes that the size and operation of the natural gas market make it unlikely that an Authorized Participant's direct activities in the natural gas or securities markets will significantly affect the price of natural gas, Natural Gas Interests, or the price of the shares.

Each Authorized Participant is required to be registered as a broker-dealer under the Exchange Act and is a member in good standing with FINRA, or exempt from being or otherwise not required to be registered as a broker-dealer or a member of FINRA, and qualified to act as a broker or dealer in the states or other jurisdictions where the nature of its business so requires. Certain Authorized Participants may also be regulated under federal and state banking laws and regulations. Each Authorized Participant has its own set of rules and procedures, internal controls and information barriers as it determines is appropriate in light of its own regulatory regime.

Under the Authorized Participant Agreement, USCF, and UNL under limited circumstances have agreed to indemnify the Authorized Participants against certain liabilities, including liabilities under the 1933 Act, and to contribute to the payments the Authorized Participants may be required to make in respect of those liabilities.

The following description of the procedures for the creation and redemption of baskets is only a summary and an investor should refer to the relevant provisions of the LP Agreement and the form of Authorized Participant Agreement for more detail, each of which is incorporated by reference into this prospectus.

### ***Creation Procedures***

On any business day, an Authorized Participant may place an order with the Marketing Agent to create one or more baskets. For purposes of processing purchase and redemption orders, a “business day” means any day other than a day when any of the NYSE Arca, the NYMEX or the NYSE is closed for regular trading. Purchase orders must be placed by 12:00 p.m. New York time or the close of regular trading on the NYSE Arca, whichever is earlier. The day on which the Marketing Agent receives a valid purchase order is referred to as the purchase order date.

By placing a purchase order, an Authorized Participant agrees to deposit Treasuries, cash, or a combination of Treasuries and cash, as described below. Prior to the delivery of baskets for a purchase order, the Authorized Participant must also have wired to the Custodian the nonrefundable transaction fee due for the purchase order. Authorized Participants may not withdraw a creation request, except as otherwise set forth in the procedures in the Authorized Participant Agreement.

The manner by which creations are made is dictated by the terms of the Authorized Participant Agreement. By placing a purchase order, an Authorized Participant agrees to (1) deposit Treasuries, cash or a combination of Treasuries and cash with the Custodian, and (2) if required by USCF in its sole discretion, enter into or arrange for a block trade, an exchange for physical or exchange for swap, or any other OTC energy transaction (through itself or a designated acceptable broker) with UNL for the purchase of a number and type of futures contracts at the closing settlement price for such contracts on the purchase order date. If an Authorized Participant fails to consummate (1) and (2), the order shall be cancelled. The number and types of contracts specified shall be determined by USCF, in its sole discretion, to meet UNL’s investment objective and shall be purchased as a result of the Authorized Participant’s purchase of shares.

### ***Determination of Required Deposits***

The total deposit required to create each basket (“Creation Basket Deposit”) is the amount of Treasuries and/or cash that is in the same proportion to the total assets of UNL (net of estimated accrued but unpaid fees, expenses and other liabilities) on the purchase order date as the number of shares to be created under the purchase order is in proportion to the total number of shares outstanding on the purchase order date. USCF determines, directly in its sole discretion or in consultation with the Administrator, the requirements for Treasuries and the amount of cash, including the maximum permitted remaining maturity of a Treasury and proportions of Treasury and cash that may be included in deposits to create baskets. The Marketing Agent will publish such requirements at the beginning of each business day. The amount of cash deposit required is the difference between the aggregate market value of the Treasuries required to be included in a Creation Basket Deposit as of 4:00 p.m. New York time on the date the order to purchase is properly

received and the total required deposit.

***Delivery of Required Deposits***

An Authorized Participant who places a purchase order is responsible for transferring to UNL's account with the Custodian the required amount of Treasuries and cash by the end of the second business day following the purchase order date. Upon receipt of the deposit amount, the Administrator directs DTC to credit the number of baskets ordered to the Authorized Participant's DTC account on the second business day following the purchase order date. The expense and risk of delivery and ownership of Treasuries until such Treasuries have been received by the Custodian on behalf of UNL shall be borne solely by the Authorized Participant.

Because orders to purchase baskets must be placed by 12:00 p.m., New York time, but the total payment required to create a basket during the continuous offering period will not be determined until after 4:00 p.m. New York time on the date the purchase order is received, Authorized Participants will not know the total amount of the payment required to create a basket at the time they submit an irrevocable purchase order for the basket. UNL's per share NAV and the total amount of the payment required to create a basket could rise or fall substantially between the time an irrevocable purchase order is submitted and the time the amount of the purchase price in respect thereof is determined.

### ***Rejection of Purchase Orders***

USCF acting by itself or through the Marketing Agent shall have the absolute right but no obligation to reject a purchase order or a Creation Basket Deposit if:

- it determines that the investment alternative available to UNL at that time will not enable it to meet its investment objective;

- it determines that the purchase order or the Creation Basket Deposit is not in proper form;

- it believes that the purchase order or the Creation Basket Deposit would have adverse tax consequences to UNL, the limited partners or its shareholders;

- the acceptance or receipt of the Creation Basket Deposit would, in the opinion of counsel to USCF, be unlawful; or circumstances outside the control of USCF, Marketing Agent or Custodian make it, for all practical purposes, not feasible to process creations of baskets.

None of USCF, the Marketing Agent or the Custodian will be liable for the rejection of any purchase order or Creation Basket Deposit.

### ***Redemption Procedures***

The procedures by which an Authorized Participant can redeem one or more baskets mirror the procedures for the creation of baskets. On any business day, an Authorized Participant may place an order with the Marketing Agent to redeem one or more baskets. Redemption orders must be placed by 12:00 p.m. New York time or the close of regular trading on the NYSE Arca, whichever is earlier. A redemption order so received will be effective on the date it is received in satisfactory form by the Marketing Agent ("Redemption Order Date"). The redemption procedures allow Authorized Participants to redeem baskets and do not entitle an individual shareholder to redeem any shares in an amount less than a Redemption Basket, or to redeem baskets other than through an Authorized Participant.

By placing a redemption order, an Authorized Participant agrees to deliver the baskets to be redeemed through DTC's book-entry system to UNL, as described below. Prior to the delivery of the redemption distribution for a redemption order, the Authorized Participant must also have wired to UNL's account at the Custodian the non-refundable transaction fee due for the redemption order. An Authorized Participant may not withdraw a redemption order, except as otherwise set forth in the procedures in the Authorized Participant Agreement.

The manner by which redemptions are made is dictated by the terms of the Authorized Participant Agreement. By placing a redemption order, an Authorized Participant agrees to (1) deliver the Redemption Basket to be redeemed through DTC's book-entry system to UNL's account with the Custodian not later than 3:00 p.m. New York time on the second business day following the effective date of the redemption order ("Redemption Distribution Date"), and (2) if required by USCF in its sole discretion, enter into or arrange for a block trade, an exchange for physical or exchange for swap, or any other OTC energy transaction (through itself or a designated acceptable broker) with UNL for the sale of a number and type of futures contracts at the closing settlement price for such contracts on the Redemption Order Date. If an Authorized Participant fails to consummate (1) and (2) above, the order shall be cancelled. The number and type of contracts specified shall be determined by USCF, in its sole discretion, to meet UNL's investment objective and shall be sold as a result of the Authorized Participant's sale of shares.



***Determination of Redemption Distribution***

The redemption distribution from UNL consists of a transfer to the redeeming Authorized Participant of an amount of Treasuries and/or cash that is in the same proportion to the total assets of UNL (net of estimated accrued but unpaid fees, expenses and other liabilities) on the date the order to redeem is properly received as the number of shares to be redeemed under the redemption order is in proportion to the total number of shares outstanding.

Amount	Number of Shares
\$(56)	229
\$229	606
\$606	\$1,000
\$1,000	\$233
\$233	\$205



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Net income (loss) attributable to Class A and Class B common stockholders

\$(138)	\$(56)	\$122	\$372	\$668	\$153	\$137
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Earnings (loss) per share attributable to Class A and Class B common stockholders<sup>(2)</sup>:

Basic

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\$(0.16) \$(0.06) \$0.12 \$0.34 \$0.52 \$0.12 \$0.10

Diluted

\$(0.16) \$(0.06) \$0.10 \$0.28 \$0.46 \$0.11 \$0.09

Pro forma earnings per share attributable to Class A and Class B common stockholders<sup>(2)</sup>:

Basic

\$0.49    \$0.10

Diluted

\$0.43 \$0.09

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(1) Costs and expenses include share-based compensation expense as follows:

	2007	Year Ended December 31,				2011	Three Months Ended March 31,
		2008	2009	2010	(in millions)		2012
Cost of revenue	\$ 1	\$	\$	\$	\$ 9	\$	\$ 4
Marketing and sales	3	4	2	2	43		23
Research and development	56	7	6	9	114	4	60
General and administrative	13	19	19	9	51	3	16
Total share-based compensation expense	\$ 73	\$ 30	\$ 27	\$ 20	\$ 217	\$ 7	\$ 103

(2) See note 2 of the notes to our consolidated financial statements for a description of how we compute basic and diluted earnings (loss) per share attributable to Class A and Class B common stockholders and pro forma basic and diluted earnings per share attributable to Class A and Class B common stockholders.

	2007	2008	2009	2010	2011	As of March 31, 2012
				(in millions)		
<b>Consolidated Balance Sheets Data:</b>						
Cash, cash equivalents, and marketable securities	\$ 305	\$ 297	\$ 633	\$ 1,785	\$ 3,908	\$ 3,910
Working capital	250	279	703	1,857	3,705	3,655
Property and equipment, net	82	131	148	574	1,475	1,855
Total assets	448	505	1,109	2,990	6,331	6,859
Total liabilities	174	170	241	828	1,432	1,587
Total stockholders' equity	273	335	868	2,162	4,899	5,272

## Free Cash Flow

In addition to other financial measures presented in accordance with U.S. generally accepted accounting principles (GAAP), we monitor free cash flow (FCF) as a non-GAAP measure to manage our business, make planning decisions, evaluate our performance, and allocate resources. We define FCF as net cash provided by operating activities reduced by purchases of property and equipment and property and equipment acquired under capital leases.

We believe that FCF is one of the key financial indicators of our business performance over the long term and provides useful information regarding whether cash provided by operating activities is sufficient to fund the ongoing property and equipment investments required to maintain and grow our business. We have chosen to subtract both purchases of property and equipment and property and equipment acquired under capital leases in our calculation of FCF because we believe that these two items collectively represent the amount of property and equipment we need to procure to support our business, regardless of whether we finance such property or equipment with a capital lease. The market for financing servers and other technical equipment is dynamic and we expect our use of capital leases could vary significantly from year to year.

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We have chosen our definition for FCF because we believe that this methodology can provide useful supplemental information to help investors better understand underlying trends in our business. We present FCF in this document in the same manner it is shared with our senior management and board of directors.

FCF has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are:

FCF does not reflect our future contractual commitments; and

other companies in our industry present similarly titled measures differently than we do, limiting their usefulness as comparative measures.

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Management compensates for the inherent limitations associated with using the FCF measure through disclosure of such limitations, presentation of our financial statements in accordance with GAAP, and reconciliation of FCF to the most directly comparable GAAP measure, net cash provided by operating activities, as presented below.

The following is a reconciliation of FCF to the most comparable GAAP measure, net cash provided by operating activities:

	2007	Year Ended December 31,				2011	Three Months Ended March 31,	
		2008	2009	2010	(in millions)		2011	2012
Net cash provided by operating activities	\$ 11	\$ 8	\$ 155	\$ 698	\$ 1,549	\$ 345	\$ 441	
Purchases of property and equipment	(55)	(70)	(33)	(293)	(606)	(153)	(453)	
Property and equipment acquired under capital leases	(11)	(26)	(56)	(217)	(473)	(211)	(38)	
Free cash flow	\$ (55)	\$ (88)	\$ 66	\$ 188	\$ 470	\$ (19)	\$ (50)	

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors. For a discussion of limitations in the measurement of certain of our user metrics, see the section entitled Industry Data and User Metrics.*

**Overview**

Our mission is to make the world more open and connected. Facebook enables you to express yourself and connect with the world around you instantly and freely.

We build products that support our mission by creating utility for users, developers, and advertisers:

*Users.* We enable people who use Facebook to stay connected with their friends and family, to discover what is going on in the world around them, and to share and express what matters to them to the people they care about.

*Developers.* We enable developers to use the Facebook Platform to build applications (apps) and websites that integrate with Facebook to reach our global network of users and to build products that are more personalized, social, and engaging.

*Advertisers.* We enable advertisers to engage with more than 900 million monthly active users (MAUs) on Facebook or subsets of our users based on information they have chosen to share with us such as their age, location, gender, or interests. We offer advertisers a unique combination of reach, relevance, social context, and engagement to enhance the value of their ads.

We generate substantially all of our revenue from advertising and from fees associated with our Payments infrastructure that enables users to purchase virtual and digital goods from our Platform developers. In 2011, we recorded revenue of \$3,711 million, operating income of \$1,756 million, and net income of \$1,000 million. In the first quarter of 2012, we recorded revenue of \$1,058 million, operating income of \$381 million, and net income of \$205 million. We were incorporated in July 2004 and are headquartered in Menlo Park, California.

Highlights in our history are depicted in the graphic on the next page.





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*Our History*

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### **Trends in Our User Metrics**

**Monthly Active Users (MAUs).** We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or took an action to share content or activity with his or her Facebook friends or connections via a third-party website that is integrated with Facebook, in the last 30 days as of the date of measurement. MAUs are a measure of the size of our global active user community, which has grown substantially in the past several years.

*Note: For purposes of reporting MAUs, DAUs, and ARPU by geographic region, Europe includes all users in Russia and Turkey, Asia includes all users in Australia and New Zealand, and Rest of World includes Africa, Latin America, and the Middle East.*

As of March 31, 2012, we had 901 million MAUs, an increase of 33% from March 31, 2011. We experienced growth across different geographies, with users in Brazil, India, and the United States representing key sources of growth. We had 45 million MAUs in Brazil as of March 31, 2012, an increase of 180% from the same period in the prior year, and we had 51 million MAUs in India as of March 31, 2012, an increase of 107% from the same period in the prior year. Additionally, we had 169 million MAUs in the United States as of March 31, 2012, an increase of 15% from the same period in the prior year.

There are more than two billion global Internet users, according to an IDC report dated August 2011, and we aim to connect all of them. We have achieved varying levels of penetration within the population of Internet users in different countries. For example, as of December 31, 2011, in countries such as Chile, Turkey, and Venezuela we estimate that we had penetration rates of greater than 85%

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of Internet users; in countries such as India, the United Kingdom and the United States we estimate that we had penetration rates of approximately 60%; in countries such as Brazil and Germany we estimate that we had penetration rates of approximately 30-40%; in countries such as Japan, Russia, and South Korea we estimate that we had penetration rates of 20% or lower; and in China, where Facebook access is restricted, we have near 0% penetration. We continue to invest in growing our user base, particularly in markets where we are relatively less penetrated. We expect MAU growth will benefit from increases in worldwide Internet users, in particular as a result of increasing broadband penetration and usage of mobile devices in developing markets. Growth in MAUs depends on our ability to retain our current users, re-engage with inactive users, and add new users, including by extending our reach across mobile platforms.

***Daily Active Users (DAUs).*** We define a daily active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or took an action to share content or activity with his or her Facebook friends or connections via a third-party website that is integrated with Facebook, on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement.

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Worldwide DAUs increased 41% to 526 million on average during March 2012 from 372 million during March 2011. We experienced growth in DAUs across major markets including the United States, Brazil, and India. Increased mobile usage was a key contributor to this growth. DAUs as a percentage of MAUs increased from 55% in March 2011 to 58% in March 2012, which we believe was driven entirely by increased mobile usage of Facebook. We believe that increases in DAUs and in DAUs as a percentage of MAUs generally positively affect our revenue because increases in user engagement may enable us to deliver more relevant commercial content to our users and may provide us with more opportunities for monetization.

We believe that we have the opportunity to continue to grow our DAUs around the world. Growth in DAUs depends on our ability to attract new users and increase the frequency of engagement for existing users. We aim to increase DAUs by developing products that are more compelling for our users, increasing the relevance of the information we display for each user, increasing the number of compelling Platform apps and website integrations, and improving the quality of our products across mobile platforms. We also believe that younger users have higher levels of engagement with the web and mobile devices in general and with Facebook specifically. We anticipate that demographic trends over the long term may contribute to growth in engagement as a greater number of users will come from demographic groups that have grown up with the web and mobile devices and who spend more time online every day.

**Mobile MAUs.** We define a mobile MAU as a user who accessed Facebook via a mobile app or via mobile-optimized versions of our website such as m.facebook.com, whether on a mobile phone or tablet such as the iPad, during the period of measurement.

Worldwide mobile MAUs increased by 69% from 288 million as of March 31, 2011 to 488 million as of March 31, 2012. In all regions, an increasing number of our MAUs are accessing Facebook through mobile devices, with users in the United States, India, Indonesia, and Brazil representing key sources of mobile growth over this period. We estimate that approximately 83 million mobile MAUs accessed Facebook solely through mobile apps or our mobile website during the month ended March 31, 2012, and we believe that mobile-only users increased relative to the same period in the prior year. The remaining 405 million mobile MAUs accessed Facebook from both personal computers and mobile devices during that month. We believe that our mobile MAU growth was driven by increased consumer usage of mobile devices generally and also by our product enhancements across several mobile platforms. For example, we improved our product offerings on feature phones following our acquisition of Snaptu in April 2011 and we launched the Facebook app for the iPad in October 2011. Improving our mobile products and increasing mobile usage of Facebook are key company priorities that we believe are critical to help us maintain and grow our user base and engagement over the long term. We expect consumers around the world will increase the amount of time they spend and the information they share and consume through mobile devices.

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We have historically not shown ads to users accessing Facebook through mobile apps or our mobile website. To the extent that increasing usage of Facebook through mobile apps or our mobile website substitutes for the use of Facebook through personal computers where we do show ads, the number of ads that we deliver to users and our revenue may be negatively affected unless and until we are successful with monetization strategies for mobile usage of Facebook, such as the implementation of sponsored stories in users' mobile News Feeds, which we began in March 2012. We believe that people around the world will continue to increase their mobile usage of Facebook, and that some of this mobile usage has been and will continue to be a substitute for use of Facebook through personal computers.

## **Trends in Our Monetization by User Geography**

*Note: Our revenue by user geography in the charts above is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our consolidated financial statements where revenue is geographically apportioned based on the location of the advertiser or developer.*

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We estimate our revenue by user geography based on the geography in which ad impressions are delivered or virtual goods are purchased. We define average revenue per user (ARPU) as our total revenue in a given geography during a given period, divided by the average of the number of MAUs in the geography at the beginning and end of the period. Our revenue and ARPU in markets such as the United States, Canada, and Europe are relatively higher due to the size and maturity of those advertising markets as well as our greater sales presence and the number of payment methods that we make available to advertisers and users.

In the first quarter of 2012, 50% of our revenue was generated by users in the United States and Canada, a decrease from 54% of our revenue for the first quarter of 2011, and in 2011, 52% of our revenue was generated by users in the United States and Canada, as compared to 58% in 2010, as we experienced more rapid revenue growth in markets such as Germany, Brazil, Australia, and India.

During the first quarter of 2012, worldwide ARPU was \$1.21, an increase of 6% from the first quarter of 2011. Over this period, ARPU increased across all geographies. User growth was more rapid in geographies with relatively lower ARPU, such as Asia and Rest of World. These user growth dynamics resulted in worldwide ARPU increasing at a slower rate than the rate experienced in any geographic region. ARPU in the first quarter of 2012 declined 12% from the fourth quarter of 2011. We believe the sequential quarterly decline was driven by seasonal trends, which also affected ARPU trends from the fourth quarter of 2010 to the first quarter of 2011, during which period ARPU declined by 10%. In addition, the sequential decline in ARPU in the first quarter of 2012 was affected by the fact that our user growth was higher in geographies with relatively lower ARPU. We expect that user growth in the future will continue to be higher in those regions where ARPU is relatively lower, such as Asia and Rest of World, such that worldwide ARPU may continue to increase at a slower rate relative to ARPU in any geographic region, or potentially decrease even if ARPU increases in each geographic region.

ARPU increased 32% from \$3.08 in 2009 to \$4.08 in 2010 and 25% to \$5.11 in 2011. In these periods, we experienced ARPU growth across all regions.

## **Factors Affecting Our Performance**

*Growth in MAUs, DAUs, and Mobile MAUs.* Growth trends in MAUs, DAUs, and mobile MAUs are critical variables that affect our revenue and financial results by influencing the number of ads we are able to show, the value of those ads, the volume of Payments transactions, as well as our expenses and capital expenditures. We expect our user growth rates to decline as the size of our active user base increases and as we achieve higher market penetration rates. Additionally, as we grow our business and expand internationally, we expect to face challenges entering new markets such as China, where access to Facebook is restricted in whole or in part. As user growth rates slow, we expect the rate of growth in revenue will likely decline over time, which will affect our income from operations and net income.

*Growth in Users by Geography.* We expect future user growth to be relatively higher in Asia and Rest of World where on average users generate less revenue as compared with users in the United States or Europe. In general, new users in Asia and Rest of World do not require material incremental infrastructure investments because we are able to utilize existing infrastructure such as our data centers in the United States to make our products available to these users. In addition, we do not believe that user growth by geography materially affects our overall headcount requirements or headcount-related expenses since we are generally able to support users in all geographies from our existing facilities.

*User Engagement.* Changes in user engagement also affect our revenue and financial performance. Growth in user engagement may increase the opportunities for us to display advertising and our ability to deliver relevant commercial content to users. Growth in user engagement also generally results in increases in our expenses and capital expenditures required to support user activity. We believe that overall engagement as measured by the percentage of users who create content (such as wall posts, messages, or photos) or generate feedback (such as by Liking or

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Commenting on the content created) has remained stable or increased as our user base has grown. Moreover, the average amount of content and feedback created by each user has continued to increase over time.



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*Increasing Mobile Usage.* Increasing use of Facebook on mobile devices will also affect our performance, particularly if mobile use substitutes for use on personal computers. Historically, we have not shown ads to users accessing Facebook through mobile apps or our mobile website and we cannot be certain that our mobile monetization approaches will be successful in generating meaningful revenue. We cannot quantify the extent to which mobile usage of Facebook is substituting for, rather than incremental to, usage of Facebook through personal computers, but we generally expect mobile usage to increase at a faster rate than usage through personal computers for the foreseeable future.

*Value of Advertising Products.* We believe that increasing the value of our advertising products and the consequent return on investment to advertisers from working with Facebook will increase advertiser demand and thereby increase the amount advertisers spend with us. We aim to increase the value of our advertising products through such means as increasing the size and engagement of our user base, improving our ability to select relevant content of interest to individual users, developing new formats and products such as ads with social context, and improving the measurement tools available to advertisers to optimize their campaigns. For example, in 2011, we launched sponsored stories as a new format to leverage social context, and in March 2012, we began to include sponsored stories in users' mobile News Feeds.

*Management of Ad Inventory.* Our revenue trends are also affected by ad inventory management changes affecting the number, size, or prominence of ads we display. For example, in the fourth quarter of 2010, we significantly increased the number of ads on many Facebook pages. As another example, in the fourth quarter of 2011, we increased the reserve price (i.e., the minimum price threshold) in our advertising auction system in order to reduce the frequency with which low quality ads are displayed to users. This change caused a reduction in the overall number of ads shown and increased the average price per ad as a result of factors including the removal of ads with bids that were below the reserve price and some advertisers raising their bids in response to this change. For this particular change, we estimate that the decrease in the number of ads displayed and the increase in average price per ad approximately offset each other such that the impact on total revenue was minimal.

*Product Innovation.* We make ongoing product changes intended to enhance the user experience. In September 2011, at our f8 conference, we announced the launch of Timeline as an enhanced and updated version of the Facebook Profile to enable users to better organize and access the growing quantity of their updates, photos, comments, and other content. Timeline was rolled out broadly around the world in the first quarter of 2012. Also in September 2011, we announced the launch of the next iteration of Open Graph APIs, which enables Platform developers to create new types of social apps that facilitate sharing, self-expression, and serendipitous discovery across a broad variety of activities and interests. We expanded the Open Graph to include more types of sharing activities in the first quarter of 2012.

*Investment in Infrastructure.* In 2011, we continued to make significant investments in our technical infrastructure to ensure that our growing user base can access Facebook rapidly and reliably. In April 2011 and March 2012, respectively, we began serving user traffic out of our owned and built data centers in Prineville, Oregon and Forest City, North Carolina. We developed designs for data centers, server hardware, and software that were optimized for use in our new data center facilities, resulting in significant increases in energy efficiency while significantly reducing our server operation costs compared to the usage of traditional servers and leased data centers. We are investing in additional Facebook-owned data centers in the United States and Europe and we aim to deliver Facebook products rapidly and reliably to all users around the world.

*Investment in Talent.* At the end of the first quarter of 2012, we had 3,539 full-time employees, an increase of 46% from the same period in 2011. Our employee headcount has increased significantly and we expect this growth to continue for the foreseeable future. We have also made and intend to make acquisitions with the primary objective of adding software engineers, product designers, and other personnel with certain technology expertise. While our organization is growing rapidly, we are focused on increasing our talent base at a rate that allows us to preserve our culture.

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*Business Development and Acquisitions.* As part of our business strategy, we have made and intend to make acquisitions to add specialized employees, complementary companies, products, technologies, or other assets. For example, in April 2012, we entered into an agreement to acquire Instagram, Inc. and an agreement with Microsoft Corporation to obtain certain patent assets from AOL Inc. Our acquisitions will affect our future financial results due to factors such as the amortization of acquired intangible assets or other potential charges such as restructuring costs or impairment expense.

*Share-based Compensation Expense.* We have granted restricted stock units (RSUs) to our employees and members of our board of directors. RSUs granted prior to January 1, 2011 (Pre-2011 RSUs) under our 2005 Stock Plan vest upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards is satisfied over four years. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the effective date of our initial public offering. Pre-2011 RSUs for which the service condition has been satisfied are not forfeited should an employee terminate prior to the liquidity condition being met.

As of March 31, 2012, we have recognized no share-based compensation expense for Pre-2011 RSUs because a qualifying event described above had not occurred. In the second quarter of 2012, we will recognize share-based compensation expense using the accelerated attribution method, net of forfeitures, based on the grant date fair value of the Pre-2011 RSUs. For the Pre-2011 RSUs, if the initial public offering had been completed on March 31, 2012, we would have recognized \$965 million of share-based compensation expense for all RSUs that met the service condition as of that date, and would have approximately \$235 million of additional future period expense to be recognized over the remaining service periods through 2018.

RSUs granted on or after January 1, 2011 (Post-2011 RSUs) are not subject to a liquidity condition in order to vest. Share-based compensation expense related to these grants is based on the grant date fair value of the RSUs and is recognized on a straight-line basis over the applicable service period. The majority of Post-2011 RSUs are earned over a service period of four to five years. In 2011 and the first quarter of 2012, we recognized \$189 million and \$97 million, respectively, of share-based compensation expense related to the Post-2011 RSUs, and we anticipate recognizing \$1,119 million of future period expense related to Post-2011 RSUs outstanding as of March 31, 2012.

As of March 31, 2012, there was \$2,381 million of unrecognized share-based compensation expense, of which \$2,319 million is related to RSUs and \$62 million is related to restricted shares and stock options. This unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of approximately two years.

See Critical Accounting Policies and Estimates Share-based Compensation for additional information regarding our share-based compensation expense.

## **Components of Results of Operations**

### *Revenue*

We generate substantially all of our revenue from advertising and from fees associated with our Payments infrastructure that enables users to purchase virtual and digital goods from our Platform developers.

*Advertising.* Our advertising revenue is generated by displaying ad products on our website. Advertisers pay for ad products displayed on Facebook, either directly or through their relationships with advertising agencies, based on the number of impressions delivered or the number of clicks made by our users. We recognize revenue from the display of impression-based ads on our website in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad appears in pages displayed to users. We recognize revenue from the delivery of click-based ads on our website in the period in which a user clicks on an ad.

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*Payments and other fees.* We enable Payments from our users to our Platform developers. Our users can transact and make payments on the Facebook Platform by using credit cards, PayPal or other payment methods available on our website. We receive a fee from our Platform developers when users make purchases from our Platform developers using our Payments infrastructure. We recognize revenue net of amounts remitted to our Platform developers. We have mandated the use of our Payments infrastructure for game apps on Facebook, and fees related to Payments are generated almost exclusively from games. To date, games from Zynga have generated the majority of our payments and other fees revenue. In addition, we generate other fees revenue in connection with arrangements related to business development transactions and fees from various mobile providers; in recent periods, other fees revenue has been immaterial.

### ***Cost of Revenue and Operating Expenses***

*Cost of revenue.* Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers such as facility and server equipment depreciation, facility and server equipment rent expense, energy and bandwidth costs, support and maintenance costs, and salaries, benefits, and share-based compensation for employees on our operations teams. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions.

*Marketing and sales.* Our marketing and sales expenses consist primarily of salaries, benefits, and share-based compensation for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include user-, developer-, and advertiser-facing marketing and promotional expenditures.

*Research and development.* Research and development expenses consist primarily of salaries, benefits, and share-based compensation for employees on our engineering and technical teams who are responsible for building new products as well as improving existing products. We expense substantially all of our research and development costs as they are incurred.

*General and administrative.* Our general and administrative expenses consist primarily of salaries, benefits, and share-based compensation for our executives as well as our finance, legal, human resources, and other administrative employees. In addition, general and administrative expenses include outside consulting, legal and accounting services, and facilities and other supporting overhead costs. General and administrative expenses also include legal settlements.

**Table of Contents****Results of Operations**

The following table summarizes our historical consolidated statements of income data:

	2009	Year Ended December 31, 2010	2011 (in millions)	Three Months Ended March 31, 2011	2012
<b>Consolidated Statements of Income Data:</b>					
Revenue	\$ 777	\$ 1,974	\$ 3,711	\$ 731	\$ 1,058
Costs and expenses <sup>(1)</sup> :					
Cost of revenue	223	493	860	167	277
Marketing and sales	115	184	427	68	159
Research and development	87	144	388	57	153
General and administrative	90	121	280	51	88
Total costs and expenses	515	942	1,955	343	677
Income from operations	262	1,032	1,756	388	381
Interest and other income (expense), net	(8)	(24)	(61)	10	1
Income before provision for income taxes	254	1,008	1,695	398	382
Provision for income taxes	25	402	695	165	177
Net income	\$ 229	\$ 606	\$ 1,000	\$ 233	\$ 205

(1) Costs and expenses include share-based compensation expense as follows:

	2009	Year Ended December 31, 2010	2011 (in millions)	Three Months Ended March 31, 2011	2012
<b>Consolidated Statements of Income Data:</b>					
Cost of revenue	\$	\$	\$ 9	\$	\$ 4
Marketing and sales	2	2	43		23
Research and development	6	9	114	4	60
General and administrative	19	9	51	3	16
Total share-based compensation expense	\$ 27	\$ 20	\$ 217	\$ 7	\$ 103

The following table summarizes our historical consolidated statements of income data as a percentage of revenue for the periods shown:

	2009	Year Ended December 31, 2010	2011	Three Months Ended March 31, 2011	2012
<b>Consolidated Statements of Income Data:</b>					
Revenue	100%	100%	100%	100%	100%
Costs and expenses <sup>(1)</sup> :					

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Cost of revenue	29	25	23	23	26
Marketing and sales	15	9	12	9	15
Research and development	11	7	10	8	14
General and administrative	12	6	8	7	8
Total costs and expenses	66	48	53	47	64
Income from operations	34	52	47	53	36
Interest and other income (expense), net	(1)	(1)	(2)	1	
Income before provision for income taxes	33	51	46	54	36
Provision for income taxes	3	20	19	23	17
Net income	29%	31%	27%	32%	19%

(1) Costs and expenses include the following share-based compensation expense as a percentage of revenue:

	Year Ended December 31,			Three Months Ended March 31,		
	2009	2010	2011	2011	2012	
Cost of revenue	%	%		%	%	%
Marketing and sales			1			2
Research and development	1		3	1		6
General and administrative	2		1			2
Total share-based compensation expense	3%	1%	6%	1%		10%

**Table of Contents****Three Months Ended March 31, 2011 and 2012*****Revenue***

	<b>Three Months Ended March 31, 2011                      2012</b>		<b>% Change</b>
	<b>(in millions)</b>		
Advertising revenue	\$ 637	\$ 872	37%
Payments and other fees revenue	94	186	98%
<b>Total revenue</b>	<b>\$ 731</b>	<b>\$ 1,058</b>	<b>45%</b>

Revenue in the first quarter of 2012 increased \$327 million, or 45%, compared to the same period in 2011. The increase was due primarily to a 37% increase in advertising revenue to \$872 million. Advertising revenue grew due to a 35% increase in the number of ads delivered. The increase in ads delivered was driven primarily by user growth; MAUs grew 33% from March 31, 2011 to March 31, 2012 and average DAUs grew 41% from March 2011 to March 2012. Average price per ad for the first quarter of 2012 compared to the first quarter of 2011 was unchanged, as an increase in the average price per ad in the United States and Canada was offset by an increased percentage of our worldwide ads being delivered in the Asia and Rest of World geographies where the average price per ad, while growing on a year-over-year basis, is relatively lower. The average price per ad was also affected by a decline in the average price per ad in Europe in the first quarter of 2012 compared to the same period in 2011 due, we believe, to continuing weak economic conditions in that region.

Payments and other fees revenue in the first quarter of 2012 increased to \$186 million, or 98%, compared to the first quarter of 2011. Facebook Payments became mandatory for all game developers accepting payments on the Facebook Platform with limited exceptions on July 1, 2011. Accordingly, comparisons of Payments and other fees revenue to periods before this date may not be meaningful.

Based upon our experience in the second quarter of 2012 to date, the trend we saw in the first quarter of DAUs increasing more rapidly than the increase in number of ads delivered has continued. We believe this trend is driven in part by increased usage of Facebook on mobile devices where we have only recently begun showing an immaterial number of sponsored stories in News Feed, and in part due to certain pages having fewer ads per page as a result of product decisions. For additional information on factors that may affect these matters, see **Risk Factors** Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results and **Risk Factors** Our culture emphasizes rapid innovation and prioritizes user engagement over short-term financial results.

Thirteen percent and 11% of our total revenue for the first quarter of 2011 and 2012, respectively, came from a single customer, Zynga. This revenue consisted of Payments processing fees related to Zynga's sale of virtual goods and from direct advertising purchased by Zynga. Additionally, Zynga's apps generate pages on which we display ads from other advertisers; for the first quarter of 2012, we estimate that an additional approximately 4% of our total revenue was generated from the display of these ads. In May 2010, we entered into an addendum to our standard terms and conditions with Zynga pursuant to which it agreed to use Facebook Payments as the primary means of payment within Zynga games played on the Facebook Platform. Under this addendum, we retain a fee of up to 30% of the face value of user purchases in Zynga's games on the Facebook Platform. This addendum expires in May 2015.

*Cost of revenue*

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Cost of revenue	\$ 167	\$ 277	66%
Percentage of revenue	23%	26%	



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Cost of revenue in the first quarter of 2012 increased \$110 million, or 66%, compared to the same period in 2011. The increase was primarily due to expenses related to expanding our data center operations, including a \$59 million increase in depreciation, and to a lesser extent, an increase in payroll and benefits expenses resulting from a 66% increase in employee headcount. These expenses supported our user growth, the increased usage of our products by users, developers, and advertisers, and the launch of new products.

We anticipate that cost of revenue will increase in dollar amount for the foreseeable future as we expand our data center capacity to support user growth, increased user engagement, and the delivery of new products and offerings. We expect costs will also rise for payment processing as we increase Payments volumes. The expected increase in cost of revenue may be partially mitigated to the extent we are able to realize improvements in server performance and the efficiency of our technical operations. We expect cost of revenue as a percentage of revenue to increase in 2012 compared to 2011 as we continue to invest in our technical infrastructure.

***Marketing and sales***

	<b>Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions)</b>		
Marketing and sales	\$68	\$159	134%
Percentage of revenue	9%	15%	

Marketing and sales expenses in the first quarter of 2012 increased \$91 million, or 134%, compared to the same period in 2011. The increase was primarily due to an increase in our user-, developer-, and advertiser-facing marketing, and to a lesser extent, an increase in payroll and benefits expenses resulting from a 34% increase in employee headcount to support global sales, business development, and customer service. Additionally, share-based compensation expense increased to \$23 million in the first quarter of 2012 due to recognition of expense related to Post-2011 RSUs. In the same period in 2011, share-based compensation expense was immaterial.

We anticipate that marketing and sales expenses will increase in dollar amount and as a percentage of revenue in 2012 compared to 2011 as a result of continued growth in headcount and headcount-related expenses, including share-based compensation expense related to Post-2011 RSUs. We plan to add sales, business development and customer service employees, open new offices, and continue our investment in user-, developer-, and advertiser-facing marketing. We also anticipate a significant increase in marketing and sales expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

***Research and development***

	<b>Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions)</b>		
Research and development	\$57	\$153	168%
Percentage of revenue	8%	15%	

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Research and development expenses in the first quarter of 2012 increased \$96 million, or 168%, compared to the same period in 2011. The increase was primarily due to an increase of share-based compensation expense related to Post-2011 RSUs from \$4 million in the first quarter of 2011 to \$60 million in the same period in 2012. Payroll and benefits expense also increased due to a 55% growth in employee headcount in engineering, design, product management, and other technical functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

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We anticipate that research and development expenses will increase in dollar amount and as a percentage of revenue in 2012 compared to 2011 as a result of continued growth in headcount and headcount-related expenses, including share-based compensation expense related to Post-2011 RSUs. We plan to continue rapidly hiring engineering, design, product management, and other technical employees. We also anticipate a significant increase in research and development expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

***General and administrative***

	<b>Three Months Ended March 31, 2011      2012</b>		<b>% Change</b>
	<b>(in millions)</b>		
General and administrative	\$51	\$88	73%
Percentage of revenue	7%	8%	

General and administrative expenses in the first quarter of 2012 increased \$37 million, or 73%, compared to the same period in 2011. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 57% increase in employee headcount in finance, legal, human resources, and other functions, and to a lesser extent, outside consulting and legal fees. Additionally, share-based compensation expense increased from \$3 million in the first quarter of 2011 to \$16 million in the same period in 2012 due to recognition of expense related to Post-2011 RSUs.

We anticipate that general and administrative expenses will increase in dollar amount and increase as a percentage of revenue in 2012 compared to 2011 as a result of growth in headcount and headcount-related expenses, including share-based compensation related to the Post-2011 RSUs. We plan to continue to increase general and administrative employee headcount to support our growth. We also anticipate a significant increase in general and administrative expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

***Interest and other income (expense), net***

	<b>Three Months Ended March 31, 2011      2012</b>		<b>% Change</b>
	<b>(in millions)</b>		
Interest expense	\$ (7)	\$ (13)	86%
Other income, net	17	14	(18)%
Interest and other income (expense), net	\$ 10	\$ 1	(90)%

Interest and other income (expense), net in the first quarter of 2012 decreased \$9 million, or 90%, compared to the same period in 2011. Interest expense increased by \$6 million, primarily due to an increased volume of property and equipment financed by capital leases. The change in other income, net was primarily due to a \$6 million decrease in foreign exchange related gains. Foreign exchange gains resulted from the periodic re-measurement of our intercompany Euro balances. This decrease was partially offset by an increase in interest income driven by larger invested cash balances.



**Table of Contents***Provision for income taxes*

	<b>Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions)</b>		
Provision for income taxes	\$ 165	\$ 177	7%
Effective tax rate	41%	46%	

Our provision for income taxes in the first quarter of 2012 increased \$12 million, or 7%, compared to the same period in 2011. Our effective tax rate increased primarily due to the impact of non-deductible share-based compensation expense, losses arising outside the United States in jurisdictions where we do not receive a tax benefit, and the expiration of the federal tax credit for research and development activities at the end of 2011.

As a result of the completion of our initial public offering, there will be a significant increase in our share-based compensation expense from Pre-2011 RSUs for the remainder of 2012. We expect that our effective tax rates for the remainder of 2012 will be significantly greater than our effective tax rate was in the first quarter of 2012, primarily because certain share-based compensation expense will not be tax deductible in the United States. In addition, our effective tax rate may fluctuate significantly in any quarter in which there is significant share-based compensation expense or significant exercises or settlements of stock awards.

Our effective tax rate has exceeded the U.S. statutory rate in part because of losses arising outside the United States in jurisdictions where we do not receive a tax benefit. These losses were primarily due to the initial start-up costs incurred by our foreign subsidiaries to operate in certain foreign markets, including the costs incurred by those subsidiaries to license, develop, and use our intellectual property. Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States, which will also be affected by our methodologies for valuing our intellectual property and intercompany transactions.

*Net income*

Our net income in the first quarter of 2012 decreased compared to the same period in 2011. Total costs and expenses grew more than revenue, due in particular to a significant increase in share-based compensation expense for Post-2011 RSUs during the first quarter of 2012, which expense was not significant in the first quarter of 2011 due to the timing of RSU grants. We expect to incur a net loss in the second quarter of 2012 as a result of the share-based compensation expense associated with Pre-2011 RSUs that we will incur upon the effectiveness of our initial public offering, as described in Critical Accounting Policies and Estimates Share-based Compensation.

**Years Ended December 31, 2009, 2010, and 2011***Revenue*

**Year Ended December 31,**

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	2009	2010	2011	2009 to 2010 % Change	2010 to 2011 % Change
	(in millions)				
Advertising revenue	\$ 764	\$ 1,868	\$ 3,154	145%	69%
Payments and other fees revenue	13	106	557	NM	NM
Total revenue	\$ 777	\$ 1,974	\$ 3,711	154%	88%

*2011 Compared to 2010.* Revenue in 2011 increased \$1,737 million, or 88% compared to 2010. The increase was due primarily to a 69% increase in advertising revenue to \$3,154 million. Advertising revenue grew due to a 42% increase in the number of ads delivered and an 18% increase in the average price per ad delivered.

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The increase in ads delivered was driven primarily by user growth; MAUs grew 39% from December 31, 2010 to December 31, 2011 and average DAUs grew 48% from December 2010 to December 2011. The number of ads delivered was also affected by many other factors including product changes that significantly increased the number of ads on many Facebook pages beginning in the fourth quarter of 2010, partially offset by an increase in usage of our mobile products, where we did not show ads, and by various product changes implemented in 2011 that in aggregate modestly reduced the number of ads on certain pages. The increase in average price per ad delivered was affected by factors including improvements in our ability to deliver more relevant ads to users and product changes that contributed to higher user interaction with the ads by increasing their relative prominence.

Payments and other fees revenue increased to \$557 million in 2011 due to the adoption of Facebook Payments, which has been gradually adopted by our Platform developers and began generating significant revenue in the fourth quarter of 2010. We estimate that approximately 5 million and 15 million users purchased virtual or digital goods using Facebook Payments during the years ended December 31, 2010 and 2011, respectively. Facebook Payments became mandatory for all game developers accepting payments on the Facebook Platform with limited exceptions on July 1, 2011. Accordingly, comparisons of payments and other fees revenue to periods before that date may not be meaningful. In 2011, other fees revenue was immaterial.

In 2011, we generated approximately 56% of our revenue from advertisers and Platform developers based in the United States, compared to 62% in 2010. This change is due to factors including a faster growth rate of international users and the expansion of international sales offices and payment methods. The majority of our revenue outside of the United States came from customers located in western Europe, Canada, and Australia.

*2010 Compared to 2009.* Revenue in 2010 increased \$1,197 million, or 154%, compared to 2009. The increase was primarily due to a 145% increase in advertising revenue to \$1,868 million in 2010. Advertising revenue grew primarily due to an increase in the number of ads delivered driven by growth in users and engagement as well as the number of ads per page. MAUs grew 69% from December 31, 2009 to December 31, 2010 and average DAUs grew 77% from December 2009 to December 2010. Payments and other fees revenue increased to \$106 million in 2010 due to the initial adoption of Facebook Payments during the year. In 2010, we generated approximately 62% of our revenue from advertisers and Platform developers based in the United States, compared to 67% in 2009.

Twelve percent of our total revenue in 2011, and less than 10% in 2010 and 2009, came from a single customer, Zynga. This revenue consisted of Payments processing fees related to Zynga's sales of virtual goods and from direct advertising purchased by Zynga. Additionally, Zynga's apps generate pages on which we display ads from other advertisers; for 2011, we estimate that an additional approximately 7% of our revenue was generated from the display of these ads.

**Cost of revenue**

	Year Ended December 31, 2009      2010      2011			2009 to 2010 % Change	2010 to 2011 % Change
	(dollars in millions)				
Cost of revenue	\$ 223	\$ 493	\$ 860	121%	74%
Percentage of revenue	29%	25%	23%		

*2011 Compared to 2010.* Cost of revenue in 2011 increased \$367 million, or 74%, compared to 2010. The increase was primarily due to expenses related to expanding our data center operations, including a \$164 million increase in depreciation and a \$35 million increase in data center facility rent. These expenses supported our user growth, the increased usage of our products by users, developers, and advertisers, and the launch of new products. Additionally, credit card and other related revenue processing fees increased by \$60 million.





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*2010 Compared to 2009.* Cost of revenue in 2010 increased \$270 million, or 121%, compared to 2009. The increase was primarily due to expenses related to expanding our data center operations, including a \$77 million increase in equipment rent, a \$49 million increase in depreciation, and a \$33 million increase in data center facility rent. Additionally, credit card and other related revenue processing fees increased by \$25 million.

### Marketing and sales

	Year Ended December 31, 2009 2010 2011 (dollars in millions)			2009 to 2010 % Change	2010 to 2011 % Change
Marketing and sales	\$ 115	\$ 184	\$ 427	60%	132%
Percentage of revenue	15%	9%	12%		

*2011 Compared to 2010.* Marketing and sales expenses in 2011 increased \$243 million, or 132%, compared to 2010. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 46% increase in employee headcount to support global sales, business development, and customer service, and to a lesser extent, an increase in our user-, developer-, and advertiser-facing marketing. Additionally, share-based compensation expense increased from \$2 million in 2010 to \$43 million in 2011 due to recognition of expense related to Post-2011 RSUs.

*2010 Compared to 2009.* Marketing and sales expenses in 2010 increased \$69 million, or 60%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 90% increase in employee headcount to support global sales, business development, and customer service. Additionally, we increased our spending to support our user-, developer-, and advertiser-facing marketing as well as our market research and analytics capabilities.

### Research and development

	Year Ended December 31, 2009 2010 2011 (dollars in millions)			2009 to 2010 % Change	2010 to 2011 % Change
Research and development	\$ 87	\$ 144	\$ 388	66%	169%
Percentage of revenue	11%	7%	10%		

*2011 Compared to 2010.* Research and development expenses in 2011 increased \$244 million, or 169%, compared to 2010. The increase was primarily due to an increase from \$9 million in 2010 to \$114 million in 2011 for share-based compensation expense related to Post-2011 RSUs. Payroll and benefits expense also increased due to a 57% growth in employee headcount in engineering, design, product management, and other technical functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

*2010 Compared to 2009.* Research and development expenses in 2010 increased \$57 million, or 66%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from an 81% increase in employee headcount in engineering and related functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

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## General and administrative

	Year Ended December 31, 2009                      2010                      2011			2009 to 2010	2010 to 2011
	(dollars in millions)			% Change	% Change
General and administrative	\$ 90	\$ 121	\$ 280	34%	131%
Percentage of revenue	12%	6%	8%		

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*2011 Compared to 2010.* General and administrative expenses in 2011 increased \$159 million, or 131%, compared to 2010. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 54% increase in employee headcount in finance, legal, human resources, and other functions. Additionally, outside consulting and legal fees contributed to the increase. Share-based compensation expense increased from \$9 million in 2010 to \$51 million in 2011 due to recognition of expense related to Post-2011 RSUs.

*2010 Compared to 2009.* General and administrative expenses in 2010 increased \$31 million, or 34%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 61% increase in employee headcount in general and administrative functions and, to a lesser extent, an increase in outside consulting and legal fees.

### *Interest and other income (expense), net*

	Year Ended December 31, 2009 2010 2011 (in millions)			2009 to 2010 % Change	2010 to 2011 % Change
Interest expense	\$ (10)	\$ (22)	\$ (42)	120%	91%
Other income (expense), net	2	(2)	(19)	NM	NM
Interest and other income (expense), net	\$ (8)	\$ (24)	\$ (61)	200%	154%

*2011 Compared to 2010.* Interest and other income (expense), net in 2011 increased \$37 million, or 154%, compared to 2010. Interest expense increased by \$20 million, driven by an increase in fees related to our credit facility as described in Liquidity and Capital Resources, and the payments related to an increased volume of property and equipment financed by capital leases. The change in other income (expense), net was primarily due to \$29 million in foreign exchange related losses in 2011. Foreign exchange losses in 2011 stemmed from the periodic re-measurement of our intercompany Euro balances. Foreign currency balances were immaterial in 2010. These expenses were partially offset by an increase in interest income driven by larger invested cash balances.

*2010 Compared to 2009.* Interest expense in 2010 increased as a result of an increased use of capital leases and interest payments related to our \$250 million credit facility as described in Liquidity and Capital Resources. This loan was repaid in full in March 2011.

### *Provision for income taxes*

	Year Ended December 31, 2009 2010 2011 (dollars in millions)			2009 to 2010 % Change	2010 to 2011 % Change
Provision for income taxes	\$ 25	\$ 402	\$ 695	NM	73%
Effective tax rate	10%	40%	41%		

*2011 Compared to 2010.* Our provision for income taxes in 2011 increased \$293 million, or 73%, compared to 2010 primarily due to an increase in pre-tax income. Our effective tax rate increased primarily due to losses arising outside the United States in jurisdictions where we do not receive a tax benefit and the impact of non-deductible share-based compensation expense during the year.

*2010 Compared to 2009.* Our provision for income taxes in 2010 increased \$377 million compared to 2009 primarily due to an increase in pre-tax income. Our effective tax rate increased primarily due to a benefit recorded in 2009 related to the release of a valuation allowance, which did not recur in 2010.

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The following tables set forth our quarterly consolidated statements of income data in dollars and as a percentage of total revenue for each of the nine quarters in the period ended March 31, 2012. We have prepared the quarterly consolidated statements of income data on a basis consistent with the audited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this prospectus. The results of historical periods are not necessarily indicative of the results for any future period.

	Three Months Ended								Mar 31, 2012
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	
	(in millions)								
<b>Consolidated Statements of Income Data:</b>									
Revenue:									
Advertising revenue	\$ 340	\$ 424	\$ 450	\$ 655	\$ 637	\$ 776	\$ 798	\$ 943	\$ 872
Payments and other fees revenue	5	8	17	76	94	119	156	188	186
Total revenue	345	431	467	731	731	895	954	1,131	1,058
Costs and expenses <sup>(1)</sup> :									
Cost of revenue	100	111	131	150	167	210	236	247	277
Marketing and sales	36	44	45	59	68	103	124	132	159
Research and development	25	32	41	45	57	99	108	124	153
General and administrative	22	26	34	40	51	76	72	80	88
Total costs and expenses	183	213	251	294	343	488	540	583	677
Income from operations	162	218	216	437	388	407	414	548	381
Net income	\$ 95	\$ 129	\$ 131	\$ 251	\$ 233	\$ 240	\$ 227	\$ 302	\$ 205

(1) Costs and expenses include share-based compensation expense as follows:

	Three Months Ended								Mar 31, 2012
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011 (in millions)	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	
Cost of revenue	\$	\$	\$	\$	\$	\$ 3	\$ 3	\$ 3	\$ 4
Marketing and sales		1		1		11	16	16	23
Research and development	2	2	2	3	4	35	33	42	60
General and administrative	3	2	2	2	3	15	18	15	16
Total share-based compensation	\$ 5	\$ 5	\$ 4	\$ 6	\$ 7	\$ 64	\$ 70	\$ 76	\$ 103

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	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Three Months Ended			Sep 30, 2011	Dec 31, 2011	Mar 31, 2012
				Dec 31, 2010	Mar 31, 2011	Jun 30, 2011			
(as a percentage of total revenue)									
<b>Consolidated Statements of</b>									
<b>Income Data:</b>									
<b>Revenue:</b>									
Advertising revenue	99%	98%	96%	90%	87%	87%	84%	83%	82%
Payments and other fees revenue	1	2	4	10	13	13	16	17	18
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Costs and expenses<sup>(1)</sup>:</b>									
Cost of revenue	29%	26%	28%	21%	23%	23%	25%	22%	26%
Marketing and sales	10	10	10	8	9	12	13	12	15
Research and development	7	7	9	6	8	11	11	11	14
General and administrative	6	6	7	5	7	8	8	7	8
Total costs and expenses	53	49	54	40	47	55	57	52	64
Income from operations	47	51	46	60	53	45	43	48	36
Net income	28%	30%	28%	34%	32%	27%	24%	27%	19%

(1) Costs and expenses include share-based compensation expense as follows:

	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Three Months Ended			Sep 30, 2011	Dec 31, 2011	Mar 31, 2012
				Dec 31, 2010	Mar 31, 2011	Jun 30, 2011			
(as a percentage of total revenue)									
Cost of revenue	%	%	%	%	%	%	%	%	%
Marketing and sales						1	2	1	2
Research and development	1				1	4	3	4	6
General and administrative	1					2	2	1	2
Total share-based compensation	1%	1%	1%	1%	1%	7%	7%	7%	10%

## Quarterly Trends

### Revenue

Advertising spending is traditionally seasonally strong in the fourth quarter of each year. We believe that this seasonality in advertising spending affects our quarterly results, which generally reflect strong growth in advertising revenue between the third and fourth quarters and slower growth, and for certain years a decline, in advertising spending between the fourth and subsequent first quarters. For instance, our advertising revenue increased 64%, 46%, and 18% between the third and fourth quarters of 2009, 2010, and 2011, respectively, while advertising revenue in the first quarter of 2010 increased 5% as compared to the fourth quarter of 2009 and advertising revenue for the first quarter of 2011 and 2012 declined 3% and 8% compared to the fourth quarters of 2010 and 2011, respectively. The rapid growth in our business may have partially masked these seasonal trends to date and the seasonal impacts may be more pronounced in the future.

*Cost of revenue and operating expenses*

Cost of revenue and operating expenses increased during every quarter presented, primarily due to increased expenses related to the continued expansion of our technical infrastructure and increases in employee headcount.

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The increases in marketing and sales, research and development, and general and administrative expenses in the 2011 quarterly periods also reflect significant increases for share-based compensation expense related to Post-2011 RSUs.

For additional information on matters that may affect our quarterly results, see [Risk Factors](#). Our financial results will fluctuate from quarter to quarter, which makes them difficult to predict.

## Liquidity and Capital Resources

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
	(in millions)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	\$ 155	\$ 698	\$ 1,549	\$ 345	\$ 441
Net cash used in investing activities	(62)	(324)	(3,023)	(153)	(720)
Net cash provided by financing activities	243	781	1,198	798	50
Purchases of property and equipment	(33)	(293)	(606)	(153)	(453)
Depreciation and amortization	78	139	323	51	110
Share-based compensation	27	20	217	7	103

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, and cash generated from operations. Cash and cash equivalents and marketable securities consist primarily of cash on deposit with banks and investments in money market funds and U.S. government and U.S. government agency securities. Cash and cash equivalents and marketable securities totaled \$3,910 million as of March 31, 2012, an increase of \$2 million from December 31, 2011. The most significant cash flow activities consisted of \$441 million of cash generated from operations, offset by \$453 million used for capital expenditures. Cash and cash equivalents and marketable securities totaled \$3,908 million as of December 31, 2011, an increase of \$2,123 million from December 31, 2010. This increase primarily reflects \$1,549 million of cash generated from operations and \$998 million of proceeds from the sale of common stock, partially offset by \$606 million used for capital expenditures and repayment of a \$250 million credit facility. We currently anticipate that our available funds, credit facilities, and cash flow from operations will be sufficient to meet our operational cash needs for the foreseeable future.

In April 2012, we entered into an agreement to acquire Instagram, Inc., which has built a mobile phone-based photo-sharing service, for 22,999,412 shares of our common stock and \$300 million in cash. The value of the equity component of the final purchase price will be determined for accounting purposes based on the fair value of our common stock on the closing date and it is possible that the per share price of our common stock on that date could be significantly higher or lower than the initial public offering price. Following the closing of this acquisition, we plan to maintain Instagram's products as independent mobile applications to enhance our photos product offerings and to enable users to increase their levels of mobile engagement and photo sharing. This acquisition is subject to customary closing conditions, including the expiration or early termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (HSR), and is expected to close in 2012. We have agreed to pay Instagram a \$200 million termination fee if governmental authorities permanently enjoin or otherwise prevent the completion of the merger or if either party terminates the agreement after December 10, 2012.

Also, in April 2012, we entered into an agreement with Microsoft Corporation pursuant to which we will be assigned Microsoft's rights to acquire approximately 615 U.S. patents and patent applications and their foreign counterparts, consisting of approximately 170 foreign patents and patent applications, that are subject to the agreement between AOL Inc. and Microsoft entered into on April 5, 2012, in exchange for a total cash payment of approximately \$550 million. As part of this transaction, we will obtain a non-exclusive license to the other





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AOL patents and patent applications being purchased by Microsoft and will grant Microsoft a non-exclusive license to the AOL patents and patent applications that we are acquiring. In addition, we will be assigned Microsoft's rights to acquire the outstanding shares of a wholly-owned, non-operating subsidiary of AOL that holds a portion of the aforementioned patents and patent applications. The transaction is subject to the closing of Microsoft's transaction with AOL as well as customary closing conditions, including the expiration or early termination of all applicable waiting periods under HSR.

Pre-2011 RSUs vest upon the satisfaction of both a service condition and a liquidity condition. The liquidity condition will be satisfied six months following our initial public offering. Under settlement procedures applicable to these awards, we are permitted to deliver the underlying shares within 30 days before or after the date on which the liquidity condition is satisfied. As a result, we expect that a portion of these RSUs that are held by our directors and then current employees will be settled on a date that is 151 to 180 days after the date of this prospectus. In addition, a portion of these RSUs that are held by former employees will be settled approximately 181 days after the date of this prospectus. On the settlement dates, we plan to withhold and remit income taxes at applicable minimum statutory rates based on the then current value of the underlying shares. We currently expect that the average of these withholding tax rates will be approximately 45%. If the price of our common stock at the time of settlement were equal to the initial public offering price of \$38.00 per share, and based on Pre-2011 RSUs outstanding as of March 31, 2012 for which the service condition will be satisfied as of the date of settlement, we estimate that this tax obligation would be approximately \$4.6 billion in the aggregate. The amount of this obligation could be higher or lower, depending on the price of our shares on the RSU settlement date. To settle these RSUs, assuming an approximate 45% tax withholding rate, we anticipate that we will net settle the awards by delivering an aggregate of approximately 155 million shares of Class B common stock to RSU holders and withholding an aggregate of approximately 122 million shares of Class B common stock. In connection with these net settlements we will withhold and remit the tax liabilities on behalf of the RSU holders to the relevant tax authorities in cash.

To fund the withholding and remittance obligations, we expect to sell equity securities near the initial settlement date in an amount substantially equivalent to the number of shares of common stock that we withhold in connection with these net settlements, such that the newly issued shares should not be dilutive. However, in the event that we issue equity securities, we cannot assure you that we will be able to successfully match the proceeds to the amount of this tax liability. If we elect not to fully fund tax withholding and remittance obligations through the issuance of equity or we are unable to complete such an offering due to market conditions or otherwise, we may choose to borrow funds from our credit facilities, use a substantial portion of our existing cash, or rely upon a combination of these alternatives.

In 2011, we entered into an agreement for an unsecured five-year revolving credit facility that allowed us to borrow up to \$2,500 million, with interest payable on borrowed amounts set at the London Interbank Offered Rate (LIBOR) plus 1.0%. In February 2012, we terminated this credit facility and we entered into a new agreement for an unsecured five-year revolving credit facility that allows us to borrow up to \$5,000 million for general corporate purposes, with interest payable on the borrowed amounts set at LIBOR plus 1.0%. Prior to our initial public offering, we can borrow up to \$2,500 million under this facility. We paid origination fees at closing and these fees are amortized over the remaining term of the credit facility. Under the terms of the new agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance. No amounts were drawn down under this agreement as of March 31, 2012.

Concurrent with our entering into the new revolving credit facility, we also entered into a bridge credit facility that allows us to borrow up to \$3,000 million to fund tax withholding and remittance obligations related to the settlement of RSUs in connection with our initial public offering, with interest payable on the borrowed amounts set at LIBOR plus 1.0% and an additional 0.25% payable on drawn balances outstanding from and after the 180th day of borrowing. We may make a single borrowing under this bridge facility beginning on the closing date of our initial public offering and ending on the date that is 240 days after that date. Any amounts outstanding under this facility will be due one year after the date we draw on the facility but no later than June 30, 2014. During the term of this bridge facility, the lenders' commitments are subject to reduction and amounts borrowed thereunder are subject to

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repayment in the event we raise capital through certain asset sales, debt issuances, or equity issuances. We paid origination fees at closing and these fees are amortized over the remaining term of the facility, and we are obligated to pay an additional upfront fee of 0.20% of the aggregate amount of the borrowings requested on any applicable funding date. Under the terms of the agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance from and after the 90th day following the date we entered into the bridge facility. No amounts were drawn down under this agreement as of March 31, 2012.

As of March 31, 2012, \$486 million of the \$3,910 million in cash and cash equivalents and marketable securities was held by our foreign subsidiaries. We have provided for the additional taxes that would be due if we repatriated these funds for use in our operations in the United States.

### ***Cash provided by operating activities***

Cash flow from operating activities during the first quarter of 2012 primarily consisted of net income of \$205 million, adjusted for certain non-cash items, including total depreciation and amortization of \$110 million, and share-based compensation expense of \$103 million. The increase in cash flow from operating activities during the first quarter of 2012 compared to the same period in 2011 was mainly due to an increase in net income as adjusted for non-cash items such as depreciation, amortization, and share-based compensation.

Cash flow from operating activities during 2011 primarily resulted from net income of \$1,000 million, adjusted for certain non-cash items, including total depreciation and amortization of \$323 million, and share-based compensation expense of \$217 million.

Cash flow from operating activities during 2010 primarily resulted from net income of \$606 million, adjusted for certain non-cash items, including total depreciation and amortization of \$139 million and share-based compensation expense of \$20 million, partially offset by cash consumed by working capital of \$70 million.

Cash flow from operating activities during 2009 primarily resulted from net income of \$229 million, adjusted for certain non-cash items, including total depreciation and amortization of \$78 million and share-based compensation of \$27 million, partially offset by cash consumed by working capital of \$179 million.

### ***Cash used in investing activities***

Cash used in investing activities during the first quarter of 2012 primarily resulted from capital expenditures of \$453 million related to the purchase of servers, networking equipment, storage infrastructure, and the construction of data centers as well as \$240 million for the net purchase of marketable securities. The increase in cash used in investing activities during the first quarter of 2012 compared to the same period in 2011 was mainly due to increases in capital expenditures and the purchase of marketable securities which were not in our investment portfolio in the prior period.

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Cash used in investing activities during 2011 primarily resulted from the use of approximately \$2,396 million for the net purchase of marketable securities. Our cash used in investing activities in 2011 also consisted of capital expenditures of \$606 million related to the purchase of servers, networking equipment, storage infrastructure, and the construction of data centers.

Cash used in investing activities during 2010 and 2009 primarily consisted of capital expenditures related to the purchases of property and equipment and the construction of data centers. Changes in restricted cash and deposits consumed \$9 million and \$32 million of cash related to security deposits in support of real estate expansion in 2010 and 2009, respectively. Acquisitions, net of cash acquired, also consumed \$22 million of cash in 2010.

We anticipate making capital expenditures in 2012 of approximately \$1.6 billion to \$1.8 billion, a portion of which we will finance through leasing arrangements. We also anticipate spending \$300 million in cash as part of the purchase price for the acquisition of Instagram and approximately \$550 million in cash in exchange for the

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assignment of Microsoft Corporation's rights to acquire certain patent assets of AOL Inc. as well as the entity holding a portion of those assets.

### ***Cash provided by financing activities***

Our financing activities have primarily consisted of equity issuances, lease financing, and debt financing. Net cash provided by financing activities was \$50 million and \$798 million, respectively, for the first quarters of 2012 and 2011, and \$1,198 million, \$781 million, and \$243 million, respectively, for 2011, 2010, and 2009. This includes excess tax benefits from stock award activities of \$54 million, \$69 million, \$433 million, \$115 million, and \$51 million, respectively.

In January 2011, we completed an offering of our Class A common stock to certain non-U.S. investors that generated \$998 million in net proceeds. In December 2010, we completed an offering of our Class A common stock that generated \$500 million in proceeds. In May 2009, we completed an offering of Series E preferred stock that generated \$200 million in proceeds.

In March 2010, we entered into a credit facility with certain lenders. This facility allowed for the drawdown of up to \$250 million in unsecured senior loans. In April 2010, we drew down the full amount available under the facility, and in March 2011, we repaid the entire \$250 million balance.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements in the first quarter of 2012, or in 2011, 2010, or 2009.

### **Contingencies**

We are involved in claims, lawsuits, government investigations, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

### **Commitments**

Our principal commitments consist of obligations under capital and operating leases for equipment and office and data center facilities. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2011.

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	Total	Payment Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	\$ 945	\$ 180	\$ 243	\$ 197	\$ 325
Capital lease obligations	817	322	337	28	130
Other contractual commitments <sup>(1)</sup>	500	450	25	25	
Total contractual obligations	\$ 2,262	\$ 952	\$ 605	\$ 250	\$ 455

(1) Other contractual commitments primarily relate to equipment and supplies for our data center operations, and to a lesser extent, construction of our data center sites.

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In addition, our other liabilities include \$60 million related to uncertain tax positions as of December 31, 2011. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months. As a result, this amount is not included in the above table.

## **Recently Issued and Adopted Accounting Pronouncements**

### ***Comprehensive Income***

In May 2011, the Financial Accounting Standards Board issued guidance that changed the requirement for presenting Comprehensive Income in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We adopted this new guidance on January 1, 2012.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in note 1 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

### ***Revenue Recognition for Payments and Other Fees***

We enable Payments from our users to our Platform developers. Our users can make payments on the Facebook Platform by using credit cards or other payment methods available on our website. The primary process for these transactions is through the purchase of our virtual currency. Our users then use this virtual currency to purchase virtual and digital goods in games and apps from developers on the Facebook Platform. Upon the initial sale of the virtual currency, we record consideration received from a user as a deposit.

When a user engages in a payment transaction utilizing the virtual currency for the purchase of a virtual or digital good from a Platform developer, we reduce the virtual currency balance of the user by the price of the purchase, which is a price that is solely determined by the Platform developer. We remit to the Platform developer an amount that is based on the total amount of virtual currency redeemed less the

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processing fee that we charge the Platform developer for the service performed. Our revenue is the net amount of the transaction representing our processing fee for the transaction. We record revenue on a net basis as we do not consider ourselves to be the principal in the sale of the virtual or digital good to the user. Under GAAP guidance related to reporting revenue gross as a principal versus net as an agent, the indicators used to determine whether an entity is a principal or an agent to a transaction are subject to judgment. We consider ourselves the agent to these transactions when we apply the indicators to our facts. Should material subsequent changes in the substance or nature of the transactions with Platform developers result in us being considered the principal in such sales, we would reflect the virtual and digital goods sale as revenue and the amounts paid to the Platform developers as an



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associated cost. This would have no impact upon our operating income, but our revenue and associated costs would increase by a similar amount.

### ***Income Taxes***

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

### ***Share-based Compensation***

#### ***Overview***

We have granted RSUs to our employees and members of our board of directors. Pre-2011 RSUs vest upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards is satisfied over four years. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the effective date of an initial public offering. Under the terms of our 2005 Stock Plan, the shares underlying RSUs that satisfy both of these conditions are to be delivered to holders six months following our initial public offering.

Post-2011 RSUs are not subject to a liquidity condition in order to vest. The majority of Post-2011 RSUs are earned over a service period of four or five years.

*Share-based Compensation Expense*

We account for share-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options and RSUs, to be measured based on the grant-date fair value of the awards.

Share-based compensation expense is recorded net of estimated forfeitures in our consolidated statements of income and as such is recorded for only those share-based awards that we expect to vest. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates. We record share-based compensation expense for service-based equity awards such as stock options,

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restricted shares, and Post-2011 RSUs using the straight-line attribution method over the period during which the employee is required to perform service in exchange for the award. We record share-based compensation expense for performance-based equity awards such as Pre-2011 RSUs using the accelerated attribution method. In the second quarter of 2012, we will recognize a significant cumulative share-based compensation expense for the portion of the Pre-2011 RSUs that had met the service condition as of that date.

We have historically issued unvested restricted shares to employee stockholders of certain acquired companies. As these awards are generally subject to continued post-acquisition employment, we have accounted for them as post-acquisition share-based compensation expense. We recognize compensation expense equal to the grant date fair value of the common stock on a straight-line basis over the employee's required service period, net of estimated forfeitures.

We capitalize share-based employee compensation expense when appropriate. We did not capitalize any share-based compensation expense in the first quarter of 2012 or in the three years ended December 31, 2011.

As of March 31, 2012, no share-based compensation expense had been recognized for Pre-2011 RSUs because the qualifying events described above had not occurred. In the second quarter of 2012, we will begin recording share-based compensation expense using the accelerated attribution method net of forfeitures based on the grant date fair value of the Pre-2011 RSUs. For Pre-2011 RSUs, if our initial public offering had occurred on March 31, 2012, we would have recognized \$965 million of cumulative share-based compensation expense on that date.

The following table summarizes, on a pro forma basis, the number of vested and unvested Pre-2011 RSUs outstanding at March 31, 2012 and the share-based compensation expense related to Pre-2011 RSUs that we would have incurred, assuming our initial public offering had occurred on March 31, 2012.

Vested Pre-2011 RSUs as of Mar 31, 2012 <sup>(1)</sup>	Unvested Pre-2011 RSUs as of Mar 31, 2012 <sup>(2)</sup>	Pro Forma Share-based Compensation Expense
(in thousands)		(in millions)
240,457	84,590	\$965

(1) For purposes of this table, Vested RSUs include those RSUs for which the service condition had been fulfilled as of March 31, 2012.

(2) For purposes of this table, Unvested RSUs include those RSUs for which the service condition had not been fulfilled as of March 31, 2012 and exclude an estimate of forfeited RSUs.

This table is based on Pre-2011 RSUs outstanding as of March 31, 2012 and is intended to be illustrative only. The actual timing of compensation expense we will recognize related to outstanding Pre-2011 RSU awards will depend on the date of the closing of our initial public offering. The actual amount of compensation expense we will incur will vary because the service condition of additional RSUs will be fulfilled between March 31, 2012 and the closing date of our initial public offering.

We estimate that the remaining unrecognized share-based compensation expense relating to Pre-2011 RSUs would be approximately \$235 million, after giving effect to estimated forfeitures and would be recognized in the remainder of 2012 and thereafter as shown on the table below, if our initial public offering had occurred on March 31, 2012.

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In addition, as of March 31, 2012, we had 53 million Post-2011 RSUs outstanding. For these Post-2011 RSUs, \$97 million in expense was recognized in the first quarter of 2012 and, after giving effect to estimated forfeitures, a remaining \$1,119 million will be recognized in the remainder of 2012 and thereafter as shown in the table below. This table estimates future share-based compensation expense related to all outstanding equity grants, consisting of RSUs, restricted shares, and stock options through March 31, 2012. The table does not take into account any share-based compensation expense related to future awards that may be granted to employees, directors, or other service providers. Additionally, the amounts in the table include an estimate of unvested

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awards that may be forfeited in future periods due to the departure of employees or directors. Our forfeiture estimates are subject to adjustment based on actual experience.

	Remainder of 2012	2013	2014 (in millions)	2015	Beyond 2015
Pre-2011 RSUs <sup>(1)(2)</sup>	\$ 107	\$ 79	\$ 31	\$ 8	\$ 10
Post-2011 RSUs <sup>(3)</sup>	215	289	291	240	84
Restricted shares	10	11	10	3	
Stock options	6	7	5	4	6
Total	\$ 338	\$ 386	\$ 337	\$ 255	\$ 100

(1) Assumes our initial public offering was completed on March 31, 2012.

(2) Excludes the estimated \$965 million expense related to Pre-2011 RSUs for which the service condition had been achieved as of March 31, 2012 and which would have been incurred assuming our initial public offering had occurred on March 31, 2012.

(3) Does not reflect the share-based compensation expense that we will incur in future periods in connection with the grant of an aggregate of 25,257,815 Post-2011 RSUs on May 3, 2012. If the fair value of our Class A common stock was \$38.00, the initial public offering price, the share-based compensation expense related to these grants would be approximately \$157 million for the remainder of 2012, \$210 million for 2013, \$212 million for 2014, \$228 million for 2015, and \$153 million beyond 2015.

The aggregate intrinsic value of vested and unvested stock options and vested and unvested RSUs as of March 31, 2012, based on the initial public offering price of \$38.00 per share was \$8,477 million, \$404 million, \$9,365 million, and \$5,015 million, respectively.

We estimated the fair value of stock option awards included in the table above using the Black-Scholes-Merton single option-valuation model, which requires inputs such as expected term, expected volatility, and risk-free interest rate. The estimated forfeiture rate of stock option awards also affects the amount of aggregate compensation expense we will incur. These inputs are subjective and generally require significant analysis and judgment to develop.

We estimate the expected term for stock option awards based upon the historical behavior of our employees. The expected volatility is based on a study of publicly traded industry peer companies. The forfeiture rate is derived primarily from our historical data, and the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues. Our dividend yield is 0%, since we have not paid, and do not expect to pay, dividends.

We estimated the fair value of employee stock options granted in 2009 and 2010 as of the date of the grant using the following weighted-average assumptions:

	Year Ended December 31,	
	2009	2010
Expected term from grant date (in years)	5.04	7.15
Risk-free interest rate	2.01%	1.69%
Expected volatility	0.57	0.46
Dividend yield		

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The weighted-average grant date fair value of employee stock options granted during 2009 and 2010 was \$1.12 and \$5.26, respectively, per share. We did not grant any stock options in 2011 or in the first quarter of 2012.

### *Tax Withholding and Remittance Obligations*

We estimate that an aggregate of approximately 277 million shares underlying Pre-2011 RSUs will settle on dates that are 151 to 181 days after the date of this prospectus, based on Pre-2011 RSUs outstanding as of March 31, 2012 for which the service condition will be satisfied as of the dates of settlement. In addition, we estimate that an additional approximately 3 million Pre-2011 RSUs will settle following such dates through the

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end of 2012. We estimate that an aggregate of approximately 56 million Pre-2011 RSUs and Post-2011 RSUs will settle in 2013.

RSU holders generally will recognize taxable income based upon the value of the shares on the date they are settled and we are required to withhold taxes on such value at applicable minimum statutory rates. We currently expect that the average of these withholding rates will be approximately 45%. For additional information on our tax withholding and remittance obligations related to RSU vesting, see [Liquidity and Capital Resources](#) above.

### *Corporate Income Taxes*

The RSU activity discussed above, as well as activity from other equity awards including stock options, will also have corporate income tax effects. The most significant effect is that the settlement of awards or exercise of nonstatutory stock options generates a corporate income tax deduction that will reduce our U.S. corporate income tax liability. The exercise of incentive stock options (ISOs) may also result in a corporate income tax deduction, but only in certain circumstances where the holder of the ISOs also sells the acquired shares in a disqualifying disposition. The amount of this corporate income tax deduction will be based on the value of shares at the exercise or settlement date, which differs from the value of the shares at the grant date that is used to determine the share-based compensation expense. Depending on the value of the shares on the date the equity awards are settled or options are exercised, we could generate a corporate income tax deduction that exceeds our other U.S. taxable income in that year, which would result in a taxable loss for U.S. corporate income tax purposes that reduces our U.S. corporate income tax liability to an immaterial amount for that year. In 2012, we expect to settle approximately 280 million RSUs. In addition, as of March 31, 2012, we had vested nonstatutory options outstanding to purchase approximately 185 million shares of our Class B common stock. As of March 31, 2012, we also had vested ISOs outstanding to purchase approximately 40 million shares of our Class B common stock, but given the uncertainty in predicting whether the ISO holders will choose to make disqualifying dispositions, we are assuming that no corporate income tax deductions will be generated by these ISOs. Assuming all of these vested nonstatutory stock options are exercised during 2012 and assuming the value of our Class B common stock at settlement or upon option exercise is the initial public offering price of \$38.00 per share, we estimate that this settlement and option exercise activity by U.S. employees would generate a corporate income tax deduction of approximately \$17 billion. The amount that this deduction exceeds our other U.S. taxable income will result in a net operating loss (NOL) that can be carried back to the preceding two years to offset our taxable income for U.S. federal income tax purposes, as well as in some states, which would allow us to receive a refund of some of the corporate income taxes we paid in those years. Based on the assumptions above, we anticipate that this refund could be up to \$500 million and payable to us during the first six months of 2013. Any portion of the NOL remaining after this carryback would be carried forward to offset our other U.S. taxable income generated in future years, which taxable income will also be reduced by deductions generated from new stock award settlement and stock option exercise activity occurring in those future years.

Utilization of our NOL carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the NOL carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

The corporate income tax deductions generated by this settlement and exercise activity described above do not reduce our effective tax rate reflected in our consolidated statements of income. Our provision for income taxes reflects the tax benefits that are recorded at the time the share-based compensation is initially recognized as an expense, which is based on the fair value of shares at grant date, and is different than the corporate income tax deduction, which is based on the value of shares at settlement or at exercise. If the reduction in our corporate income tax liability from settlements and exercises is greater than the tax benefits that we recognized when the share-based compensation expense was initially recorded, which will generally occur if our share price has appreciated between grant date and settlement or exercise date, this will create an excess tax benefit that is recorded as a component of additional paid-in capital and not as a reduction of our provision for income taxes in





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our consolidated statements of income. The timing in which these excess tax benefits are reflected on our balance sheet generally matches the timing in which the reduction in prior or future income tax liability occurs. Thus, if we have these types of NOLs remaining after any carryback claims, we would not record a deferred tax asset for such NOLs, but rather we would record an adjustment to additional paid-in capital and a reduction to our corporate income tax liability during the period in which those NOLs are used to reduce our corporate income tax liability. These excess tax benefits would be recorded in our statements of cash flows as cash provided by financing activities.

***Valuation of Our Common Stock***

The valuations of our Class B common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. We considered numerous objective and subjective factors to determine our best estimate of the fair value of our Class B common stock, including but not limited to, the following factors:

recent private stock sale transactions;

our historical financial results and estimated trends and prospects for our future financial performance;

our performance and market position relative to our competitors and/or similar publicly traded companies;

the economic and competitive environment, including the industry in which we operate; and

third-party valuations completed as of the end of each quarter.

We have granted the following RSUs since January 1, 2011:

Grant Date	Shares Underlying RSUs (thousands)	Grant Date Fair Value	Aggregate Grant Date Fair Value (millions)
<b>2011</b>			
<b>First Quarter</b>			
February 16, 2011	2,022	\$ 24.10	\$ 49
March 25, 2011	40,006	25.43	1,017
<b>Second Quarter</b>			
May 11, 2011	2,580	27.58	71
June 6, 2011	1,643	28.88	47
June 22, 2011	1,010	29.67	30
<b>Third Quarter</b>			
July 21, 2011	2,898	30.07	87
September 1, 2011	1,426	30.07	43
September 6, 2011	20	30.07	1
September 22, 2011	1,649	30.07	50

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## Fourth Quarter

November 11, 2011	670	29.91	20
December 22, 2011	1,202	29.76	36

## 2012

### First Quarter

January 12, 2012	944	30.18	28
January 27, 2012	1,003	30.73	31

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Through the first quarter of 2012, we conducted valuations of our Class B common stock that took into account the factors described above and used a combination of financial and market-based methodologies to determine our business enterprise value (BEV) including the following approaches:

*Discounted Cash Flow Method (DCFM).* DCFM involves estimating the future cash flows of a business for a certain discrete period and discounting such cash flows to present value. If the cash flows are expected to continue beyond the discrete time period, then a terminal value of the business is estimated and discounted to present value. The discount rate reflects the risks inherent in the cash flows and the market rates of return available from alternative investments of similar type and quality as of the valuation date.

*Guideline Public Company Method (GPCM).* GPCM assumes that businesses operating in the same industry will share similar characteristics and that the subject business's value will correlate to those characteristics. Therefore, a comparison of the subject business to similar businesses whose financial information and public market value are available may provide a reasonable basis to estimate the subject business's value. The GPCM provides an estimate of value using multiples derived from the stock prices of publicly traded companies. In selecting guideline public companies for this analysis, we focused primarily on quantitative considerations, such as financial performance and other quantifiable data, as well as qualitative considerations, such as industry and economic drivers.

*Market Transaction Method (MTM).* MTM considers transactions in the equity securities of the business being valued. During 2011, there were private stock sale transactions in our common stock. These transactions are considered if they occur with or among willing and unrelated parties. For our MTM estimates, we evaluate all transactions in the quarter with particular focus on transactions that are closer in proximity to the valuation date. We choose the weighting for the MTM each quarter based on factors such as the volume of transactions in each period, the timing of these transactions, and whether the transactions involved investors with access to our financial information.

We performed all three methodologies for each quarter listed above, and weighted the methodologies based on the facts and circumstances in the quarter. Our indicated BEV at each valuation date was then allocated to the shares of preferred stock, common stock, warrants, options, and RSUs, using the option pricing method (OPM).

### *First Quarter 2011*

We determined the fair value of our Class B common stock to be \$25.54 per share as of March 31, 2011. We assigned a 50% weighting to the MTM due to the significant volume of third-party private stock sale transactions in March 2011, including a third-party Class B common stock tender offer transaction for employee shares for \$25.00 per share which commenced on March 1, 2011 and became binding upon the selling stockholders on March 29, 2011. The tender offer was undertaken by investors who had access to our historical financial information. To calculate the MTM, we used the weighted average price of all transactions originating in March 2011 that were expected to be consummated, including the tender offer. We based our MTM estimate on March 2011 transactions because we believe transactions occurring closer to the quarter-end valuation date are more relevant to fair value than those transactions occurring earlier in the quarter. We assigned a 35% weighting to the GPCM which reflected the stock prices and market multiples of guideline public companies. We assigned a 15% weighting to the DCFM which was based on a weighted average cost of capital of 15% and a perpetual growth rate of 5%. The DCFM received the lowest weight because our financial plan had not been recently updated, and therefore we believed the cash flow assumptions used in the DCFM were less relevant to the determination of fair value as of the measurement date. The BEV resulting from this analysis was then allocated using the OPM and a 7.5% marketability discount was applied.

The fair value of the RSUs granted in February 2011 was determined using a straight-line calculation, with the benefit of hindsight, between the fair value determined as of December 31, 2010 of \$20.85 per share and the \$25.00 per share offer price for the tender offer described above that commenced on March 1, 2011. The fair value of the RSUs granted in March 2011 was determined using a similar straight-line calculation

between the

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tender offer price of \$25.00 per share as of March 1, 2011, and the fair value determined as of March 31, 2011 of \$25.54 per share. We determined that the straight-line calculation provides the most reasonable basis for the valuations for the RSUs granted on the interim dates because we did not identify any single event that occurred during this interim period (other than the March 2011 tender offer) that would have caused a material change in fair value.

### *Second Quarter 2011*

We determined the fair value of our Class B common stock to be \$30.07 per share as of June 30, 2011. We assigned a 50% weighting to the MTM due to the significant volume of third-party private stock sale transactions in June 2011, including transactions involving investors who had access to our historical financial information. To calculate the MTM, we used the weighted average price of all transactions originating in June 2011 that were expected to be consummated. We based our MTM estimate on June 2011 transactions because we believe transactions occurring closer to the quarter-end valuation date are more relevant to the determination of fair value than those transactions occurring earlier in the quarter. We made no change to the weightings assigned to the GPCM and DCFM from the previous quarter. In this period, we added certain Internet companies that had recently completed initial public offerings to our set of guideline public companies, which increased the value of the GPCM from the prior valuation period. The DCFM was based on a weighted average cost of capital of 15% and a perpetual growth rate of 5%. The BEV resulting from this analysis was then allocated using the OPM and a 6.5% marketability discount was applied. Significant factors influencing the change in valuation relative to the prior quarter included the foregoing private stock sale transactions and the addition to our set of guideline public companies of newly public companies whose valuation multiples were relatively higher than others in the comparison group. We believe our valuation increase was affected by media speculation that we were planning an initial public offering in 2012, investor speculation that our financial performance was better than investors had previously believed, and the successful public offerings and trading performance of certain Internet companies in the second quarter.

The fair values of the RSUs granted in May and June 2011 were determined using a straight-line calculation, with the benefit of hindsight, between the fair value determined as of March 31, 2011 of \$25.54 per share and the fair value determined as of June 30, 2011 of \$30.07 per share. We determined that the straight-line calculation provides the most reasonable basis for the valuations for the RSUs granted on the interim dates because we did not identify any single event that occurred during this interim period that would have caused a material change in fair value.

### *Third Quarter 2011*

We determined the fair value of our Class B common stock to be \$30.07 per share as of September 30, 2011. We used a combination of the GPCM, the DCFM, and the MTM to determine BEV. We assigned a 50% weighting to the DCFM because we had recently completed a comprehensive update to our financial plan and therefore we believed the assumptions used in the DCFM closely reflected BEV. The BEV resulting from this DCFM analysis was allocated using the OPM and a 6.0% marketability discount was applied. Relative to the first and second quarters, in the third quarter we assigned a lower weighting of 25% to the MTM due to the lower overall volume of third-party private stock sale transactions and the lack of significant transactions with investors that had access to our financial information. To calculate the MTM, we used the weighted average price of all transactions originating in September 2011 that were expected to be consummated. We based our MTM estimate on September 2011 transactions because we believe transactions occurring closer to the quarter-end valuation date are more relevant to the determination of fair value than those transactions occurring earlier in the quarter.

Because there was no change to fair value between the two valuation periods, and because we did not identify any events during the period that would have caused a material change in fair value, we used \$30.07 per share as the fair value for all RSU grants during the period.



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### *Fourth Quarter 2011*

We determined the fair value of our Class B common stock to be \$29.73 per share as of December 31, 2011. We assigned a 50% weighting to the MTM due to the significant volume of third-party private stock sale transactions in December 2011, including transactions involving investors who had access to our historical financial information. To calculate the MTM, we used the weighted average price of all transactions originating in December 2011 that were expected to be consummated. We based our MTM estimate on December 2011 transactions because we believe transactions occurring closer to the quarter-end valuation date are more relevant to the determination of fair value than those transactions occurring earlier in the quarter. We assigned a 25% weighting to the GPCM and the DCFM to determine fair value. In this period, we included additional Internet companies that had recently completed initial public offerings to our set of guideline public companies for use in estimating the GPCM. Compared to our valuation as of September 30, 2011, we assigned a lower weight to the DCFM in this period because time had passed since key elements of our financial plan had been updated, and therefore the cash flow assumptions used in the DCFM were less relevant to the determination of fair value as of the measurement date. The DCFM was based on a weighted average cost of capital of 15% and a perpetual growth rate of 5%. The BEV resulting from this analysis was then allocated using the OPM and a 5.5% marketability discount was applied. The primary factor influencing the change in valuation relative to the prior quarter was the foregoing private stock sale transactions, and we believe our valuation decrease was affected by continued public market volatility.

The fair values of the RSUs granted in November and December 2011 were determined using a straight-line calculation, with the benefit of hindsight, between the fair value determined as of September 30, 2011 of \$30.07 per share and the fair value determined as of December 31, 2011 of \$29.73 per share. We determined that the straight-line calculation provides the most reasonable basis for the valuation for the RSUs granted on the interim dates because we did not identify any single event that occurred during this interim period that would have caused a material change in fair value.

### *First Quarter 2012*

We determined the fair value of our Class B common stock to be \$30.89 per share as of January 31, 2012. We assigned a 50% weighting to the MTM due to the significant volume of third-party private stock sale transactions in January 2012, including transactions involving investors who had access to our historical financial information. To calculate the MTM, we used the weighted average price of all transactions originating in January 2012 that were expected to be consummated. We made no change to the weightings assigned to the GPCM and DCFM from the previous quarter. The DCFM was based on a weighted average cost of capital of 15% and a perpetual growth rate of 5%. The BEV resulting from this analysis was then allocated using the OPM and a 5% marketability discount was applied. We believe the primary factors influencing the increase in valuation from the prior period were the foregoing private stock sale transactions and a general increase in the prices of publicly traded equities.

The fair values of the RSUs granted in January 2012 were determined using a straight-line calculation, with the benefit of hindsight, between the fair value determined as of December 31, 2011 of \$29.73 per share and the fair value determined as of January 31, 2012 of \$30.89 per share. We determined that the straight-line calculation provides the most reasonable basis for the valuations for the RSUs granted on the interim dates because we did not identify any single event that occurred during this interim period that would have caused a material change in fair value.

### *May 2012 Grant*

On May 3, 2012, we granted an aggregate of 25,257,815 RSUs. We will determine the fair value of these grants during the second quarter. If the fair value of our Class A common stock was \$38.00, the initial public offering price, the aggregate grant date fair value would be approximately

\$960 million.



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### *Offering Price*

In early May 2012, in consultation with the underwriters, we determined the anticipated initial public offering price range to be \$28.00 to \$35.00 per share. Subsequently, in mid-May 2012 we increased the anticipated initial public offering price range to \$34.00 to \$38.00 per share. The assumptions supporting the revised anticipated initial public offering price range represented management's best estimates and discussions between us and the underwriters about indications of interest from potential investors after approximately one week of marketing of the offering, and involved complex and subjective judgments. It should be noted that the fair value of our Class B common stock as of January 31, 2012, which was \$30.89 per share, was determined through a different methodology. The January 31, 2012 valuation followed the methodologies used in 2011 and was influenced in large part by third-party private stock sale activity that occurred in January 2012 and also took into account a marketability or illiquidity discount. The revised anticipated initial public offering price range was based on the assumption that our initial public offering had occurred and that a public market for our Class A common stock had been created, and therefore excluded any marketability or illiquidity discount.

### **Qualitative and Quantitative Disclosures about Market Risk**

We are exposed to market risk, including changes to interest rates, foreign currency exchange rates and inflation.

### *Foreign Currency Exchange Risk*

International revenue as a percentage of revenue was 42% and 49% for the first quarter of 2011 and 2012, respectively, and 33%, 38%, and 44% for 2009, 2010, and 2011, respectively. We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro. In general, we are a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. We recognized foreign currency gains of \$16 million and \$10 million in the first quarter of 2011 and 2012, respectively, and a foreign currency loss of \$29 million in 2011. Foreign currency losses were not significant in 2009 or 2010. At this time we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

### *Interest Rate Sensitivity*

Our cash and cash equivalents and marketable securities consist of cash, certificates of deposit, time deposits, money market funds and U.S. government treasury and agency debt securities. Our investment policy and strategy are focused on preservation of capital, supporting our liquidity requirements, and compliance with the Investment Company Act of 1940.

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Changes in U.S. interest rates affect the interest earned on our cash and cash equivalents and marketable securities and the market value of those securities. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$19 million and \$15 million in the market value of our available-for-sale debt securities as of March 31, 2012 and December 31, 2011, respectively. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

### *Inflation Risk*

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations.

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**LETTER FROM MARK ZUCKERBERG**

Facebook was not originally created to be a company. It was built to accomplish a social mission — to make the world more open and connected.

We think it's important that everyone who invests in Facebook understands what this mission means to us, how we make decisions and why we do the things we do. I will try to outline our approach in this letter.

At Facebook, we're inspired by technologies that have revolutionized how people spread and consume information. We often talk about inventions like the printing press and the television — by simply making communication more efficient, they led to a complete transformation of many important parts of society. They gave more people a voice. They encouraged progress. They changed the way society was organized. They brought us closer together.

Today, our society has reached another tipping point. We live at a moment when the majority of people in the world have access to the internet or mobile phones — the raw tools necessary to start sharing what they're thinking, feeling and doing with whomever they want. Facebook aspires to build the services that give people the power to share and help them once again transform many of our core institutions and industries.

There is a huge need and a huge opportunity to get everyone in the world connected, to give everyone a voice and to help transform society for the future. The scale of the technology and infrastructure that must be built is unprecedented, and we believe this is the most important problem we can focus on.

**We hope to strengthen how people relate to each other.**

Even if our mission sounds big, it starts small — with the relationship between two people.

Personal relationships are the fundamental unit of our society. Relationships are how we discover new ideas, understand our world and ultimately derive long-term happiness.

At Facebook, we build tools to help people connect with the people they want and share what they want, and by doing this we are extending people's capacity to build and maintain relationships.

People sharing more — even if just with their close friends or families — creates a more open culture and leads to a better understanding of the lives and perspectives of others. We believe that this creates a greater number of stronger relationships between people, and that it helps people get exposed to a greater number of diverse perspectives.

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By helping people form these connections, we hope to rewire the way people spread and consume information. We think the world's information infrastructure should resemble the social graph—a network built from the bottom up or peer-to-peer, rather than the monolithic, top-down structure that has existed to date. We also believe that giving people control over what they share is a fundamental principle of this rewiring.

We have already helped more than 900 million people map out more than 100 billion connections so far, and our goal is to help this rewiring accelerate.

**We hope to improve how people connect to businesses and the economy.**

We think a more open and connected world will help create a stronger economy with more authentic businesses that build better products and services.

As people share more, they have access to more opinions from the people they trust about the products and services they use. This makes it easier to discover the best products and improve the quality and efficiency of their lives.

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One result of making it easier to find better products is that businesses will be rewarded for building better products — ones that are personalized and designed around people. We have found that products that are social by design tend to be more engaging than their traditional counterparts, and we look forward to seeing more of the world's products move in this direction.

Our developer platform has already enabled hundreds of thousands of businesses to build higher-quality and more social products. We have seen disruptive new approaches in industries like games, music and news, and we expect to see similar disruption in more industries by new approaches that are social by design.

In addition to building better products, a more open world will also encourage businesses to engage with their customers directly and authentically. More than four million businesses have Pages on Facebook that they use to have a dialogue with their customers. We expect this trend to grow as well.

### **We hope to change how people relate to their governments and social institutions.**

We believe building tools to help people share can bring a more honest and transparent dialogue around government that could lead to more direct empowerment of people, more accountability for officials and better solutions to some of the biggest problems of our time.

By giving people the power to share, we are starting to see people make their voices heard on a different scale from what has historically been possible. These voices will increase in number and volume. They cannot be ignored. Over time, we expect governments will become more responsive to issues and concerns raised directly by all their people rather than through intermediaries controlled by a select few.

Through this process, we believe that leaders will emerge across all countries who are pro-internet and fight for the rights of their people, including the right to share what they want and the right to access all information that people want to share with them.

Finally, as more of the economy moves towards higher-quality products that are personalized, we also expect to see the emergence of new services that are social by design to address the large worldwide problems we face in job creation, education and health care. We look forward to doing what we can to help this progress.

### **Our Mission and Our Business**

As I said above, Facebook was not originally founded to be a company. We've always cared primarily about our social mission, the services we're building and the people who use them. This is a different approach for a public company to take, so I want to explain why I think it works.

I started off by writing the first version of Facebook myself because it was something I wanted to exist. Since then, most of the ideas and code that have gone into Facebook have come from the great people we've attracted to our team.

Most great people care primarily about building and being a part of great things, but they also want to make money. Through the process of building a team—and also building a developer community, advertising market and investor base—I've developed a deep appreciation for how building a strong company with a strong economic engine and strong growth can be the best way to align many people to solve important problems.

Simply put: we don't build services to make money; we make money to build better services.

And we think this is a good way to build something. These days I think more and more people want to use services from companies that believe in something beyond simply maximizing profits.

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By focusing on our mission and building great services, we believe we will create the most value for our shareholders and partners over the long term and this in turn will enable us to keep attracting the best people and building more great services. We don't wake up in the morning with the primary goal of making money, but we understand that the best way to achieve our mission is to build a strong and valuable company.

This is how we think about our IPO as well. We're going public for our employees and our investors. We made a commitment to them when we gave them equity that we'd work hard to make it worth a lot and make it liquid, and this IPO is fulfilling our commitment. As we become a public company, we're making a similar commitment to our new investors and we will work just as hard to fulfill it.

## **The Hacker Way**

As part of building a strong company, we work hard at making Facebook the best place for great people to have a big impact on the world and learn from other great people. We have cultivated a unique culture and management approach that we call the Hacker Way.

The word "hacker" has an unfairly negative connotation from being portrayed in the media as people who break into computers. In reality, hacking just means building something quickly or testing the boundaries of what can be done. Like most things, it can be used for good or bad, but the vast majority of hackers I've met tend to be idealistic people who want to have a positive impact on the world.

The Hacker Way is an approach to building that involves continuous improvement and iteration. Hackers believe that something can always be better, and that nothing is ever complete. They just have to go fix it often in the face of people who say it's impossible or are content with the status quo.

Hackers try to build the best services over the long term by quickly releasing and learning from smaller iterations rather than trying to get everything right all at once. To support this, we have built a testing framework that at any given time can try out thousands of versions of Facebook. We have the words "Done is better than perfect" painted on our walls to remind ourselves to always keep shipping.

Hacking is also an inherently hands-on and active discipline. Instead of debating for days whether a new idea is possible or what the best way to build something is, hackers would rather just prototype something and see what works. There's a hacker mantra that you'll hear a lot around Facebook offices: "Code wins arguments."

Hacker culture is also extremely open and meritocratic. Hackers believe that the best idea and implementation should always win—not the person who is best at lobbying for an idea or the person who manages the most people.

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To encourage this approach, every few months we have a hackathon, where everyone builds prototypes for new ideas they have. At the end, the whole team gets together and looks at everything that has been built. Many of our most successful products came out of hackathons, including Timeline, chat, video, our mobile development framework and some of our most important infrastructure like the HipHop compiler.

To make sure all our engineers share this approach, we require all new engineers – even managers whose primary job will not be to write code – to go through a program called Bootcamp where they learn our codebase, our tools and our approach. There are a lot of folks in the industry who manage engineers and don't want to code themselves, but the type of hands-on people we're looking for are willing and able to go through Bootcamp.



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The examples above all relate to engineering, but we have distilled these principles into five core values for how we run Facebook:

### **Focus on Impact**

If we want to have the biggest impact, the best way to do this is to make sure we always focus on solving the most important problems. It sounds simple, but we think most companies do this poorly and waste a lot of time. We expect everyone at Facebook to be good at finding the biggest problems to work on.

### **Move Fast**

Moving fast enables us to build more things and learn faster. However, as most companies grow, they slow down too much because they're more afraid of making mistakes than they are of losing opportunities by moving too slowly. We have a saying: Move fast and break things. The idea is that if you never break anything, you're probably not moving fast enough.

### **Be Bold**

Building great things means taking risks. This can be scary and prevents most companies from doing the bold things they should. However, in a world that's changing so quickly, you're guaranteed to fail if you don't take any risks. We have another saying: The riskiest thing is to take no risks. We encourage everyone to make bold decisions, even if that means being wrong some of the time.

### **Be Open**

We believe that a more open world is a better world because people with more information can make better decisions and have a greater impact. That goes for running our company as well. We work hard to make sure everyone at Facebook has access to as much information as possible about every part of the company so they can make the best decisions and have the greatest impact.

### **Build Social Value**

Once again, Facebook exists to make the world more open and connected, and not just to build a company. We expect everyone at Facebook to focus every day on how to build real value for the world in everything they do.

Thanks for taking the time to read this letter. We believe that we have an opportunity to have an important impact on the world and build a lasting company in the process. I look forward to building something great together.

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**BUSINESS**

**Overview**

*A digital display of the Facebook user community and the connections between users. On a blank background, the connections form a picture that approximates a global map.*

Our mission is to make the world more open and connected.

We believe that some of the most important innovations in history have been tools that make it easier or faster for one human being to share something with another.

Facebook enables you to share the things you care about with the people you care about. You can publish your ideas, opinions, pictures and activities to your friends, family, colleagues or the world. We believe that Facebook gives every person a voice – an opportunity to say: I exist, and this is my story.

Facebook also enables you to discover what’s going on in the world around you, through the eyes and ears of people you trust. Every day hundreds of millions of people come to Facebook to find out what their friends have to share – the best new music they’ve listened to, photos from their recent honeymoon, who they plan to vote for in the next election. Each person’s experience on Facebook is unique and completely personalized – akin to reading a real-time newspaper of stories compiled just for them that they can carry with them wherever they go.

People connect with Facebook to connect with people. We believe that we are at the forefront of enabling faster, easier and richer communication between people around the world.

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### **How We Create Value for Users**

Users can  
share photos  
with their  
friends and  
family

Friends and  
family can  
Like or  
Comment on  
the photos

Our top priority is to build useful and engaging products that enable you to:

***Connect with Your Friends.*** With more than 900 million monthly active users (MAUs) worldwide, our users are increasingly able to find and stay connected with their friends, family, and colleagues on Facebook. Users can share major life events such as the birth of a child, upload photos of their latest vacation, congratulate a friend on a new job by Liking or Commenting on the friend's post, and stay in touch through messages and chat.

***Discover and Learn.*** We believe that users come to Facebook to discover and learn more about what is going on in the world around them, particularly in the lives of their friends and family and with public figures and organizations that interest them. Each user's experience on Facebook is unique based on the content shared by his or her friends and connections. This content is personalized for each user in our products such as News Feed and Timeline.

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***Express Yourself.*** We enable our users to share and publish their opinions, ideas, photos, and activities to audiences ranging from their closest friends to our 900 million users, giving every user a voice within the Facebook community.

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***Control What You Share.*** Through Facebook's privacy and sharing settings, our users can control what they share and with whom they share it.

### *Example of User Control Over Sharing*

Users can control what they share and with whom they share it. For example, each time a user updates his or her status, he or she can choose to share with everyone, with all friends, or with a subset of friends that the user can customize.

***Experience Facebook Across the Web.*** Through applications (apps) and websites built by developers using the Facebook Platform, our users can interact with their Facebook friends while playing games, listening to music, watching movies, reading news, and engaging in other activities.

***Stay Connected with Your Friends on Mobile Devices.*** Through the combination of our mobile sites, smartphone apps, and feature phone products, users can bring Facebook with them on mobile devices wherever they go.

## **Foundations of the Social Web**

We believe that the web, including the mobile web, is evolving to become more social and personalized. Historically, most people surfed the web anonymously and visited websites where they saw the same content as everyone else. Recent innovations in software development along with advances in large-scale database and computing infrastructure have enabled web experiences that are more personalized to each user's interests and created new ways of real-time sharing and communicating. The social web creates rewarding experiences that are centered on people, their connections, and their interests. We believe that the following elements form the foundation of the social web:

***Authentic Identity.*** We believe that using your real name, connecting to your real friends, and sharing your genuine interests online create more engaging and meaningful experiences. Representing yourself with your authentic identity online encourages you to behave with the same norms that foster trust and respect in your daily life offline. Authentic identity is core to the Facebook experience, and we believe that it is central to the future of the web. Our terms of service require you to use your real name and we encourage you to be your true self online, enabling us and Platform developers to provide you with more personalized experiences. We deploy a variety of algorithmic and manual checks to help ensure the integrity of user accounts, however, we cannot verify the identity and authenticity of every one of our users or their actions.

***Social Graph.*** The Social Graph represents the connections between people and their friends and interests. Every person or entity is represented by a point within the graph, and the affiliations between people and their friends and interests form billions of connections between the points. Our mapping of the Social Graph enables Facebook and Platform developers to build more engaging user experiences that are based on these connections.

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### *Illustration of the Social Graph*

**Social Distribution.** Over time, people are consuming and creating more kinds of information at a faster pace across a broader range of devices. The growing volume of information makes it challenging to find meaningful and trusted content and to effectively make your voice heard. Facebook organizes and prioritizes content and serves as a powerful social distribution tool delivering to users what we believe they will find most compelling based on their friends and interests. Facebook's social distribution enables users, Platform developers, and advertisers to share information with target audiences large or small.

## **Our Size and Scale**

Building on our use of authentic identity, the Social Graph, and social distribution, Facebook has grown from our beginnings in a college dorm room in 2004 to a service that is fundamentally changing the way people connect, discover, and share around the world. We believe that Facebook has become an integral part of many of our users' daily lives. Users add value to the overall Facebook ecosystem each time they engage with friends, developers, or advertisers. Increases in user engagement enable us to attract more users, developers, and advertisers. Growth in the number of users, developers, and advertisers and the interactions among them enhances the value we deliver to all of our constituencies.

We had 901 million MAUs as of March 31, 2012, an increase of 33% as compared to 680 million MAUs as of March 31, 2011.

We had 526 million daily active users (DAUs) on average in March 2012, an increase of 41% as compared to 372 million DAUs in March 2011.

We had 488 million MAUs who used Facebook mobile products in March 2012, and we surpassed 500 million mobile MAUs as of April 20, 2012.

During the month of March 2012, we had on average 398 million users who were active with Facebook on at least six out of the last seven days, providing perspective on the number of people for whom Facebook is essentially an everyday activity.

There were more than 125 billion friend connections on Facebook as of March 31, 2012.

On average more than 300 million photos per day were uploaded to Facebook in the three months ended March 31, 2012.

Our users generated an average of 3.2 billion Likes and Comments per day during the first quarter of 2012. Since users Like and Comment on content they find interesting, we believe that the number of Likes and Comments provides some insight into how engaging users find the content available to them on Facebook and through our Platform developers.

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As of March 31, 2012, there were more than 42 million Pages with ten or more Likes. Anyone, including artists, public figures, businesses, brands, or charities can set up a Facebook Page to engage with our users. Examples of popular Pages on Facebook include Lady Gaga, Disney, and Manchester United, each of which has more than 20 million Likes.

### **How We Create Value for Developers Through the Facebook Platform**

The Facebook Platform is a set of development tools and application programming interfaces (APIs) that enables developers to easily integrate with Facebook to create social apps and websites and to reach our 900 million users. Platform developers build experiences that allow our users to connect and share with friends while engaging in activities such as playing games, listening to music, watching movies, reading news articles, discovering new recipes, and exploring new running routes. Platform developers range from a student on his or her computer at home to teams of programmers at leading websites. More than nine million apps and websites were integrated with Facebook as of March 31, 2012. We are focused on the growth and success of Platform developers in creating compelling user experiences by enabling:

***Personalized and Social Experiences.*** We enable Platform developers to create better products that are personalized and social and that offer new ways for our users to engage with friends and share experiences across the web and on mobile devices. For example, a Facebook user can visit the Pandora website and immediately begin listening to a personalized radio station that is customized based on the bands the user Likes on Facebook. As another example, a Facebook user can visit *The New York Times* website and see which articles have been recommended by friends. Our Platform developers can only access information that our users agree to share with them.

***Social Distribution.*** We enable Platform developers to reach our global user base and use our social distribution channels to increase traffic to their apps and websites. For example, users can invite their Facebook friends to play a game or see when their friends have achieved a new high score.

***Payments.*** We provide an online payments infrastructure that enables Platform developers to receive payments from our users in an easy-to-use, secure, and trusted environment. In 2011, our Platform developers received more than \$1.4 billion from transactions enabled by our Payments infrastructure.

### **How We Create Value for Advertisers and Marketers**

We offer advertisers and marketers a unique combination of reach, relevance, social context, and engagement:

***Reach.*** With over 900 million MAUs, Facebook offers the ability to reach a vast consumer audience with our advertising solutions. For example, a movie studio seeking to increase awareness of an upcoming film release can reach a broad audience of Facebook users on the day or week before the film's opening. By advertising the release of *Transformers: Dark of the Moon* on Facebook, Paramount Studios reached 65 million users in the United States in a single day.

*Advertising Example Reach*





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**Relevance.** Advertisers can specify that we show their ads to a subset of our users based on demographic factors such as age, location, gender, education, work history, and specific interests that they have chosen to share with us on Facebook or by using the Like button around the web or on mobile devices. We allow advertisers to select relevant and appropriate audiences for their ads, ranging from millions of users in the case of global brands to hundreds of users in the case of smaller, local businesses. We believe that users have a better experience when ads are effectively tailored to them. Examples of Facebook ads that allowed advertisers to reach a relevant audience include:

Procter & Gamble chose to advertise on Facebook to generate awareness for Secret deodorant's Mean Stinks program and selected a female audience likely to be receptive to the campaign. The ad featured a confessional-style video of a girl admitting that she had bullied others, realizing the damage she had caused, and apologizing. In the 26 weeks after the Mean Stinks campaign launched, Secret experienced a 9% increase in U.S. sales and an increase in engagement with its Facebook Page.

CM Photographics, a wedding photography business based in Minneapolis, Minnesota, used Facebook ads to reach the users it cared most about: women aged 24 to 30 living near Minneapolis who shared their relationship status on Facebook as engaged. In 2011, CM Photographics generated a significant increase in revenue after spending \$1,544 to purchase advertising on Facebook.

Because authentic identity is core to the user experience on Facebook and users generally share information that reflects their real interests and demographics, we are able to deliver ads that reach the intended audience with higher accuracy rates compared to online industry averages. For broadly targeted campaigns, for example, adults between the ages of 25 and 49, we were able to reach the desired audience with 95% accuracy as measured by industry-standard analytics tools. This compares to an industry average of 72%, as publicly reported by Nielsen in 2011. For more narrowly targeted campaigns, for example, females between the ages of 25 and 34, Facebook was able to reach the desired audience with 90% accuracy compared to an industry average of 35%. As our users maintain and expand their authentic identity on Facebook, they are increasingly choosing to share their interests and preferences regarding products and services. We use this information to improve our ability to deliver relevant ads that we believe are more interesting and compelling for each user.

**Social Context.** We believe that the recommendations of friends have a powerful influence on consumer interest and purchase decisions. We offer advertisers the ability to include social context with their marketing messages. Social context is information that highlights a friend's connections with a particular brand or business. We believe that users find marketing messages more engaging when they include social context. Some current examples of social context that we offer include the following:

**Social Ads.** We offer tools to advertisers to display social context alongside their ads. As a result, advertisers are able to differentiate their products and complement their marketing messages with trusted recommendations from users' friends. Our recent analysis of 79 advertising campaigns on Facebook demonstrated a greater than 50% increase in ad recall for Facebook ads with social context as compared to Facebook ads that did not have social context.

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*Advertising Example without Social Context*

*Advertising Example with Social Context*

**Sponsored Stories.** Sponsored stories enable marketers to amplify the distribution of stories that users have already shared that are relevant to their marketing efforts. For example, when a user posts on Facebook that he or she has checked in to a Starbucks store, this check-in creates a story that can be shown in the friends News Feeds. Although all of a user's friends may be eligible to view this check-in story, only a fraction of the user's friends will typically see it (based on factors such as when the user's friends check their News Feeds and our ranking of all the content that is available to show to each of the user's friends). Starbucks can purchase sponsored stories to significantly increase the reach, frequency of distribution, and prominence of this story to the user's friends. Marketers can also use sponsored stories to promote the stories they publish from their Facebook Page to users who have connected with the Page. Sponsored stories are shown on the right hand side of the page, and in January 2012, we began including them in users' News Feeds on personal computers. In March 2012, we also began to include sponsored stories in users' mobile News Feeds.

**Engagement.** We believe that the shift to a more social web creates new opportunities for businesses to engage with interested customers. Many of our ad products offer new and innovative ways for our advertisers to interact with our users, such as ads that include polls, encourage comments, or invite users to an event. Additionally, any brand or business can have a presence on Facebook by creating a Facebook Page. Through Pages, we give brands the opportunity to form direct and ongoing relationships with their customers, with the potential to turn them into valuable advocates. When a Facebook user Likes a Page, the Page owner has the opportunity to publish stories to the user's News Feed on an ongoing basis. We believe that this ongoing connection provides a significant advantage for Facebook Pages as compared to traditional business websites. In addition, businesses can use Pages to influence fans and drive referral traffic to their e-commerce websites or physical stores. We do not charge businesses for their Pages, nor do we charge for the resulting organic distribution. However, we believe that Page owners can use Facebook ads and sponsored stories to increase awareness of and engagement with their Pages. Examples of brands utilizing Facebook Pages include:

Burberry used its Page and an innovative marketing campaign on Facebook to announce the launch of a new luxury fragrance to its nearly ten million Facebook fans in order to drive traffic to and purchases at Burberry stores globally, including its e-commerce site. When users Liked or Commented on the Burberry Page or the perfume story, the users' actions were shared with their friends via News Feed, driving awareness to a wider circle of users and increasing brand exposure, recognition, and engagement.

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PF Chang's created a coupon offer on its Page for a free Lettuce Wrap appetizer and promoted the offer with a three-week ad campaign. The Facebook ads targeted users who had connected to PF Chang's Page, those users' friends, and users in markets where PF Chang's has a high density of restaurants. Over 50,000 customers, of whom 40% were first-time customers, redeemed the coupon at PF Chang's restaurants.

## **Our Market Opportunity**

### ***Our Advertising Market Opportunity***

Advertisers' objectives range from building long-term brand awareness to stimulating an immediate purchase. We offer advertising solutions that are designed to be engaging for users and personalized to users' demographics and interests in order to help advertisers better achieve their goals. Facebook's combination of reach, relevance, social context, and engagement gives advertisers enhanced opportunities to generate brand awareness and affiliation, while also creating new ways to generate near-term demand for their products from consumers likely to have purchase intent. According to an IDC report dated August 2011, total worldwide advertising spending in 2010 was \$588 billion. Our addressable market opportunity includes portions of many existing advertising markets, including the traditional offline branded advertising, online display advertising, online performance-based advertising, and mobile advertising markets.

***Traditional Offline Branded Advertising.*** Television, print, and radio accounted for \$363 billion, or 62% of the total advertising market in 2010 according to an IDC report dated August 2011. Historically, advertisers interested in generating awareness of and demand for their brands have heavily relied on these offline media to reach their audiences at scale. We believe that these brand advertisers will increasingly dedicate a portion of their advertising dollars to Facebook because the broad audiences they are trying to reach are active on Facebook on a daily basis, because we can reach their desired audiences with precision, and because they can spark word of mouth marketing through Facebook. In December 2011, an advertiser could reach an estimated audience of more than 65 million U.S. users in a typical day on Facebook. By comparison, the 2011 season finale of American Idol was viewed by an estimated U.S. audience of 29 million people. In 2011, our advertising customers included each of the 100 largest global advertising spenders, as ranked by Advertising Age. Examples of Facebook advertising campaigns by large brand advertisers include:

Nike launched its "Write the Future" campaign on Facebook as an integral part of its 2010 World Cup marketing effort. The launch placement was seen by 140 million users in 20 countries and users engaged with the message more than seven million times by taking actions such as watching the three-minute embedded video, or Liking, clicking, or Commenting on the ad.

American Express purchased ads on Facebook and put its Facebook Page at the center of its advertising campaign in November 2010 to introduce and promote Small Business Saturday, a new local initiative designed to encourage shopping at small businesses on the Saturday after Thanksgiving. The ads reached 84 million Facebook users over the three week campaign. American Express continued the campaign in 2011. The campaign reached 91 million people, including 74 million who were shown an ad that featured a connection with their Facebook friends, successfully leveraging social context at scale. We believe that advertising on Facebook contributed to the successful results of the Small Business Saturday campaign; in 2011 public awareness of Small Business Saturday rose to 65% from 37% in 2010. Additionally, American Express saw a 23% increase in Cardmember transactions at small business merchants on Small Business Saturday.

***Online Advertising.*** From 2010 to 2015, the worldwide online advertising market, excluding mobile advertising, is projected to increase from \$68 billion to \$120 billion, representing 12% and 16%, respectively, of the worldwide advertising market according to an IDC report dated August 2011. Currently, the online advertising market is generally divided between display advertising, where the

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advertiser is seeking impressions, and performance-based advertising, where the advertiser is seeking clicks or conversions.

**Display Advertising.** Online display advertising typically includes banner ads, interstitials, video ads, and rich media ads that aim to reach large numbers of consumers within a particular audience segment. Display advertisers run impression-based campaigns on Facebook in order to reach our large user base and because of the amount of time that users spend with us. From January 2011 through January 2012, Facebook.com has been the number one online property accessed through personal computers worldwide as measured by total minutes spent and total page views, according to a comScore Media Metrix report dated February 2012. On average, users in the aggregate spent more than 10.5 billion minutes per day on Facebook on personal computers during January 2012. Aggregate minutes per day increased 57% and average minutes per user per day increased 14% during January 2012 compared to January 2011. Display advertisers also use Facebook in order to more precisely reach their target audiences among our users and to leverage social context and our social distribution channels to increase engagement. Examples of display advertising campaigns on Facebook include:

Walmart U.S. purchased advertising on Facebook targeting users in the United States between the ages of 18 and 49 during the days surrounding Black Friday in November 2011. The campaign, which encouraged users to download a Black Friday shopping map of their local Walmart U.S. store to help them find great prices faster, reached 60 million Facebook users.

Diageo, the world's largest producer of spirits, purchased advertising on Facebook for a portfolio of its brands, including Captain Morgan rum and Smirnoff vodka, in order to increase market share for its products by targeting users in the United States over the age of 21. The campaign reached 25 million Facebook households and drove a 20% increase in offline sales in households that were exposed to the campaign compared to demographically similar households that were not exposed to the campaign. These results were determined using analytics tools that employ industry-standard methodologies.

**Performance-based Advertising.** Performance-based online advertising has typically involved advertisers seeking a specific user behavior such as a click on a search ad or a keyword-based content ad, a response to an email campaign, or an online purchase. We enable new forms of performance-based advertising, where advertisers can connect with users who are likely to have demand for their products based on the information that our users have chosen to share. We believe that performance-based campaigns on Facebook allow advertisers to offer their products to users with inferred intent and enhance users' experiences by showing them relevant ads tailored to their specific interests. Examples of performance-based advertising on Facebook include:

A local concert promoter advertised available tickets for an upcoming concert to users who lived in the metropolitan area where the concert was to be held and who had also Liked the artist.

1-800-FLOWERS.COM purchased a Mother's Day advertising campaign on Facebook targeted at its fans and friends of its fans in order to drive traffic to its website and increase sales.

Social game developers including Disney, Electronic Arts, and Zynga purchased performance-based advertising on Facebook to drive player acquisition by promoting new game launches and existing games.

**Mobile Advertising.** The global mobile advertising market was \$1.5 billion in 2010 and is expected to grow at a 64% compound annual rate to \$17.6 billion in 2015 according to an IDC report dated August 2011. We had 488 million MAUs who used Facebook mobile products in March 2012. According to a January 2012 Nielsen report, the Facebook mobile app had more unique combined Android and iPhone users in 2011 in the United States than any other mobile app. We have historically not shown

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ads to users accessing Facebook through mobile apps or our mobile website. In March 2012, we began to include sponsored stories in users' mobile News Feeds.

Advertising on the social web is a significant market opportunity that is still emerging and evolving. We believe that most advertisers are still learning and experimenting with the best ways to leverage reach, relevance, social context, and engagement offered by Facebook. We will continue to balance our efforts to build effective products for advertisers while also prioritizing the overall user experience, and this balancing effort will influence the number of ads we show and the formats and prominence of the ads. Our strategy centers on the belief that more social and relevant ad products are more valuable for both users and advertisers.

Currently the substantial majority of our revenue is generated by advertisers from more developed online advertising markets including the United States, western Europe, Canada, and Australia. There are also many emerging ad markets in which we sell ads and other commercial content, and we expect continued growth in advertiser demand as these markets mature, we achieve increased levels of user penetration and engagement, and we further expand our sales resources dedicated to these markets.

### ***Our Market Opportunity for Payments***

When users purchase virtual and digital goods from our Platform developers using our Payments infrastructure, we receive fees that represent a portion of the transaction value. Currently, substantially all of the Payments transactions between our users and Platform developers are for virtual goods used in social games, for example virtual tractors in the social game FarmVille. According to an NPD In-Stat report dated April 2012, the worldwide revenue generated from the sale of virtual goods on social networking sites, online worlds, and casual games was \$9 billion in 2011, and is forecasted to increase to \$14 billion by 2016. Payments integration is currently required in apps on Facebook that are categorized as games, and we may seek to extend the use of Payments to other types of apps in the future. Our future revenue from Payments will depend on many factors, including our success in enabling Platform developers to build experiences that engage users and create user demand for their products, and the fee arrangements we are able to negotiate in the future.

### **Our Strategy**

We are in the early days of pursuing our mission to make the world more open and connected. We have a significant opportunity to further enhance the value we deliver to users, developers, and advertisers. Key elements of our strategy are:

***Expand Our Global User Community.*** There are more than two billion global Internet users according to an IDC report dated August 2011 and we aim to connect all of them. We had 901 million MAUs globally with approximately 80% accessing Facebook from outside the United States as of March 31, 2012. We continue to focus on growing our user base across all geographies, including relatively less-penetrated, large markets such as Brazil, Germany, India, Japan, Russia, and South Korea. We intend to grow our user base by continuing our marketing and user acquisition efforts and enhancing our products, including mobile apps, in order to make Facebook more accessible and useful.

***Build Great Social Products to Increase Engagement.*** We prioritize product development investments that we believe will create engaging interactions between our users, developers, and advertisers on Facebook, across the web, and on mobile devices. We continue to invest significantly in improving our core products such as News Feed, Photos, and Groups, developing new products such as Timeline and Ticker, and enabling new Platform apps and website integrations.

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***Provide Users with the Most Compelling Experience.*** Facebook users are sharing and receiving more information across a broader range of devices. To provide the most compelling user experience, we continue to develop products and technologies focused on optimizing our social distribution channels

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to deliver the most useful content to each user by analyzing and organizing vast amounts of information in real time.

***Build Engaging Mobile Experiences.*** We are devoting substantial resources to developing engaging mobile products and experiences for a wide range of platforms, including smartphones and feature phones. In addition, we are working across the mobile industry with operators, hardware manufacturers, operating system providers, and developers to improve the Facebook experience on mobile devices and make Facebook available to more people around the world. We had 488 million MAUs who used Facebook mobile products in March 2012. In April 2012, we entered into an agreement to acquire Instagram, Inc., which has built a mobile phone-based photo-sharing service. Following the closing of this acquisition, we plan to maintain Instagram's products as independent mobile applications to enhance our photos product offerings and to enable users to increase their levels of mobile engagement and photo sharing. We believe that mobile usage of Facebook is critical to maintaining user growth and engagement over the long term, and we are actively seeking to grow mobile usage, although such usage does not currently directly generate any meaningful revenue.

***Enable Developers to Build Great Social Products Using the Facebook Platform.*** The success of Platform developers and the vibrancy of our Platform ecosystem are key to increasing user engagement. Social games have achieved significant levels of adoption by Facebook users, and we are also focused on enabling the development of apps in categories beyond games. For example, our latest enhancements to the Facebook Platform have enabled new types of social apps that facilitate sharing and serendipitous discovery of music, news, movies, television programming, and other everyday interests such as cooking and running. User engagement with our Platform developers' apps and websites creates value for Facebook in multiple ways: our Platform supports our advertising business because apps on Facebook create user engagement that enables us to show ads; our Platform developers purchase advertising on Facebook to drive traffic to their apps and websites; Platform developers use our Payment system to facilitate transactions with users; and users' engagement with Platform apps and websites contributes to our understanding of users' interests and preferences, improving our ability to personalize content. We continue to invest in tools and APIs that enhance the ability of Platform developers to deliver products that are more social and personalized and better engage users on Facebook, across the web, and on mobile devices. Additionally, we plan to invest in enhancing our Payments offerings and in making the Payments experience on Facebook as seamless and convenient as possible for users and Platform developers.

***Improve Ad Products for Advertisers and Users.*** We plan to continue to improve our ad products in order to create more value for advertisers and enhance their ability to make their advertising more social and relevant for users. Our advertising strategy centers on the belief that ad products that are social, relevant, and well-integrated with other content on Facebook can enhance the user experience while providing an attractive return for advertisers. We intend to invest in additional products for our advertisers and marketers, such as our recent introduction of sponsored stories in users' News Feeds on personal computers and mobile devices, while continuing to balance our monetization objectives with our commitment to optimizing the user experience. We also continue to focus on analytics and measurement tools to evaluate, demonstrate, and improve the effectiveness of ad campaigns on Facebook.

## **Our Products for Users, Developers, and Advertisers**

### ***Products for Users***

Our product development approach is centered on building the most useful tools that enable users to connect, share, discover, and communicate with each other. Our products for users are free of charge and available on the web, mobile web, and mobile platforms such as Android and iOS.

***Timeline.*** We launched Timeline in September 2011 as an enhanced and updated version of the Facebook Profile to add structure and organization to the growing quantities of each user's activities



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and social content. Timeline allows users to organize and display the events and activities that matter most to them, enabling them to curate their memories in a searchable personal narrative that is organized chronologically. Users choose what information to share on their Timeline, such as their interests, photos, education, work history, relationship status, and contact information, and users can control with whom each piece of content is shared on their Timeline.

**News Feed.** The Facebook News Feed is the core feature of a user's homepage and is a regularly updating list of stories from friends, Pages, and other entities to which a user is connected on Facebook. It includes posts, photos, event updates, group memberships, app updates, and other activities. Each user's News Feed is personalized based on his or her interests and the sharing activity of the user's friends. Stories in a user's News Feed are prioritized based on several factors, including how many friends have Liked or Commented on a certain piece of content, who posted the content, and what type of content it is. News Feed is a key component of our social distribution capability.

### *Example of Facebook News Feed*

**Photos and Videos.** Facebook is the most popular photo uploading service on the web. On average, more than 300 million photos per day were uploaded to Facebook in the first quarter of 2012. Users can upload an unlimited number of high resolution photos, create photo albums, and share them with their friends or any audience they choose. Users can also upload and share videos. Users can set specific privacy settings for each of their photo albums and videos, making them visible to everyone, or only to certain friends. Users can easily arrange their photos, add captions, and tag people in a photo or video. Tagging allows users to identify a person in a photo or video as one of their friends.

**Messages.** Our messaging products include email, chat, and text messaging. The delivery of messages is optimized for the device through which the user is accessing Facebook. For example, users on their

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mobile phones will receive messages via text or Facebook mobile messenger, while the conversation is also stored in their Facebook message inbox. We aim to be the fastest and most reliable way for users to communicate through:

**Email.** Users can set up a free @facebook.com address.

**Chat.** Users can send messages to their friends in an instant message format.

**Text Messaging.** Users can activate text messaging on Facebook, allowing the texts they exchange with friends to be incorporated into their respective conversations along with their message and chat history.

**Groups.** Groups are shared Facebook pages for groups of users to discuss common interests. For example, members of a soccer team can plan the season's schedule together and share photos with each other. Users are able to customize the privacy settings for each Group they create.

**Lists.** Lists allow users to organize their friends in order to filter the stories shown in their News Feeds and reach or exclude specific people when they share on Facebook. For example, users can see News Feed posts from a List of just their closest friends or announce a garage sale to a List of friends who reside in the user's current city. Users are able to customize the privacy settings for each List they create.

**Events.** Through Events, users can organize gatherings, manage invitations, and send event notifications and reminders to their friends. From the Events page, users can create a new event, check out upcoming events of interest to them and their friends, and view previous events. For example, users can use Events to invite their friends to a dinner party or organize a run in the Race for the Cure to raise awareness for breast cancer. There are currently more than 16 million events created on Facebook each month.

**Places.** Through Places, users can share their location and see where their friends are. They are able to see if any of their friends are nearby and connect with them easily. Users can also check in to Places to tell their friends where they are, tag their friends in the Places they visit, or view Comments their friends have made about the Places they visit.

**Subscribe.** Using Subscribe, users can sign up to receive public posts in their News Feeds from other Facebook users of interest such as celebrities, thought leaders, and other public figures.

**Ticker.** Ticker is a live stream of the real-time activities of a user's friends and the Pages and other entities to which the user is connected.

**Notifications.** On the top of each Facebook page, a highlighted icon is displayed to users when there is relevant and new information available to them, such as a new friend request, a new message from a friend, or an alert that the user has been tagged in a photo posted by a friend. We believe that Notifications are an important part of Facebook's distribution capability.

**Facebook Pages.** A Facebook Page is a public profile that allows anyone including artists, public figures, businesses, brands, organizations, and charities to create a presence on Facebook and engage with the Facebook community. A Page owner can connect with interested users in order to provide updates, answer questions, receive feedback, or otherwise stimulate interest in the owner's messages, products, and services. When a Facebook user Likes a Page, the Page owner has the opportunity to publish stories to the user's News Feed on an ongoing basis. In addition, when a Facebook user Likes or Comments on a post by a Page owner, that user's action may be shared with the user's friends via News Feed to drive awareness to a wider circle of users, increasing the Page's exposure, recognition, and engagement. We do not charge for Pages, nor do we charge for the resulting organic distribution. However, we believe that awareness of and engagement with Pages can be amplified and complemented by the use of Facebook ads

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and sponsored stories by Page owners. As of March 31, 2012, there were more than 42 million Pages with ten or more Likes, including Harvard, Lady Gaga, The Metropolitan Museum of Art, Starbucks, and Boo (the World's Cutest Dog), as well as millions of local businesses.

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### ***Products for Developers***

The Facebook Platform is a set of tools and APIs that developers can use to build social apps on Facebook or to integrate their websites with Facebook. As of March 31, 2012, more than nine million apps and websites were integrated with Facebook. Our goal is to make it easy for Platform developers to integrate with Facebook and build valuable products and businesses. Key elements of the Facebook Platform include:

***Open Graph.*** Our Open Graph is a set of APIs that developers can use to build apps and websites that enable users to share their activities with friends on Facebook. For example, a user who is listening to music through a developer's app or website can publish his or her music selections to Facebook where the music can be shared with friends.

***Social Plugins.*** Social plugins are social features that developers can easily integrate with their websites by incorporating a single line of HTML code. For example, a developer can put a box on its website that shows Facebook users what their friends have Liked and recommended on the site. Social plugins also allow users to easily share interesting content back to Facebook that can be distributed to their friends through News Feed, Timeline, and Ticker. The following features are examples of functionality provided through social plugins:

***Like Button.*** Allows users to share content from a third-party website to Facebook and their friends with one click.

***Recommendations.*** Allows a website to display to Facebook users what their friends have recommended.

***Single Sign-On Registration and Log-In.*** Allows users to easily sign up for access to third-party websites with their Facebook accounts, eliminating the need for users to create another username and password.

***Comments.*** Allows users to post their views, questions, and critiques on any piece of content on a website.

***Payments.*** Facebook provides an online payments infrastructure that enables developers to receive payments from users through an efficient and secure system. Developers can focus on creating engaging apps and content rather than spending time and resources to build payment processing and fraud management capabilities. Our users can store their payment credentials with Facebook in a trusted and safe environment, facilitating easy and fast purchases across the Facebook Platform rather than having to re-authenticate and re-enter payment information for each developer. We designed our Payments infrastructure to streamline the buying process between our users and developers. Our Payments system enables users to purchase virtual or digital goods from developers and third-party websites by using debit and credit cards, PayPal, mobile phone payments, gift cards or other methods. We have also extended our Payments infrastructure to support mobile web apps on certain mobile platforms. Currently, substantially all of our Payments revenue is from users' purchases of virtual goods used in social games. We receive a fee of up to 30% when users make such purchases from our Platform developers using our Payments infrastructure. In the future, if we extend Payments outside of games, the percentage fee we receive from developers may vary.

Zynga is the largest Platform developer, in terms of revenue generated for Facebook, using our Payments infrastructure. In May 2010, we entered into an addendum to our standard terms and conditions with Zynga that govern the promotion, distribution, and operation of Zynga games on the Facebook Platform, pursuant to which Zynga agreed to use Facebook Payments as the primary means of payment within its games played on the Facebook Platform. Under this addendum, we retain a fee of up to 30% of the face value of user purchases in Zynga's games on the Facebook Platform. This addendum expires in May 2015.

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Developers have used the Facebook Platform to build a variety of user experiences, including apps on Facebook, desktop apps, mobile apps, and Platform-integrated websites, each of which can take advantage of the capabilities of the Facebook Platform.

***Apps on Facebook.*** Apps on Facebook run within the Facebook website. Social games are currently the most successful apps on Facebook. The Facebook Platform has also enabled new types of social apps on Facebook beyond games to facilitate social sharing and discovery of music, news, television programming, and everyday interests such as cooking, fitness, and travel. For example, *The Washington Post Social Reader* is an app on Facebook that offers a personalized news reading experience in which each user sees a unique set of stories tailored to the user's interests and based on what his or her friends are reading. Assuming the user has given the app permission, stories read by a user are instantly shared with friends, creating a socially powered newswire of relevant articles. Apps on Facebook generally have Facebook ads visible on the right side of the page and can integrate with Facebook Payments.

***Desktop Apps.*** Developers can also build desktop apps that run on the operating system of a personal computer and offer experiences that are integrated with the Facebook Platform. For example, Spotify, an online music service, provides a desktop app integrated with Facebook that offers a social listening experience by giving users the ability to share their playlists, listen to songs with friends, and explore new music through their friends.

***Mobile Apps.*** The Facebook Platform for mobile has enabled developers to create engaging mobile apps that integrate with Facebook's social and personalization capabilities.

***Platform-Integrated Websites.*** Websites can integrate with Facebook using simple social plugins such as the Like button or design more deeply integrated social experiences built around users and their friends. For example, by tapping into our rich social data, TripAdvisor connects users to their friends and shares relevant content about where their friends have traveled and where they would like to visit in the future. While on the TripAdvisor website, friends can discuss their travel plans and recommendations and build out personal profiles of places they have been.

*Example of Platform-Integrated Third-Party Website: TripAdvisor*

Users can log in  
with their Facebook  
account and receive  
personalized reviews  
and recommendations  
based on the activities of  
  
their Facebook friends

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### *Products for Advertisers and Marketers*

Facebook offers products that enable advertisers and marketers to leverage our unique combination of reach, relevance, social context, and engagement. Customers can purchase advertising inventory through our self-service ad platform or through a contract-based process from our global sales force. Advertisers using our self-service ad platform launch and manage their advertising campaigns online. Our contract-based customers work with our global sales force, which is focused on attracting and retaining advertisers and providing support to them throughout the stages of the advertising campaign cycle. Advertising purchased through either sales mechanism is served through the Facebook ad system described below.

**Facebook Ads.** When creating a Facebook ad, advertisers can specify a title, content, image, and destination web page or Facebook Page to which a user is directed if he or she clicks on the ad. Because we have a standard format for Facebook ads, our users benefit from a consistent ad experience, and our advertisers are able to deploy and adjust campaigns rapidly. Advertisers can further engage their intended audiences by incorporating social context with their marketing messages. Social context includes actions a user's friends have taken, such as Liking the advertiser's Facebook Page. Ads with social context are shown only to a user's friends, and the user's privacy settings apply to social ads. We offer a range of ads with social context, from an ad with a single Like button to our Premium Ad paired with social context, which allows advertisers to highlight the interactions of a user's friends with a brand or product.

**Sponsored Stories.** Sponsored stories enable marketers to promote the stories they publish from their Facebook Page to users who have connected with the Page or to amplify the distribution of stories users are already sharing that are relevant to their marketing efforts. For example, when a user Likes Red Bull, Red Bull can pay to amplify the reach, frequency of distribution, and prominence with which the story is shown to friends of that user.

### *Examples of Facebook Products for Advertisers and Marketers*

**Facebook Ad System.** When advertisers create an ad campaign with Facebook, they specify the types of users they would like to reach based on information that users chose to share about their age, location, gender, relationship status, educational history, workplace, and interests. For example, a self-storage company ran a campaign to reach students on college campuses prior to summer break. Additionally, advertisers indicate the maximum price they are willing to pay for their ad and their maximum budget. Advertisers choose to pay for their ads based on either cost per thousand impressions (CPM) on a fixed or bidded basis or cost per click (CPC) on a bidded basis. Our system also supports guaranteed delivery of a fixed number of ad impressions for a fixed price. Facebook's ad serving technology dynamically determines the best available ad to show each user based on the combination of the user's unique attributes and the real-time comparison of bids from eligible ads.

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*Examples of How Our Ad System Matches Relevant Ads to Information a User has Chosen to Share*

Information user chooses to share	Potential ads displayed based on information the  user has shared
--------------------------------------	--

***Ad Analytics and Facebook Insights.*** Advertisers can use our analytics platform to track and optimize the performance of their campaigns in real time. Facebook ad analytics enable advertisers to gain insights into which ads were displayed and clicked on. These analytics help advertisers make modifications to their ad campaigns in order to maximize results. For advertisers with Facebook Pages, Facebook Insights also provides real-time information about the performance of their Page and related posts whether through paid or organic channels. The data include the number of users who Liked and Commented on the Page as well as a metric, People Talking About This, which shows how many stories about the advertiser's brand are being created and shared.

## **Building and Maintaining User Trust**

Trust is a cornerstone of our business. We dedicate significant resources to the goal of building user trust through developing and implementing programs designed to protect user privacy, promote a safe environment, and assure the security of user data. The resources we dedicate to this goal include engineers, analysts, lawyers, policy experts, and operations specialists, as well as hardware and software from leading vendors and solutions we have designed and built.

***Privacy and Sharing.*** People come to Facebook to connect and share. Protecting user privacy is an important part of our product development process. Our objective is to give users choice over what they share and with whom they share it. This effort is fundamental to our business and focuses on control, transparency, and accountability.

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**Control.** We believe that by providing our users with clear and easy-to-use controls, we will continue to promote trust in our products. For example, when a user posts a status update or uploads a photo to Facebook, our in-line controls allow the user to select his or her audience at the same time that he or she is publishing the post. In addition, we have introduced other personal information control tools and techniques. Activity Log was recently introduced and is a unified tool that users can use to review and manage the content they have posted and the actions they have taken on Facebook. For example, using the Activity Log, a user can view his or her activity with a particular app, delete a specific post, change who can see a photo, or remove an app completely. Additionally, our Download Your Information tool enables users to remove or store their personal information off of Facebook.

**Transparency.** Our Data Use Policy describes in plain language our data use practices and how privacy works on Facebook. We also offer a number of tools and features that provide users with transparency about their information on Facebook. Our application settings feature enables users to view each of the apps they have chosen to use, the information needed by each app, and the audience with whom the user has chosen to share his or her interactions with each app. We believe that this transparency enables users to make more informed decisions about their activities on Facebook.

**Accountability.** We continue to build new procedural safeguards as part of our comprehensive privacy program. These include a dedicated team of privacy professionals who are involved in new product and feature development from design through launch; ongoing review and monitoring of the way data is handled by existing features and apps; and rigorous data security practices. We regularly work with online privacy and safety experts and regulators around the world. In November 2011, we announced a 20-year agreement with the Federal Trade Commission to enhance our privacy program. We made a clear and formal long-term commitment to giving users tools to control how they share on Facebook. We also have undergone an audit by the Office of the Irish Data Protection Commissioner. The audit comprehensively reviewed our compliance with Irish data protection law, which is grounded in European data protection principles. As part of the audit process, we agreed to enhance various data protection and privacy practices to ensure compliance with the law and adherence to industry best practices.

**Safety.** We design our products to include robust safety tools. These tools are coupled with educational resources and partnerships with online safety experts to offer protections for all users, particularly teenagers. We take into account the unique needs of teenagers who use our service and employ age-appropriate settings that restrict their visibility, limit the audience with whom they can share, and help prevent unwanted contact from strangers.

Our abuse reporting infrastructure allows anyone on Facebook to report inappropriate, offensive, or dangerous content through report links found on nearly every page of our site. We have enhanced this reporting system to include Social Reporting, which gives users the option to report content to us, to report content to a trusted friend, or to block the person who posted the content with one easy-to-use tool. Our Safety Advisory Board, comprised of five leading online safety organizations from around the world, advises us on product design and helps us to create comprehensive safety resources for everyone who uses our service. These resources are located in our multimedia Family Safety Center on our website, which also offers special information for parents, educators, teenagers, and members of the law enforcement community. Additionally, we work with law enforcement to help promote the safety of our users as required by law.

**Security.** We invest in technology, processes, and people as part of our commitment to safeguarding our users' information. We use a variety of techniques to protect the data that we are entrusted with, and we rely on multiple layers of network segregation using firewalls to protect against attacks or unauthorized access. We also employ proprietary technologies to protect our users. For example, if we suspect that a user's account may have been compromised, we may use a process that we refer to as social authentication to validate that the person accessing the account is the actual account



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holder. The process of social authentication may include asking the person accessing the account to identify photos of the account holder's friends. Our security team actively scans for security vulnerabilities using commercial tools, penetration tests, code security reviews, and internal and external audits. We also have a network of geographically distributed single-tenant data centers, and we take measures to protect the information stored in these data centers.

## **Competition**

We face significant competition in almost every aspect of our business, including from companies such as Google, Microsoft, and Twitter, which offer a variety of Internet products, services, content, and online advertising offerings, as well as from mobile companies and smaller Internet companies that offer products and services that may compete with specific Facebook features. We also face competition from traditional and online media businesses for a share of advertisers' budgets and in the development of the tools and systems for managing and optimizing advertising campaigns. We compete broadly with Google's social networking offerings, including Google+, which it has integrated with certain of its products, including search and Android. In addition, we compete with other, largely regional, social networks that have strong positions in particular countries, including Cyworld in Korea, Mixi in Japan, Orkut (owned by Google) in Brazil and India, and vKontakte in Russia. As we introduce new products, as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

The areas in which we compete include:

***Users and Engagement.*** We compete to attract, engage, and retain users. Because our products for users are free of charge, we compete based on the utility, ease of use, performance, and quality of our products.

***Advertising.*** We compete to attract and retain advertisers. We distinguish our products by providing reach, relevance, social context, and engagement to amplify the effectiveness of advertisers' messages.

***Platform.*** We compete to attract and retain developers to build compelling apps and websites that integrate with Facebook. We compete in this area primarily based on the value of the tools and APIs we provide to developers to enable them to access our large global base of engaged users and their connections and to drive traffic to their apps and websites.

***Talent.*** We compete to attract and retain highly talented individuals, especially software engineers, designers, and product managers. Competition for employee talent is particularly intense in the San Francisco Bay Area, where we are headquartered. We compete for these potential employees by providing a work environment that fosters and rewards creativity and innovation and by providing compensation packages that we believe will enable us to attract and retain key employees.

While our industry is evolving rapidly and is becoming increasingly competitive, we believe that we compete favorably on the factors described above. For additional information, see **Risk Factors**. Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

## **Technology**

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We have assembled a team of highly skilled engineers and computer scientists whose expertise spans a broad range of technical areas. We make significant investments in product and feature development, data management and personalization technologies, large-scale systems and scalable infrastructure, and advertising technologies, as follows:

***Product and Feature Development.*** We aim to continuously improve our existing products and to develop new products for our users, developers, and advertisers. Our product development philosophy is centered on continuous innovation in creating products that are social by design, which means that our products are designed to place our users and their social interactions at the core of the product experience.

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***Data Management and Personalization Technologies.*** To provide each user with a personalized Facebook experience, we must process and analyze a vast and growing amount of content shared by our users, developers, and advertisers and surface the most relevant content in real time. For example, loading a user's home page typically requires accessing hundreds of servers, processing tens of thousands of individual pieces of data, and delivering the information selected in less than one second. In addition, the data relationships have grown exponentially and are constantly changing. As such, we have invested extensively in developing technologies and analytics in areas including:

*Content optimization and delivery.* We use a proprietary distributed system that is able to query thousands of pieces of content that may be of interest to an individual user to determine the most relevant and timely stories and deliver them to the user in milliseconds.

*Graph query.* Our graph query technology enables us to efficiently process subjective queries about the Social Graph by utilizing a proprietary set of search indices, query processors, and caching systems.

*Media storage and serving.* We store more than 100 petabytes (100 quadrillion bytes) of photos and videos. We have built a number of storage and serving technologies, such as Haystack, which allow us to efficiently serve and store the data.

*Large-scale data management.* We developed Apache Hive, a data warehouse infrastructure built on top of Hadoop, to provide tools to enable easy data summarization, ad hoc querying, and analysis of large datasets.

*Software performance.* Facebook.com is largely written in PHP, or Hypertext Preprocessor, a widely used, general-purpose scripting language. We developed HipHop, which programmatically transforms PHP source code into highly optimized C++ code. HipHop offers significant performance gains when compared to traditional PHP.

***Large-Scale Systems and Scalable Infrastructure.*** Our products are built on a shared computing infrastructure. We use a combination of off-the-shelf and custom software running on clusters of commodity computers to amass substantial computing capability. Our infrastructure has enabled the storage and processing of large datasets and facilitated the deployment of our products on a global scale. As our user base grows, and the level of engagement and sharing from our users continues to increase, our computing needs continue to expand. We aim to provide our products rapidly and reliably to all users around the world, including in countries where we do not expect significant short-term monetization. We expect to benefit if and as the per-unit pricing for computing power, memory and storage capacity continues to decrease. We also intend to continue to develop data center and server architectures that are operationally efficient, scalable, and reliable. By building custom servers and constructing our owned data centers in Prineville, Oregon and Forest City, North Carolina, we introduced numerous technology advancements that are designed to:

eliminate non-essential components, thereby reducing the cost and improving the serviceability of servers;

improve server cooling and power distribution across both the data center and servers to minimize power loss; and

optimize the power distribution system and server power supplies to operate at significantly higher efficiency and further reduce power loss.

Together, our custom server and data center designs resulted in a significant increase in energy efficiency while significantly reducing our costs compared to the usage of traditional servers and leased data center facilities. We are a founding member of the Open Compute Project through which we make our proprietary data center, server hardware, and certain software designs available to the open source community. This initiative aims to accelerate data center and server innovation and increase computing efficiency through collaboration on relevant best practices and technical specifications.



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***Advertising Technologies.*** We believe that a more valuable advertiser and user experience is created through our ability to match the most relevant ads to each of our users based on his or her connections, demographics, and expressed interests. Our advertising technology serves billions of ad impressions every day, each of which is displayed to selected users based upon the information that they have chosen to share.

Advertisers specify a bid, which is how much they are willing to pay for clicks or impressions of their ads. The actual price paid for each click or impression is computed using an auction mechanism that automatically calculates the minimum price an advertiser must pay to win the auction and have its ad shown. We believe that our specific auction mechanism encourages advertisers to bid the maximum price they are willing to pay, understanding that because of the way our auction works they will be charged a market-determined price that is never higher and typically lower than their bid. Our system also supports guaranteed delivery of a fixed number of ad impressions for a fixed price.

Our system manages our entire set of ads, the selected audiences, and the advertisers' bids to determine which ads to show each user and how to display them for every page on Facebook. We use an advanced click prediction system that weighs many real-time updated features using automated learning techniques. Our technology incorporates the estimated click-through rate with both the advertiser's bid and a user relevancy signal to select the optimal ads to show.

Our research and development expenses were \$87 million, \$144 million, \$388 million, \$57 million, and \$153 million in 2009, 2010, and 2011 and the first quarter of 2011 and 2012, respectively.

## **Sales and Operations**

Many of our advertisers use our self-service ad platform to establish accounts and to launch and manage their advertising campaigns. We also have a global sales force that is focused on attracting and retaining advertisers and providing support to them throughout the stages of the advertising campaign cycle from pre-purchase decision making to real-time optimizations to post-campaign analytics. We currently operate more than 30 sales offices around the globe.

We have operations teams to provide support for our users, developers, and advertisers in four regional centers located in Menlo Park, California; Austin, Texas; Dublin, Ireland; and Hyderabad, India. We also invest in and rely on self-service tools to provide customer support to our users, developers, and advertisers.

## **Marketing**

To date, the Facebook user community has grown virally with users inviting their friends to connect with them, supported by internal efforts to stimulate user awareness and interest. We have been able to build our brand and user base around the world with relatively low marketing costs. We leverage the utility of our products and our social distribution channels as our most effective marketing tools. In addition, we undertake various user acquisition efforts and regularly host events and conferences to engage with developers and advertisers.

## **Intellectual Property**

Our success depends in part upon our ability to protect our core technology and intellectual property. To establish and protect our proprietary rights, we rely on a combination of patents, patent applications, trademarks, copyrights, trade secrets, including know-how, license agreements, confidentiality procedures, non-disclosure agreements with third parties, employee disclosure and invention assignment agreements, and other contractual rights.

As of March 31, 2012, we had 774 issued patents and 546 filed patent applications in the United States and 96 corresponding patents and 194 filed patent applications in foreign countries relating to social networking, web

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technologies and infrastructure, and other technologies. Our issued patents expire between 2014 and 2030. We cannot assure you that any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. In addition, any patents may be contested, circumvented, found unenforceable or invalid, and we may not be able to prevent third parties from infringing them. In April 2012, we entered into an agreement with Microsoft Corporation pursuant to which we will be assigned Microsoft's rights to acquire approximately 615 U.S. patents and patent applications and their foreign counterparts, consisting of approximately 170 foreign patents and patent applications, that are subject to the agreement between AOL Inc. and Microsoft entered into on April 5, 2012. These patents relate to advertising, search, e-commerce, mobile, and other technologies. As part of this transaction, we will obtain a non-exclusive license to the other AOL patents and patent applications being purchased by Microsoft and we will grant Microsoft a non-exclusive license to the AOL patents and patent applications that we are acquiring. The non-exclusive license requires no ongoing royalty payments, and extends for the life of the patents.

We generally control access to and use of our proprietary technology and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers, and partners, and our software is protected by U.S. and international copyright laws. Despite our efforts to protect our trade secrets and proprietary rights through intellectual property rights, licenses, and confidentiality agreements, unauthorized parties may still copy or otherwise obtain and use our software and technology. In addition, we intend to expand our international operations, and effective patent, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries.

Companies in the Internet, technology, and media industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. From time to time, we face, and we expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents, trade secrets and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement. For example, on March 12, 2012, Yahoo filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that a number of our products infringe the claims of ten of Yahoo's patents, and on April 27, 2012 Yahoo added two patents to the lawsuit. For additional information, see **Risk Factors**. We are currently, and expect to be in the future, party to patent lawsuits and other intellectual property rights claims that are expensive and time consuming, and, if resolved adversely, could have a significant impact on our business, financial condition, or results of operations and **Legal Proceedings**.

## **Government Regulation**

We are subject to a number of U.S. federal and state, and foreign laws and regulations that affect companies conducting business on the Internet, many of which are still evolving and being tested in courts, and could be interpreted in ways that could harm our business. These may involve user privacy, rights of publicity, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation and online payment services. In particular, we are subject to federal, state, and foreign laws regarding privacy and protection of user data. Foreign data protection, privacy, and other laws and regulations are often more restrictive than those in the United States. U.S. federal and state and foreign laws and regulations are constantly evolving and can be subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly-evolving industry in which we operate. There are also a number of legislative proposals pending before the U.S. Congress, various state legislative bodies, and foreign governments concerning data protection which could affect us. For example, a revision to the 1995 European Union Data Protection Directive is currently being considered by legislative bodies that may include more stringent operational requirements for data processors and significant penalties for non-compliance.

In November 2011, we reached a 20-year settlement agreement with the FTC to resolve an investigation into various practices, by entering into an agreement that, among other things, requires us to establish and refine





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certain practices with respect to treatment of user data and privacy settings and also requires we complete bi-annual independent privacy audits. Violation of existing or future regulatory orders or consent decrees could subject us to substantial monetary fines and other penalties that could negatively affect our financial condition and results of operations.

Various laws and regulations in the United States and abroad, such as the Bank Secrecy Act, the Dodd-Frank Act, the USA PATRIOT Act, and the Credit CARD Act impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. Under these laws and regulations, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers, and sellers or issuers of stored value. Requirements imposed on financial institutions under these laws include customer identification and verification programs, record retention policies, and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations. However, it is possible that Payments on the Facebook Platform could be considered a financial product and that we could be deemed a financial institution subject to applicable U.S., state, or foreign regulation under certain interpretations of laws governing businesses such as money transmitters, check cashers, and sellers or issuers of stored value. To increase flexibility in how our use of Payments may evolve and to mitigate regulatory uncertainty, we have applied or expect to apply through a subsidiary for certain money transmitter licenses in the United States, which will generally require us to show compliance with many domestic laws relating to money transmission, gift cards and other prepaid access instruments, electronics funds transfers, anti-money laundering, counter-terrorist financing, gambling, banking and lending, and import and export restrictions.

China is a large potential market for Facebook, but users are generally restricted from accessing Facebook from China. We do not know if we will be able to find an approach to managing content and information that will be acceptable to us and to the Chinese government. It is also possible that governments of one or more other countries may seek to censor content available on our website, restrict access, block our website, or impose other restrictions that may affect the accessibility of Facebook for an extended period of time or indefinitely.

We communicate with lawmakers and regulators in the countries and regions in which we do business. We have a dedicated policy team that monitors legal and regulatory developments and works with policymakers and regulators around the world to help ensure that our perspective is heard in matters of importance to us.

## **Legal Proceedings**

Paul D. Ceglia filed suit against us and Mark Zuckerberg on or about June 30, 2010, in the Supreme Court of the State of New York for the County of Allegheny claiming substantial ownership of our company based on a purported contract between Mr. Ceglia and Mr. Zuckerberg allegedly entered into in April 2003. We removed the case to the U.S. District Court for the Western District of New York, where the case is now pending. In his first amended complaint, filed on April 11, 2011, Mr. Ceglia revised his claims to include an alleged partnership with Mr. Zuckerberg, he revised his claims for relief to seek a substantial share of Mr. Zuckerberg's ownership in us, and he included quotations from supposed emails that he claims to have exchanged with Mr. Zuckerberg in 2003 and 2004. On June 2, 2011, we filed a motion for expedited discovery based on evidence we submitted to the court showing that the alleged contract and emails upon which Mr. Ceglia bases his complaint are fraudulent. On July 1, 2011, the court granted our motion and ordered Mr. Ceglia to produce, among other things, all hard copy and electronic versions of the purported contract and emails. On January 10, 2012, the court granted our request for sanctions against Mr. Ceglia for his delay in compliance with that order. On March 26, 2012, we filed a motion to dismiss Mr. Ceglia's complaint and a motion for judgment on the pleadings. We continue to believe that Mr. Ceglia is attempting to perpetrate a fraud on the court and we intend to continue to defend the case vigorously.

On March 12, 2012, Yahoo filed a lawsuit against us in the U.S. District Court for the Northern District of California, claiming that we infringe ten of Yahoo's patents that Yahoo claims relate to advertising, social



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networking, privacy, customization, and messaging, and on April 27, 2012 Yahoo added two patents to the lawsuit that Yahoo claims relate to advertising. Yahoo is seeking unspecified damages, a damage multiplier for alleged willful infringement, and an injunction. We intend to vigorously defend this lawsuit, and on April 3, 2012, we filed our answer with respect to this complaint and asserted counterclaims that Yahoo's products infringe ten of our patents. This litigation is still in its early stages and the final outcome, including our liability, if any, with respect to Yahoo's claims, is uncertain. At present, we are unable to estimate a reasonably possible range of loss, if any, that may result from this matter. If an unfavorable outcome were to occur in this litigation, the impact could be material to our business, financial condition, or results of operations. As is common in intellectual property litigation, Yahoo could in the future assert additional patent or other claims against us in this or in other proceedings. For example, we received a letter dated April 23, 2012 from Yahoo indicating that they believe 16 patents they claim to hold may be relevant to open source technology they allege is being used in our data centers and servers. Yahoo has not threatened or initiated litigation with respect to matters described in this letter but it may do so in the future.

We are also currently parties to multiple other lawsuits related to our products, including patent infringement lawsuits brought by both other companies and non-practicing entities as well as class action lawsuits brought by users and advertisers, and we may in the future be subject to additional lawsuits and disputes. We are also involved in other claims, government investigations, and proceedings arising from the ordinary course of our business. Although the results of these other lawsuits, claims, government investigations, and proceedings in which we are involved cannot be predicted with certainty, we do not believe that the final outcome of these other matters will have a material adverse effect on our business, financial condition, or results of operations.

Regardless of the final outcome, defending lawsuits, claims, government investigations, and proceedings in which we are involved is costly and can impose a significant burden on management and employees, we may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

## **Culture and Employees**

Our employees and our culture are critical to our success. We value our hacker culture, which we define as a work environment that rewards creative problem solving and rapid decision making. We try to move fast in developing new products and then continually iterate and optimize to further improve our products. We seek employees who are motivated by the ability to have a direct impact on how hundreds of millions of people around the world connect, discover, and express themselves.

We encourage our employees to think boldly. We also have posted the phrase "this journey is 1% finished" across many of our office walls, to remind employees that we believe that we have only begun fulfilling our mission to make the world more open and connected.

We have grown rapidly, but at a rate that we believe will allow us to preserve a culture of collaboration, excellence, and moving fast. We had 1,218 full-time employees, 2,127 full-time employees, 3,200 full-time employees, and 3,539 full-time employees at the end of 2009, 2010, 2011, and the first quarter of 2012, respectively.

## **Facilities**

As of March 31, 2012, we leased office facilities around the world totaling approximately 2.2 million square feet, including one million square feet for our corporate headquarters in Menlo Park, California. We have data centers in the United States, including data center facilities that we

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own in North Carolina and Oregon and leased data center facilities in California and Virginia. We believe that our facilities are adequate for our current needs.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following table provides information regarding our executive officers and directors as of March 31, 2012:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Mark Zuckerberg	27	Chairman and CEO
Sheryl K. Sandberg	42	Chief Operating Officer
David A. Ebersman	42	Chief Financial Officer
David B. Fischer	39	Vice President, Marketing and Business Partnerships
Mike Schroepfer	37	Vice President of Engineering
Theodore W. Ulyot	44	Vice President, General Counsel, and Secretary
Marc L. Andreessen <sup>(1)(3)</sup>	40	Director
Erskine B. Bowles <sup>(1)</sup>	66	Director
James W. Breyer <sup>(2)</sup>	50	Director
Donald E. Graham <sup>*(2)(3)</sup>	66	Director
Reed Hastings <sup>(3)</sup>	51	Director
Peter A. Thiel <sup>(1)</sup>	44	Director

\* Lead Independent Director.

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the governance committee.

*Mark Zuckerberg* is our founder and has served as our CEO and as a member of our board of directors since July 2004. Mr. Zuckerberg has served as Chairman of our board of directors since January 2012. Mr. Zuckerberg attended Harvard University where he studied computer science. We believe that Mr. Zuckerberg should serve as a member of our board of directors due to the perspective and experience he brings as our founder, Chairman, and CEO, and as our largest and controlling stockholder.

*Sheryl K. Sandberg* has served as our Chief Operating Officer since March 2008. From November 2001 to March 2008, Ms. Sandberg served in various positions at Google, Inc., most recently as Vice President, Global Online Sales & Operations. Ms. Sandberg also is a former Chief of Staff of the U.S. Treasury Department and previously served as a consultant with McKinsey & Company, a management consulting company, and as an economist with The World Bank. In addition to serving as our Chief Operating Officer, Ms. Sandberg has been a member of the board of directors of the Walt Disney Company since December 2009. Ms. Sandberg holds an A.B. in economics from Harvard University and an M.B.A. from Harvard Business School.

*David A. Ebersman* has served as our Chief Financial Officer since September 2009. Prior to joining us, Mr. Ebersman served in various positions at Genentech, Inc., a biotechnology company, including as its Chief Financial Officer from March 2005 and as an Executive Vice President from January 2006 until April 2009, following Genentech's acquisition by F. Hoffmann-La Roche Ltd. in March 2009. Prior to joining

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Genentech, Mr. Ebersman was a research analyst at Oppenheimer & Company, Inc., an investment company. In addition to serving as our Chief Financial Officer, Mr. Ebersman has been a member of the board of directors of Ironwood Pharmaceuticals, Inc. since July 2009. Mr. Ebersman holds an A.B. in economics and international relations from Brown University.

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*David B. Fischer* joined us in April 2010 and serves as our Vice President, Marketing and Business Partnerships. From July 2002 to March 2010, Mr. Fischer served in various positions at Google, including most recently as its Vice President, Global Online Sales & Operations. Prior to joining Google, Mr. Fischer served as Deputy Chief of Staff of the U.S. Treasury Department and was an associate editor at the U.S. News World Report, L.P., a news magazine company. Mr. Fischer holds a B.A. in government from Cornell University and an M.B.A. from the Stanford University Graduate School of Business.

*Mike Schroepfer* has served as our Vice President of Engineering since September 2008. From December 2005 to August 2008, Mr. Schroepfer served as Vice President of Engineering at Mozilla Corporation, an Internet company. Prior to Mozilla, Mr. Schroepfer served in various positions at Sun Microsystems, Inc., an information technology company, including as Chief Technology Officer of its data center automation division. He also co-founded CenterRun, Inc., a developer of application provisioning software, which was acquired by Sun Microsystems. In addition to serving as our Vice President of Engineering, Mr. Schroepfer has been a member of the board of directors of Ancestry.com Inc. since January 2011. Mr. Schroepfer holds a B.S. and an M.S. in computer science from Stanford University.

*Theodore W. Ullyot* has served as our Vice President, General Counsel, and Secretary since October 2008. From May 2008 to October 2008, Mr. Ullyot was a partner at Kirkland & Ellis LLP, a law firm. From October 2005 to April 2008, Mr. Ullyot served as Executive Vice President and General Counsel of ESL Investments, Inc., a private investment firm. Prior to joining ESL Investments, Mr. Ullyot served in the federal executive branch under President George W. Bush, including as Chief of Staff at the U.S. Justice Department and as a Deputy Assistant to the President. Earlier in his career, Mr. Ullyot was an associate general counsel at AOL Time Warner, Inc. and served as a law clerk for U.S. Supreme Court Justice Antonin Scalia and for Judge Michael Luttig of the U.S. Court of Appeals for the Fourth Circuit. Mr. Ullyot holds an A.B. in History from Harvard University and a J.D. from the University of Chicago.

*Marc L. Andreessen* has served as a member of our board of directors since June 2008. Mr. Andreessen is a co-founder and has been a General Partner of Andreessen Horowitz, a venture capital firm, since July 2009. Previously, Mr. Andreessen co-founded and served as the Chairman of the board of directors of Opsware, Inc. (formerly known as Loudcloud Inc.), a software company. He also served as Chief Technology Officer of America Online, Inc., an Internet services company. Mr. Andreessen was a co-founder of Netscape Communications Corporation, a software company, serving in various positions, including Chief Technology Officer and Executive Vice President of Products. In addition to serving on our board of directors, Mr. Andreessen currently serves as a member of the boards of directors of eBay Inc. and the Hewlett-Packard Company. Mr. Andreessen holds a B.S. in computer science from the University of Illinois at Urbana-Champaign. We believe that Mr. Andreessen should serve as a member of our board of directors due to his extensive experience as an Internet entrepreneur, venture capitalist, and technologist.

*Erskine B. Bowles* has served as a member of our board of directors since September 2011. Mr. Bowles is President Emeritus of the University of North Carolina and served as President from January 2006 through December 2010. Mr. Bowles has also been a Senior Advisor of BDT Capital Partners, LLC, a private investment firm, since January 2012. From February 2010 until December 2010, he served as Co-Chair of the National Commission on Fiscal Responsibility and Reform. Mr. Bowles has been a Senior Advisor since 2001 and was Managing Director from 1999 to 2001 of Carousel Capital LLC, a private investment firm. He was also a partner of Forstmann Little & Co., an investment firm, from 1999 to 2001. Mr. Bowles began his career in corporate finance at Morgan Stanley and subsequently helped found and ultimately served as Chairman and Chief Executive Officer of Bowles Hollowell Connor & Co., an investment banking firm. He also was a founder of Kitty Hawk Capital, a venture capital firm. Mr. Bowles served as White House Chief of Staff from 1996 to 1998 and Deputy White House Chief of Staff from 1994 to 1995. In addition to serving on our board of directors, Mr. Bowles currently serves as a member of the boards of directors of Morgan Stanley, Belk, Inc., and Norfolk Southern Corporation. Mr. Bowles also served as a member of the board of directors of General Motors Company from June 2005 to April 2009 and Cousins Properties Incorporated from August 2003 to May 2012.

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Mr. Bowles holds a B.S. in business from the University of North Carolina at Chapel Hill and an M.B.A. from Columbia University Graduate School of Business. We believe that Mr. Bowles should serve as a member of our board of directors due to his extensive experience in the financial services industry and academia as well as his distinguished public service.

*James W. Breyer* has served as a member of our board of directors since April 2005. Mr. Breyer has been a Partner of Accel Partners, a venture capital firm, since 1987, and currently serves as President of Accel Management Co. Inc. Mr. Breyer is also the founder and has been the Chief Executive Officer of Breyer Capital, an investment firm, since July 2006. Mr. Breyer is also a co-founder and has been co-lead on the strategic investment committee since inception of the IDG-Accel China Funds. In addition to serving on our board of directors, Mr. Breyer currently serves as a member of the boards of directors of Brightcove Inc., Dell, Inc., News Corporation, Prosper Marketplace, Inc., and Wal-Mart Stores, Inc., where he is the lead/presiding independent director. Mr. Breyer previously served as a member of the board of directors of Marvel Entertainment Inc. from June 2006 to December 2009 and RealNetworks, Inc. from October 1995 to June 2008. Mr. Breyer holds a B.S. in interdisciplinary studies from Stanford University and an M.B.A. from Harvard University. We believe that Mr. Breyer should serve as a member of our board of directors due to his extensive experience with social media and technology companies, as a venture capitalist, and as one of our early investors.

*Donald E. Graham* has served as a member of our board of directors since March 2009. Mr. Graham has served as the Chief Executive Officer of The Washington Post Company, an education and media company, since 1991 and as Chairman of its board of directors since 1993. Mr. Graham holds an A.B. in English history and literature from Harvard University. We believe that Mr. Graham should serve as a member of our board of directors due to his extensive experience in the media industry, including serving in a variety of senior leadership roles with The Washington Post Company.

*Reed Hastings* has served as a member of our board of directors since June 2011. Mr. Hastings has served as the Chief Executive Officer and Chairman of the board of directors of Netflix, Inc., a provider of an Internet subscription service for movies and television shows, since 1999. Prior to Netflix, Mr. Hastings served as Chief Executive Officer of Technology Network, a political service organization for the technology industry. Mr. Hastings served as Chief Executive Officer of Pure Atria Software, a maker of software development tools, from 1991 until it was acquired by Rational Software Corporation, a software company, in 1997. In addition to serving on our board of directors, Mr. Hastings currently serves as a member of the board of directors of Microsoft Corporation. Mr. Hastings holds a B.A. in mathematics from Bowdoin College and an M.S.C.S. in computer science from Stanford University. We believe that Mr. Hastings should serve as a member of our board of directors due to his extensive experience with technology companies.

*Peter A. Thiel* has served as a member of our board of directors since April 2005. Since 2005, Mr. Thiel has been a Partner of Founders Fund, a venture capital firm. Mr. Thiel has also served as President of Clarium Capital Management, LLC, a global macro investment manager, since 2002. In 1998, Mr. Thiel co-founded PayPal, Inc., an online payment company, where he served as Chief Executive Officer, President and as Chairman of its board of directors from 2000 until its acquisition by eBay in 2002. Prior to that, Mr. Thiel worked for Credit Suisse, an investment firm, and Sullivan & Cromwell LLP, a law firm. Mr. Thiel holds a B.A. in Philosophy from Stanford University and a J.D. from Stanford Law School. We believe that Mr. Thiel should serve as a member of our board of directors due to his extensive experience as an entrepreneur and venture capitalist, and as one of our early investors.

## **Election of Officers**

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.





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### **Board Composition**

Our board of directors may establish the authorized number of directors from time to time by resolution. Our board of directors currently consists of seven members. Our current certificate of incorporation and amended and restated voting agreements provide for certain members of our board of directors to be elected as designees by Mr. Zuckerberg, the board of directors, or by certain classes of our capital stock. The current members of the board of directors were elected as follows:

Messrs. Andreessen, Graham, and Zuckerberg were elected as designees of Mr. Zuckerberg, the holder of the majority of the voting power of the outstanding shares of Class A common stock and Class B common stock;

Mr. Bowles was elected as the designee of the board of directors;

Mr. Hastings was elected as the designee of Mr. Zuckerberg, the holder of the majority of the voting power of the outstanding shares of our capital stock;

Mr. Thiel was elected as the designee of stockholders holding a majority of the outstanding shares of our Series A preferred stock, however, pursuant to the amended and restated voting agreement, a majority of the members of our board of directors may designate one member of the board of directors to fill this seat if it becomes vacant; and

Mr. Breyer was elected as the designee of stockholders who hold a majority of the outstanding shares of our Series B preferred stock.

The amended and restated voting agreement and the provisions of our certificate of incorporation by which the directors were elected will terminate in connection with our initial public offering, and, except as described in Description of Capital Stock Voting Agreements, there will be no further contractual obligations regarding the election of our directors. Our current directors will continue to serve as directors until their resignations or until their successors are duly elected by the holders of our common stock.

### ***Classified Board***

So long as the outstanding shares of our Class B common stock represent a majority of the combined voting power of common stock, we will not have a classified board of directors, and all directors will be elected for annual terms.

When the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of common stock, we will have a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. Our directors will be assigned by the then-current board of directors to a class.

Upon expiration of the term of a class of directors, directors for that class will be elected for three-year terms at the annual meeting of stockholders in the year in which that term expires. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Each director's term continues until the

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election and qualification of his or her successor, or his or her earlier death, resignation, or removal.

So long as our board of directors is classified, only our board of directors may fill vacancies on our board. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors.

The classification of our board of directors may have the effect of delaying or preventing changes in our control or management. See Description of Capital Stock Anti-Takeover Provisions Restated Certificate of Incorporation and Bylaw Provisions.

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### ***Director Independence***

The rules of the NASDAQ Stock Market LLC (NASDAQ) generally require that a majority of the members of a listed company's board of directors be independent within specified periods following the closing of an initial public offering. In addition, the listing rules generally require that, subject to specified exceptions, each member of a listed company's audit, compensation, and governance committees be independent.

Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (Exchange Act). In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or be an affiliated person of the listed company or any of its subsidiaries.

Our board of directors has determined that none of our non-employee directors has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is independent as that term is defined under the rules of NASDAQ. Our board of directors has also determined that Messrs. Andreessen, Bowles, and Thiel, who comprise our audit committee, Messrs. Breyer and Graham, who comprise our compensation committee, and Messrs. Andreessen, Graham, and Hastings, who comprise our governance committee, satisfy the independence standards for those committees established by applicable SEC rules and the rules of NASDAQ.

### **Controlled Company**

Because Mr. Zuckerberg controls a majority of our outstanding voting power, we are a controlled company under the corporate governance rules of NASDAQ. Therefore, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors has determined not to have an independent nominating function and to have the full board of directors be directly responsible for nominating members of our board. Additionally, as described in the section entitled "Description of Capital Stock Anti-Takeover Provisions Restated Certificate of Incorporation and Bylaw Provisions," so long as the outstanding shares of our Class B common stock represent a majority of the combined voting power of our common stock, Mr. Zuckerberg will be able to effectively control all matters submitted to our stockholders for a vote, as well as the overall management and direction of our company.

### **Board Committees**

Our board of directors has established an audit committee, a compensation committee, and a governance committee, each of which will have the composition and responsibilities described below as of the closing of our initial public offering. Members serve on these committees until their resignations or until otherwise determined by our board of directors.

### ***Audit Committee***

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Our audit committee is comprised of Messrs. Andreessen, Bowles, and Thiel. Mr. Bowles is the chairman of our audit committee, is our audit committee financial expert, as that term is defined under SEC rules and possesses financial sophistication as defined under the rules of NASDAQ. The designation does not impose on Mr. Bowles any duties, obligations or liabilities that are greater than are generally imposed on members of our audit committee and our board of directors. Our audit committee is directly responsible for, among other things:

selecting the independent registered public accounting firm to audit our financial statements;

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ensuring the independence of the independent registered public accounting firm;

discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and that firm, our interim and year-end operating results;

developing procedures to enable submission of anonymous concerns about accounting or audit matters;

considering the adequacy of our internal accounting controls and audit procedures;

reviewing related party transactions;

approving or, as permitted, pre-approving all audit and non-audit services to be performed by the independent registered public accounting firm; and

overseeing our internal audit function.

## ***Compensation Committee***

Our compensation committee is comprised of Messrs. Breyer and Graham. Mr. Breyer is the chairman of our compensation committee. Each member of this committee is a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended. Our compensation committee is responsible for, among other things:

reviewing and approving, or recommending that our board of directors approve, the compensation of our executive officers;

reviewing and recommending to our board of directors the compensation of our directors;

reviewing and approving the terms of any compensatory agreements with our executive officers;

administering our stock and equity incentive plans;

reviewing and making recommendations to our board of directors with respect to incentive compensation and equity plans; and

establishing and reviewing our overall compensation philosophy.

## ***Governance Committee***

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Our governance committee is comprised of Messrs. Andreessen, Graham, and Hastings. Mr. Graham is the chairman of our governance committee. Our governance committee is responsible for, among other things:

reviewing developments in corporate governance practices;

developing and recommending our corporate governance guidelines and policies, and evaluating their sufficiency;

reviewing proposed waivers of the code of conduct;

overseeing the process of evaluating the performance of our board of directors; and

advising our board of directors on corporate governance matters.

Each of the above committees has a written charter approved by our board of directors. Following the closing of our initial public offering, copies of each charter will be posted on the Investor Relations section of our website.

### **Compensation Committee Interlocks and Insider Participation**

During 2011, our compensation committee consisted of Messrs. Breyer and Graham. Neither of them has at any time in the last fiscal year been one of our officers or employees. During 2009, 2010, 2011, and the first quarter of 2012, The Washington Post Company and its related companies purchased \$0.6 million, \$4.8 million, \$4.2 million, and \$0.8 million, respectively, of advertisements on our website. Mr. Graham is the Chief Executive Officer of The Washington Post Company. The purchases by The Washington Post Company and its related entities were made in the ordinary course of business pursuant to our standard online terms and conditions and were all made through our self-service ad system.

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None of our executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who served on our board of directors or compensation committee during 2011.

**Code of Business Conduct and Ethics**

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers, and directors. The full text of our code of business conduct and ethics will be posted on the Investor Relations section of our website. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of these provisions, on our website or in filings under the Exchange Act.

**Director Compensation**

In September 2011, our board of directors approved an annual retainer fee of \$50,000 for each of our non-employee directors. Our non-employee directors received a prorated fee during 2011. In addition, starting on January 1, 2012, the chairman of our audit committee will receive an annual retainer fee of \$20,000. Prior to our initial public offering, there was no formal policy in place to provide our directors with equity compensation for their services as members of our board of directors or any committee of our board of directors. In June 2011, our board of directors approved the grant of 20,000 restricted stock units (RSUs) to Mr. Hastings, as compensation for Mr. Hastings' service as a member of our board of directors. In September 2011, our board of directors approved the grant of 20,000 RSUs to Mr. Bowles, as compensation for Mr. Bowles' service as a member of our board of directors. The RSUs granted to Messrs. Bowles and Hastings are subject to vesting based on their continued services to us through each vesting date, which is more fully described below.

Although there was no formal policy in place relating to the granting of equity awards to our directors, the following table presents the total compensation for each person who served as a member of our board of directors during 2011. Other than as set forth in the table and described more fully below, in 2011 we did not pay any fees to, make any equity awards or non-equity awards to, or pay any other compensation to the members of our board of directors. Mr. Zuckerberg, our founder, Chairman, and CEO, receives no compensation for his service as a director, and is not included in the table below.

Director Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)(2)</sup>	Total (\$)
Marc L. Andreessen <sup>(3)</sup>	16,667		16,667
Erskine B. Bowles <sup>(4)</sup>	16,667	601,400	618,067
James W. Breyer	16,667		16,667
Donald E. Graham <sup>(5)</sup>	16,667		16,667
Reed Hastings <sup>(6)</sup>	16,667	593,400	610,067
Peter A. Thiel	16,667		16,667

(1) Amounts reported represent the aggregate grant date fair value of RSUs without regards to forfeitures granted to the independent members of our board of directors during 2011 under our 2005 Stock Plan, computed in accordance with ASC 718. The valuation assumptions used in calculating the fair value of the RSUs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Share-based Compensation. This amount does not reflect the actual economic value realized by the director.

(2) Messrs. Andreessen and Graham hold RSUs granted prior to January 1, 2011 (Pre-2011 RSUs). Pre-2011 RSUs only vest upon the satisfaction of both (i) a service-based vesting condition and (ii) a liquidity-based vesting condition. The liquidity-based vesting condition for Pre-2011 RSUs is: (a) the date that is six months after the effective date of our initial public offering; or (b) a change of control (as defined in our 2005 Stock Plan). The service-based vesting



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condition for the Pre-2011 RSUs held by Messrs. Andreessen and Graham are further described in footnotes (3) and (5) below. RSUs granted on or after January 1, 2011 (Post-2011 RSUs) vest based on continuous service to us, as further described in footnotes (4) and (6) below.

- (3) As of December 31, 2011, Mr. Andreessen held 5,247,490 RSUs. The service-based vesting condition was satisfied as to 1/48th of the total shares underlying the RSUs on July 30, 2008. The remaining shares underlying the RSUs vest at a rate of 1/48th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.

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- (4) As of December 31, 2011, Mr. Bowles held 20,000 RSUs. The vesting condition will be satisfied as to 13/48 of the total shares underlying the RSUs on October 15, 2012. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs in quarterly installments thereafter, not to exceed eleven quarterly installments, and 2/48th on October 15, 2015, subject to continued service to us through each vesting date. None of Mr. Bowles' RSUs will settle until the earliest to occur of: (i) December 31, 2013; (ii) an earlier date between January 1, 2013 and December 31, 2013 that is specified by us; and (iii) the date of a change of control (as defined in our 2005 Stock Plan).
- (5) As of December 31, 2011, Mr. Graham held 1,000,000 RSUs. The service-based vesting condition was satisfied as to 1/4th of the total shares underlying the RSUs on April 1, 2010. The remaining shares underlying the RSUs vest at a rate of 1/48th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (6) As of December 31, 2011, Mr. Hastings held 20,000 RSUs. The vesting condition will be satisfied as to 1/4 of the total shares underlying the RSUs on July 15, 2012. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs in quarterly installments thereafter, subject to continued service to us through each vesting date. None of Mr. Hastings' RSUs will settle until the earliest to occur of: (i) December 31, 2013; (ii) an earlier date between January 1, 2013 and December 31, 2013 that is specified by us; and (iii) the date of a change of control (as defined in our 2005 Stock Plan).

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

*Overview*

This section explains our executive compensation philosophy, objectives, and design; our compensation-setting process; our executive compensation program components; and the decisions made in 2011 with respect to the compensation of each of our named executive officers. Our named executive officers for 2011, which consist of the executive officers who appear in 2011 Summary Compensation Table below, are:

Mark Zuckerberg, our founder, Chairman and Chief Executive Officer (CEO);

Sheryl K. Sandberg, our Chief Operating Officer (COO);

David A. Ebersman, our Chief Financial Officer;

Mike Schroepfer, our Vice President, Engineering; and

Theodore W. Ulyot, our Vice President, General Counsel, and Secretary.

***Executive Compensation Philosophy, Objectives and Design***

*Philosophy.* We are focused on our mission to make the world more open and connected. We believe that Facebook is at the beginning of this journey and that for us to be successful we must hire and retain people who can continue to develop our strategy, quickly innovate and build new products, bolster the growth of our user base and user engagement, and constantly enhance our business model. To achieve these objectives, we need a highly talented team comprised of engineering, product, sales, and general and administrative professionals. We also expect our executive team to possess and demonstrate strong leadership and management capabilities.

*Objectives.* Our compensation programs for our named executive officers are built to support the following objectives:

attract the top talent in our leadership positions and motivate our executives to deliver the highest level of individual and team impact and results;

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encourage our executives to model the important aspects of our culture, which include moving fast, being bold, communicating openly and building trust with each other and our employees;

ensure each one of our named executive officers receives a total compensation package that encourages his or her long-term retention;

reward high levels of performance with commensurate levels of compensation; and

align the interests of our executives with those of our stockholders in the overall success of Facebook by emphasizing long-term incentives.

*Design.* As a privately-held company, our executive compensation program is heavily weighted towards equity, including stock options and restricted stock units (RSUs), with cash compensation that is considerably below market relative to executive compensation at our peer companies. We believe that equity compensation offers the best vehicle to focus our executive officers on our mission and the achievement of our long-term strategic and financial objectives and to align our executive officers with the long-term interests of our stockholders.

For our executive officers who received a substantial initial equity award in connection with the commencement of their employment, we have granted additional equity awards with service-based vesting conditions where the commencement of vesting is deferred until a date some years in the future, as discussed further in Elements of Executive Compensation Equity Compensation below. When combined with the executives initial equity awards, we believe that these additional grants represent a strong long-term retention tool and provide the executive officers with long-term equity incentives.

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As we transition from being a privately-held company to a publicly-traded company, we will evaluate our executive compensation programs, including our mix of cash and equity compensation, at least annually or as circumstances require based on our business objectives and the competitive environment for talent. We anticipate continuing our emphasis on pay-for-performance and long-term incentive compensation for our executive officers.

### ***Compensation-Setting Process***

*Role of Our Compensation Committee.* The compensation committee is responsible for overseeing all aspects of our executive compensation programs, including executive salaries, payouts under our annual bonus plan, the size and structure of equity awards, and any executive perquisites. The compensation committee is solely responsible for determining the compensation of our CEO and reviews and approves compensation of other executive officers.

*Role of Compensation Consultant.* The compensation committee has the authority to engage its own advisors to assist in carrying out its responsibilities. The compensation committee did not retain the services of an outside compensation consultant to provide advice with respect to our executive compensation programs for 2011. In January 2012, the compensation committee engaged the services of Compensia, Inc., a national compensation consulting firm. Compensia may provide the compensation committee and the board of directors with guidance regarding the amount and types of compensation that we provide to our executives, how our compensation practices compare to the compensation practices of other companies, and other compensation-related matters. Compensia reports directly to the compensation committee, although Compensia may meet with members of management for the purposes of gathering information on proposals that management may make to the compensation committee. The compensation committee may replace Compensia or hire additional advisors at any time. Compensia does not provide any services to us other than the services provided to the compensation committee.

*Role of Management.* In setting compensation for 2011, our CEO, our COO, and our Vice President, Human Resources, worked closely with the compensation committee in managing our executive compensation program and attended meetings of the compensation committee. From time to time, our Chief Financial Officer and our General Counsel attended meetings of the compensation committee to present information and answer questions. Our CEO made recommendations to the compensation committee regarding compensation for our executive officers other than himself because of his daily involvement with our executive team. No executive officer participated directly in the final deliberations or determinations regarding his or her own compensation package.

Our management team and the compensation committee each play a role in evaluating and mitigating any risk that may exist relating to our compensation plans, practices and policies for all employees, including our named executive officers, as further described in Compensation Risk Assessment below.

*Use of Comparative Market Data.* We aim to compensate our executive officers at levels that are at least commensurate with the most competitive levels of compensation of executive officers with executives in similar positions at a group of peer companies set forth below with whom we compete for hiring and retaining executive talent (our Peer Group). The compensation committee also considered the scope of responsibility of each executive officer, our current practice of maintaining minimal differentiation between the cash packages of our executive officers, the unvested balances of stock awards for each executive officer, as well as the compensation committee's assessment of each executive officer's performance and impact to the organization. In determining 2011 compensation, we did not use a formula for taking into account these different factors.

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Management provides the compensation committee with both cash and equity compensation data for our Peer Group. We analyze market data for executive compensation at least annually using the most relevant published survey sources and public filings. For 2011, our market analysis focused on technology companies with \$1 billion to \$3 billion in annual revenue in the Radford Global Technology and Global Sales Survey

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published by AON (Radford Survey). In the first quarter of 2011, the compensation committee also reviewed compensation data from the public filings for the following Peer Group, with annual revenue ranging from \$1.7 billion to \$108.3 billion in fiscal 2011:

Accenture	Google
Adobe Systems	Intuit
Amazon.com	Microsoft
AOL	NetApp
Apple	Oracle
Cisco Systems	salesforce.com
eBay	VMware
Electronic Arts	Yahoo!

The compensation committee expects to periodically review and update this Peer Group.

In the first quarter of 2011, our compensation committee reviewed our executive compensation against this Peer Group, to ensure that our executive officer compensation is competitive and sufficient to recruit and retain our executive officers. Management provided the compensation committee with total cash compensation data (base salaries and cash bonus awards at target) at various percentiles and total compensation data (total cash compensation and equity compensation) at the 90th percentile. However, while the compensation committee considered this data in determining executive officer compensation, we did not seek to benchmark our executive compensation to any particular level. The total compensation for our named executive officers was not determined based on any pre-set target percentile of market. Rather, we sought to compensate our executive officers at a level which would allow us to successfully recruit and retain the best possible talent for our executive team. We relied heavily on the knowledge and experience of the compensation committee and our management in determining the appropriate compensation levels for our executive officers. Overall, based on our Peer Group analysis, total cash compensation for our executive officers was below the 25th percentile of our peers. When equity compensation was factored in, without taking into account the effect of the service-based vesting conditions that begin several years in the future and that are applicable to the equity compensation of our executive officers, total compensation for our named executive officers, other than our CEO, approximated the 99th percentile relative to the companies in the Radford Survey.

In the second quarter of 2011, the compensation committee further refined our approach to reviewing market compensation data for our named executive officers and approved a set of selection criteria for determining our peer group companies as listed below, with the understanding that the criteria will be revisited as our business and market environment change. Going forward, companies must meet all or some of the following criteria to be included in our compensation peer group:

high technology or media company;

key talent competitor;

minimum revenue of \$4 billion; or

minimum market capitalization of \$50 billion.

This set of selection criteria led us to revise the peer group against whom we benchmark our executive compensation. We plan to use the following companies in our peer group for the 2012 executive compensation process: Amazon.com; Apple; Cisco Systems; eBay; Google;

LinkedIn; Microsoft; Netflix; Oracle; salesforce.com; VMware; Yahoo!; and Zynga.



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### *Elements of Executive Compensation*

Our executive officer compensation packages generally include:

base salary;

performance-based cash incentives; and

equity-based compensation in the form of RSUs or other share-based compensation.

We believe that our compensation mix supports our objective of focusing on at-risk compensation having significant financial upside based on company and individual performance. We expect to continue to emphasize equity awards because of the direct link that equity compensation provides between stockholder interests and the interests of our executive officers, thereby motivating our executive officers to focus on increasing our value over the long term.

*Base Salary.* The compensation committee believes base salaries are a necessary element of compensation in order to attract and retain highly qualified executive officers. Historically, our executive officers have received base salaries within a very narrow range that was established when we were a smaller company with cash constraints and based on our desire to maintain internal pay equity between executive officers and also relative to other key employees. As we have grown, we have gradually increased base salaries for our executive officers with the goal of bringing salaries closer to market over time. In 2011, we continued to pay executive base salaries that were below market relative to our Peer Group, both to retain the ethos of a start-up company and because of our emphasis on equity-based compensation. As noted above, in 2011, based on our Peer Group analysis, our total cash compensation for our executive officers was below the 25th percentile of the Peer Group.

The compensation committee reviews base salaries for our executive officers at least annually and may adjust them from time to time, if needed, to reflect changes in market conditions or other factors. In the first quarter of 2011, the compensation committee decided to increase the base salaries of our executive officers in order to continue to bring their salaries closer to those paid by our Peer Group companies for similar positions. Accordingly, our compensation committee increased the base salary of our CEO by \$100,000 and of each other executive officer by \$25,000. Following this 2011 salary increase, our executive officer salaries were still below the 25th percentile of the salaries provided by our Peer Group companies for executives in similar positions.

In the first quarter of 2012, our compensation committee discussed and approved a request by our CEO to reduce his base salary to \$1 per year, effective January 1, 2013.

<b>Named Executive Officer</b>	<b>2011 Base Salary</b>
Mark Zuckerberg	\$500,000
Sheryl K. Sandberg	300,000
David A. Ebersman	300,000
Mike Schroepfer	275,000
Theodore W. Ulyot	275,000

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*Cash Bonuses.* Our 2011 Bonus/Retention Plan (Bonus Plan) provides variable cash incentives, payable semi-annually, that are designed to motivate our executive officers to focus on company-wide priorities and to reward them for individual results and achievements. All of our executive officers participate in the Bonus Plan.

For 2011, there were two six-month performance periods under our Bonus Plan, which we refer to as First Half 2011 and Second Half 2011. For each performance period in 2011, the compensation committee approved a set of company-wide priorities in order to focus our executive officers on key areas of performance for the period in question. The First and Second Half 2011 company priorities reflect operational and non-operational objectives established by our compensation committee, in consultation with our CEO and Chief Financial Officer. The company-wide priorities do not have specific targets associated with them for purposes of determining performance under the Bonus Plan, and our compensation committee has complete discretion to determine the level of bonus payout for each performance period.

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*2011 Goals and Company Performance Multipliers (Bonus Plan Pools).* Our First Half 2011 company-wide priorities were as follows: grow our user base and user engagement, improve our site quality and efficiency, expand the impact of our Platform, continue strong revenue growth, improve our Profile product, build our mobile platform, expand our partnerships, and continue our international expansion. None of these priorities were assigned any specific weighting or dollar amount of bonus. The compensation committee applied discretion in determining the company performance multiplier on a qualitative basis, taking into account our delivery of results in the areas identified by the company-wide priorities approved by the compensation committee, as well as our overall business, engineering, and product development achievements. The compensation committee also did not determine any pre-set ranges for the company performance multiplier. The First Half 2011 company performance multiplier approved by the compensation committee was 105%. In particular, the compensation committee focused on our strong user growth and revenue growth for First Half 2011.

Our Second Half 2011 company-wide priorities were as follows: grow our user base and user engagement, increase distribution of our Platform, and continue strong revenue growth. None of these priorities were assigned any specific weighting or dollar amount of bonus. The compensation committee applied discretion in determining the company performance multiplier on a qualitative basis, taking into account our delivery of results in the areas identified by the company-wide priorities approved by the compensation committee, as well as our overall business, engineering, and product development achievements. The compensation committee also did not determine any pre-set ranges for the company performance multiplier. The Second Half 2011 company performance multiplier approved by the compensation committee was 100%. The compensation committee focused on our performance in all of the areas identified by the company-wide priorities, as well as our introduction of Timeline and other new products in Second Half 2011.

*Bonus Plan Payouts.* We calculate Bonus Plan payouts to each participant using the following formula:

$$\begin{array}{ccccccc} \text{Base} & & \text{Individual} & & \text{Individual} & & \text{Company} \\ \text{Salary (\$)} & \times & \text{Bonus} & \times & \text{Performance} & \times & \text{Performance} \\ & & \text{Target (\%)} & & \text{Multiplier (\%)} & & \text{Multiplier (\%)} \\ & & & & & & = \\ & & & & & & \text{Individual} \\ & & & & & & \text{Bonus} \\ & & & & & & \text{Payout (\$)} \end{array}$$

In the first quarter of 2011, the compensation committee decided to increase individual bonus targets for each executive officer from 30% to 45% in order to continue to move bonuses closer to market rates paid by our Peer Group. Even following this bonus target increase, in 2011, our executive officer bonuses and total cash compensation was still generally below those provided by our Peer Group companies for executives in similar positions.

*Individual Performance Multiplier.* The individual performance multiplier is based upon each executive's individual performance assessment for the performance period under consideration. In line with our pay-for-performance philosophy, a higher performance assessment drives a higher individual multiplier (and vice-versa) such that it is possible for an executive with a low assessment to get less than their target bonus payout, or no bonus payout whatsoever. In 2011, potential individual performance multipliers under our Bonus Plan were 0%, 85%, 100%, 125%, 200%, or 300%. Executives meeting our expected high level of performance expectations receiving an individual bonus multiplier of 100%.

Individual performance assessments for each executive officer were determined at the discretion of the compensation committee in close consultation with our CEO and our COO (except in each case when their own performance assessment is being determined). The CEO's and COO's executive officer performance assessment recommendations were based on an overall subjective assessment of each officer's performance and no single factor was determinative in setting bonus levels, nor was the impact of any individual factor on the bonus quantifiable. We operate in a rapidly evolving and highly competitive industry and we set a high bar for performance expectations for each one of our executive officers. The compensation committee evaluates our executive officers based on their overall performance, impact and results, as well as their demonstration of strong



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leadership, long-term vision, effective execution and management capabilities. First Half 2011 and Second Half 2011 payout levels and achievements and considerations for each executive were as follows:

*Mark Zuckerberg.* Mr. Zuckerberg received \$220,500 for the First Half 2011 bonus, which reflected the impact of his performance in leading our product development efforts, our success in growing Facebook's global user base and developing developer and commercial relationships. Mr. Zuckerberg received \$225,000 for the Second Half 2011 bonus, which reflected the impact of his leadership and product vision, which contributed to the development and launch of new products, including Open Graph and Timeline.

*Sheryl K. Sandberg.* Ms. Sandberg received \$86,133 for the First Half 2011 bonus, which reflected her contribution to growing revenue, building commercial and developer relationships, growing the Facebook team and excellence in execution in all business-related matters. Ms. Sandberg received \$84,375 for the Second Half 2011 bonus, which reflected her leadership in growing our revenue year over year and her strategic guidance on key policy issues both domestically and abroad.

*David A. Ebersman.* Mr. Ebersman received \$86,133 for the First Half 2011 bonus, which reflected his contributions in completing our 2010 financial statements, completing our private placement financing, and preparing our financial operations for this offering. Mr. Ebersman received \$84,375 for the Second Half 2011 bonus, which reflected his contributions in managing preparations for our initial public offering and his strategic leadership in building a strong financial foundation for our business.

*Mike Schroepfer.* Mr. Schroepfer received \$63,000 for the First Half 2011 bonus, which reflected his contribution in developing and overseeing our engineering team, software development efforts, and engineering infrastructure. Mr. Schroepfer received \$77,344 for the Second Half 2011 bonus, which reflected his strong leadership of the engineering team, resulting in development of new products for users, developers, and advertisers.

*Theodore W. Ulyot.* Mr. Ulyot received \$78,750 for the First Half 2011 bonus and \$123,750 for his Second Half 2011 bonus, both of which reflected his role in certain key litigation and regulatory matters involving our company.

The following table summarizes the calculations that were used in determining the cash bonus paid to each of our named executive officers:

	Performance Period	Base Salary (\$) <sup>(1)</sup>	Individual Bonus Target (%)	Individual Bonus Multiplier (%)	Company Bonus Multiplier (%)	Individual Bonus Payout (\$)
Mark Zuckerberg	First Half 2011	233,333	45	200	105	220,500
	Second Half 2011	250,000	45	200	100	225,000
						445,500
Sheryl K. Sandberg	First Half 2011	145,833	45	125	105	86,133
	Second Half 2011	150,000	45	125	100	84,375
						170,508

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David A. Ebersman	First Half 2011	145,833	45	125	105	86,133
	Second Half 2011	150,000	45	125	100	84,375
						170,508
Mike Schroepfer	First Half 2011	133,333	45	100	105	63,000
	Second Half 2011	137,500	45	125	100	77,344
						140,344
Theodore W. Ulliot	First Half 2011	133,333	45	125	105	78,750
	Second Half 2011	137,500	45	200	100	123,750
						202,500

(1) Reflects actual earnings for 2011 which may differ from approved 2011 base salary due to the March 1, 2011 effective date of the salary increase.

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*Retention Bonus.* As part of our negotiation of his initial employment arrangement and as an inducement for Mr. Ulyot to become our Vice President and General Counsel, we agreed to pay him an annual retention bonus in the amount of \$400,000 per year for each of his first five years of employment. He will continue to receive this bonus until 2013, pursuant to the terms of his amended and restated employment agreement.

*Equity Compensation.* Most of our executive officers' compensation is delivered through equity awards. We use equity compensation to align our executive officers' financial interests with those of our stockholders, to attract industry leaders of the highest caliber, and to retain them for the long term. In addition to the equity grant that each executive receives as part of his or her new hire package, the compensation committee has granted our executives additional equity awards in certain of the years after they joined. Additional equity grants for each of our executive officers are determined on a discretionary basis taking into account the following factors:

delivering equity values that are highly competitive when compared against those our peers would grant to executives with similar responsibility;

each executive officer's individual performance assessment, the results and contributions delivered during the year, as well as the anticipated potential future impact of each individual executive;

the size and vesting schedule of existing equity grants in order to maximize the long-term retentive power of all additional grants; and

the size of each executive officer's total cash compensation (base salary plus cash bonus awards at target), which is generally lower than the cash compensation for executives with similar responsibilities at our peer companies.

Based on the foregoing factors, in 2011, our compensation committee awarded each of our executive officers (other than our CEO) a grant of RSUs with a specific initial equity value based on an estimated total value for each grant before taking into account the deferred vesting considerations described below. The compensation committee applied discretion in determining the specific individual equity values and deferred vesting start dates. Based on these qualitative decisions, the compensation committee then calculated the exact number of RSUs to be granted by dividing this initial equity value by \$20.85 per share, which was the fair value of our Class B common stock as of the end of 2010.

*Deferred Vesting of 2011 RSU Grants.* The compensation committee deferred the vesting start dates of all 2011 RSU grants made to our executive officers to a future date determined individually for each executive. As a result, the 2011 RSU grants will not begin to vest unless the recipient remains continuously employed by Facebook through future dates as described in 2011 Grants of Plan-Based Awards Table below. The compensation committee reviewed the size and vesting schedule for the remaining unvested portion of all outstanding equity award holdings of each of our executive officers and agreed with the recommendation of our CEO and COO (except that our COO did not participate in discussions regarding her own equity compensation) that the existing equity awards appropriately satisfied our retention and incentive goals for the immediate future for each of our executive officers. Accordingly, the additional equity awards granted in 2011 start vesting only after a significant portion of each executive's outstanding equity awards have vested, and these vesting start dates range from the fourth quarter of 2013 to the fourth quarter of 2014. These grants have four-year vesting schedules that result in vesting end dates ranging from the fourth quarter of 2017 to the fourth quarter of 2018. The compensation committee believes that these vesting schedules make the equity awards more valuable for retaining our executive officers for the long term. For more information relating to the vesting schedules of these RSU grants, see 2011 Grants of Plan-Based Awards Table below.

*2011 Equity Grants.* Mr. Zuckerberg did not receive any additional equity grants in 2011 because our compensation committee believed that his existing equity ownership position sufficiently aligns his interests with those of our stockholders.





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Our other named executive officers received the following RSU grants in 2011:

*Sheryl K. Sandberg.* Ms. Sandberg received an additional equity grant in the amount of 1,199,041 RSUs. This grant had an initial equity value of \$25.0 million. These RSUs are subject to quarterly vesting based on continued employment over four years with a deferred vesting start date of October 15, 2013.

*David A. Ebersman.* Mr. Ebersman received an additional equity grant in the amount of 719,424 RSUs. This grant had an initial equity value of \$15.0 million. These RSUs are subject to quarterly vesting based on continued employment over four years with a deferred vesting start date of October 15, 2014.

*Mike Schroepfer.* Mr. Schroepfer received an additional equity grant in the amount of 959,233 RSUs. This grant had an initial equity value of \$20.0 million. These RSUs are subject to quarterly vesting based on continued employment over four years with a deferred vesting start date of October 15, 2013.

*Theodore W. Ullyot.* Mr. Ullyot received an additional equity grant in the amount of 239,808 RSUs. This grant had an initial equity value of \$5.0 million. These RSUs are subject to quarterly vesting based on continued employment over four years with a deferred vesting start date of July 15, 2014.

## ***Compensation Governance***

The compensation committee seeks to ensure sound executive compensation practices to adhere to our pay-for-performance philosophy while appropriately managing risk and aligning our compensation programs with long-term stockholder interests. The following practices were in effect during 2011:

the compensation committee is comprised solely of independent directors;

the compensation committee conducts an annual review and approval of our compensation strategy, including a review of our compensation-related risk profile to ensure that our compensation-related risks are not reasonably likely to have a material adverse effect on our company;

the compensation committee retains discretion on bonus payouts to enable it to respond to unforeseen events and adjust bonus payouts as appropriate;

we do not offer post-employment benefits, except in the case of certain new hires in prior years; and

our compensation philosophy and related governance features are complemented by several specific practices that are designed to align our executive compensation with long-term stockholder interests, including the following:

we offer limited perquisites that are for business-related purposes or necessary for the security of our CEO; and

our executives participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees.

***Post-Employment Compensation***

The material terms of post-employment compensation for Ms. Sandberg and Mr. Ullyot are described below in Employment Agreements and Offer Letters and Potential Payments upon Termination or Change in Control.

***Perquisites and Other Benefits***

Consistent with the practices of many companies in our Peer Group, we provide perquisites to our named executive officers for the reasons described below.

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Because of the high visibility of our company we have implemented a comprehensive security program for Mr. Zuckerberg to address safety concerns resulting from his position as our founder, Chairman, and CEO. We require these security measures for the company's benefit because of the importance of Mr. Zuckerberg to Facebook, and we believe that the costs of this comprehensive security program are appropriate and necessary. We paid for the initial procurement, installation and maintenance of security measures for Mr. Zuckerberg's personal residence, and we pay for the annual costs of security personnel, neither of which constitutes taxable income to Mr. Zuckerberg.

Our compensation committee has also authorized our CEO and COO to use private aircraft for business purposes. This practice maximizes such executives' productive time and ensures their quick availability. In addition, Mr. Zuckerberg may use private aircraft for personal purposes in connection with his comprehensive security program. On certain occasions, Mr. Zuckerberg may be accompanied by family members or others when using private aircraft. For flights involving passengers flying for personal purposes, the aggregate incremental cost of such personal usage is reported as other compensation to Mr. Zuckerberg. The reported aggregate incremental cost is based on costs provided by the applicable charter company, and includes passenger fees, fuel, crew and catering costs. The incremental cost attributable to Mr. Zuckerberg's use of private aircraft in 2011 is disclosed in the All Other Compensation column in 2011 Summary Compensation Table below.

In addition, we have historically paid for certain of our named executive officers to receive financial, tax and estate planning advice to assist them in obtaining professional advice on managing the compensation they receive. We have discontinued this practice for periods after April 15, 2012.

### ***162(m) Tax Deductibility***

Section 162(m) of the Internal Revenue Code of 1986, as amended (Code), limits the amount that we may deduct from our federal income taxes for remuneration paid to our named executive officers (other than our Chief Financial Officer) to \$1 million dollars per executive officer per year, unless certain requirements are met. Section 162(m) provides an exception from this deduction limitation for certain forms of performance-based compensation, as well as for the gain recognized by covered executive officers upon the exercise of qualifying compensatory stock options. In addition, grandfather provisions may apply to certain compensation arrangements that were entered into by a corporation before it was publicly held. To date, all of our compensation that has been granted has been exempt from the Section 162(m) deduction limitation. While our compensation committee is mindful of the benefit to us of the full deductibility of compensation, our compensation committee believes that it should not be constrained by the requirements of Section 162(m) where those requirements would impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives. Therefore, our compensation committee has not adopted a policy that requires that all compensation be deductible. Our compensation committee intends to continue to compensate our executive officers in a manner consistent with the best interests of our company and our stockholders.

### ***Compensation Risk Assessment***

Our management team and the compensation committee each play a role in evaluating and mitigating any risk that may exist relating to our compensation plans, practices and policies for all employees, including our named executive officers. In connection with this offering, Compensia, the compensation committee's independent compensation consultant, performed an assessment, in conjunction with management, of our compensation plans and practices and concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on the company. The compensation committee has reviewed this report and agreed with the conclusion. The objective of the assessment was to identify any compensation plans or practices that may encourage employees to take unnecessary risk that could threaten the company. No such plans or practices were identified. The risk assessment process included, among other things, a review of our cash and equity incentive-based compensation plans to ensure that they are aligned with our company performance goals and the overall compensation to ensure an appropriate balance between fixed and variable pay components and between short- and long-term incentives.



**Table of Contents****2011 Summary Compensation Table**

The following table presents summary information regarding the total compensation awarded to, earned by, or paid to each of the named executive officers for services rendered to us for the year ended December 31, 2011.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
Mark Zuckerberg, <i>CEO</i>	2011	483,333	445,500		783,529 <sup>(3)</sup>	1,712,362
Sheryl K. Sandberg, <i>Chief Operating Officer</i>	2011	295,833	170,508	30,491,613		30,957,954
David A. Ebersman, <i>Chief Financial Officer</i>	2011	295,833	170,508	18,294,952		18,761,293
Mike Schroepfer, <i>Vice President of Engineering</i>	2011	270,833	140,344	24,393,295		24,804,472
Theodore W. Ullyot, <i>Vice President, General Counsel and Secretary</i>	2011	270,833	602,500 <sup>(4)</sup>	6,098,317	110,644 <sup>(5)</sup>	7,082,294

- (1) The amounts reported in the bonus column represent discretionary bonuses earned pursuant to our Bonus Plan. For more information about our executive officers' discretionary bonuses, see Compensation Discussion and Analysis Elements of Executive Compensation Cash Bonuses above.
- (2) Amounts reflect the aggregate grant date fair value of the RSUs without regards to forfeitures, computed in accordance with ASC 718. The valuation assumptions used in calculating the grant date fair value of these RSUs are set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Share-based Compensation. This amount does not reflect the actual economic value realized by the named executive officer. The RSUs issued to our executive officers during 2011 provide for quarterly vesting based on continued employment over four years with a deferred vesting start date of October 15, 2013 for Ms. Sandberg, October 15, 2014 for Mr. Ebersman, October 15, 2013 for Mr. Schroepfer, and July 15, 2014 for Mr. Ullyot.
- (3) The amount reported represent approximately \$692,679 for costs related to personal use of aircraft chartered in connection with his comprehensive security program and on which family and friends flew during 2011. For purposes of reporting the value of such personal usage in this table, we use costs provided by the applicable charter company, which include passenger fees, fuel, crew and catering costs. The amount reported also represents approximately \$90,850 for costs related to estate and financial planning during 2011.
- (4) Consists of a discretionary bonus under our Bonus Plan as described in footnote (1) above and an annual retention bonus in the amount of \$400,000. Mr. Ullyot's retention bonus is more fully described in Compensation Discussion and Analysis Elements of Executive Compensation Retention Bonus above.
- (5) Consists of relocation reimbursements, including a related gross-up for taxes, paid to Mr. Ullyot pursuant to his employment agreement in effect as of December 31, 2011. For more information about Mr. Ullyot's amended and restated employment agreement, see Employment Agreements and Offer Letters below.

**Table of Contents****2011 Grants of Plan-Based Awards Table**

The following table presents, for each of the named executive officers, information concerning each grant of an equity award made during the year ended December 31, 2011. This information supplements the information about these awards set forth in the 2011 Summary Compensation Table.

<b>Name</b>	<b>Grant Date</b>	<b>All Other Stock Awards: Number of Shares of Stock or Units (#)<sup>(1)</sup></b>	<b>Grant Date Fair Value of Stock Awards (\$)<sup>(2)(3)</sup></b>
Mark Zuckerberg			
Sheryl K. Sandberg	3/25/2011	1,199,041	30,491,613
David A. Ebersman	3/25/2011	719,424	18,294,952
Mike Schroepfer	3/25/2011	959,233	24,393,295
Theodore W. Ulyot	3/25/2011	239,808	6,098,317

(1) These awards are subject to vesting, as described in detail in 2011 Outstanding Equity Awards at Year-End Table below.

(2) Amounts reflect the grant date fair value of the RSUs without regards to forfeitures, computed in accordance with ASC 718. The valuation assumptions used in calculating the grant date fair value of these awards are set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Share-based Compensation. This amount does not reflect the actual economic value realized by the named executive officer.

(3) The RSUs issued to our executive officers during 2011 provide for quarterly vesting based on continued employment over four years with a deferred vesting start date of October 15, 2013 for Ms. Sandberg, October 15, 2014 for Mr. Ebersman, October 15, 2013 for Mr. Schroepfer, and July 15, 2014 for Mr. Ulyot.

On May 3, 2012, we granted RSUs to our named executive officers as follows: Sheryl K. Sandberg 691,085; David A. Ebersman 459,572; Mike Schroepfer 545,957; and Theodore W. Ulyot 145,128. These RSUs provide for quarterly vesting based on continued employment over four years with a deferred vesting start date of November 15, 2013 for Ms. Sandberg, November 15, 2014 for Mr. Ebersman, August 15, 2014 for Mr. Schroepfer, and November 15, 2013 for Mr. Ulyot.

**Table of Contents****2011 Outstanding Equity Awards at Year-End Table**

The following table presents, for each of the named executive officers, information regarding outstanding stock options and RSUs held as of December 31, 2011.

Name	Grant Date <sup>(1)</sup>	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$) <sup>(2)</sup>	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(3)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(4)</sup>
Mark Zuckerberg	11/8/2005	120,000,000 <sup>(5)</sup>		0.06	11/7/2015		
Sheryl K. Sandberg	8/1/2008					38,122,000 <sup>(6)</sup>	1,448,636,000
	7/23/2010		3,500,000 <sup>(7)</sup>	10.39	7/22/2020		
	10/18/2010		1,200,000 <sup>(8)</sup>	15.00 <sup>(9)</sup>	10/17/2020		
	3/25/2011					1,199,041 <sup>(10)</sup>	45,563,558
David A. Ebersman	10/26/2009	2,025,000	2,475,000 <sup>(11)</sup>	3.23	10/25/2019		
	10/26/2009					6,750,000 <sup>(12)</sup>	256,500,000
	3/25/2011					719,424 <sup>(13)</sup>	27,338,112
Mike Schroepfer	1/12/2009 <sup>(14)</sup>	1,141,160	570,585 <sup>(15)</sup>	1.85	1/11/2019		
	1/12/2009	290,307	353,048 <sup>(16)</sup>	1.85	1/11/2019		
	1/12/2009					1,497,775 <sup>(17)</sup>	56,915,450
	1/12/2009					1,176,825 <sup>(18)</sup>	44,719,350
	8/19/2009	543,750	581,250 <sup>(19)</sup>	2.95	8/18/2019		
	8/26/2009					1,125,000 <sup>(20)</sup>	42,750,000
	8/26/2010					1,385,355 <sup>(21)</sup>	52,643,490
	3/25/2011					959,233 <sup>(22)</sup>	36,450,854
Theodore W. Ulliyot	1/12/2009 <sup>(23)</sup>	1,720,331	1,184,990 <sup>(24)</sup>	1.85	1/11/2019		
	1/12/2009					3,231,780 <sup>(25)</sup>	122,807,640
	2/26/2010					311,230 <sup>(26)</sup>	11,826,740
	3/25/2011					239,808 <sup>(27)</sup>	9,112,704

(1) With the exception of the stock option granted to Mr. Zuckerberg described in footnote (5) below, which was granted under our 2005 Officers' Stock Plan, all of the outstanding equity awards described below were granted under our 2005 Stock Plan.

(2) With the exception of the stock option granted to Ms. Sandberg described in footnote (9) below, this column represents the fair value of a share of Class B common stock on the date of grant, as determined by our board of directors.

(3) RSUs granted prior to January 1, 2011 (Pre-2011 RSUs) issued to our executive officers only vest upon the satisfaction of both (i) a service-based vesting condition and (ii) a liquidity-based vesting condition. The liquidity-based vesting condition for Pre-2011 RSUs is: (a) the date that is six months after the effective date of our initial public offering; or (b) a change of control (as defined in our 2005 Stock Plan).

(4) The market price for our Class B common stock is based on the initial public offering price of \$38.00 per share.

(5) The shares subject to this option were fully vested as of November 1, 2010. In connection with our initial public offering, Mr. Zuckerberg exercised this stock option with respect to 60,000,000 shares of Class B common stock and will offer 30,200,000 of those shares as Class A common stock in our initial public offering.

(6) The service-based vesting condition was satisfied as to 57% of the total shares underlying the RSUs on April 1, 2011. Between April 1, 2011 and April 1, 2012, an additional 1.75% of the total number of shares underlying the RSUs will vest per month, subject to continued service to us through each vesting date. The service-based vesting condition will be satisfied as to all of the shares underlying the RSUs on April 1, 2013.

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- (7) 1/48th of the total number of shares subject to the option will vest on May 1, 2013 and the remaining shares subject to the option vest at a rate of 1/48th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (8) 260,000 of the total number of shares subject to the option will vest on May 1, 2013 in equal monthly installments for a period of 48 months, and, thereafter, the remaining shares subject to the option will vest in equal monthly installments for a period of 12 months, subject to continued service to us through each vesting date.



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- (9) The compensation committee set the option exercise price for this grant at \$15.00 per share, a premium to the fair market value of a share of Class B common stock on the date of grant which was determined by our compensation committee to be \$12.56 per share.
- (10) The vesting condition will be satisfied as to 1/16th of the total shares underlying the RSUs on January 15, 2014. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.
- (11) 1/5th of the total number of shares subject to the option vested on September 8, 2010 and the remaining shares subject to the option vest at a rate of 1/60th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (12) The service-based vesting condition was satisfied as to 1/5th of the total shares underlying the RSUs on September 15, 2010. The remaining shares underlying the RSUs vest at a rate of 1/60th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (13) The vesting condition will be satisfied as to 1/16th of the total shares underlying the RSUs on January 15, 2015. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares subject to the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.
- (14) In June 2011, in connection with certain estate planning, Mr. Schroepfer transferred options to purchase 400,000 shares of Class B common stock to each of two family trusts.
- (15) 1/5th of the total number of shares subject to the option vested on August 25, 2009 and the remaining shares subject to the option vest at a rate of 1/60th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (16) 1/5th of the total number of shares subject to the option vested on October 29, 2009 and the remaining shares subject to the option vest at a rate of 1/60th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (17) The service-based vesting condition was satisfied as to 1/5th of the total shares underlying the RSUs on September 1, 2009. The remaining shares underlying the RSUs vest at a rate of 1/60th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (18) The service-based vesting condition was satisfied as to 1/5th of the total shares underlying the RSUs on November 1, 2009. The remaining shares underlying the RSUs vest at a rate of 1/60th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (19) 1/5th of the total number of shares subject to the option vested on July 15, 2010 and the remaining shares subject to the option vest at a rate of 1/60th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (20) The service-based vesting condition was satisfied as to 1/5th of the total shares underlying the RSUs on July 15, 2010. The remaining shares underlying the RSUs vest at a rate of 1/60th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (21) The service-based vesting condition will be satisfied as to 1/16th of the total shares underlying the RSUs on August 15, 2014. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.
- (22) The vesting condition will be satisfied as to 1/16th of the total shares underlying the RSUs on January 15, 2014. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.
- (23) In December 2011, in connection with certain estate planning, Mr. Ulliyot transferred options to purchase 400,000 shares of Class B common stock to a family trust.
- (24) 1/5th of the total number of shares subject to the option vested on October 20, 2009 and the remaining shares subject to the option vest at a rate of 1/60th of the total number of shares subject to the option on each month thereafter, subject to continued service to us through each vesting date.
- (25) The service-based vesting condition was satisfied as to 1/5th of the total shares underlying the RSUs on November 1, 2009. The remaining shares underlying the RSUs vest at a rate of 1/60th of the total number of shares underlying the RSUs on each month thereafter, subject to continued service to us through each vesting date.
- (26) The service-based vesting condition will be satisfied as to 1/4th of the total shares underlying the RSUs on August 15, 2014. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.
- (27) The vesting condition will be satisfied as to 1/16th of the total shares underlying the RSUs on October 15, 2014. The remaining shares underlying the RSUs vest at a rate of 1/16th of the total number of shares underlying the RSUs on each quarter thereafter, subject to continued service to us through each vesting date.

**Table of Contents****2011 Option Exercises**

The following table presents, for each of the named executive officers, the number of shares of our common stock acquired upon the exercises of stock options during 2011 and the aggregate value realized upon the exercises. No RSUs vested in 2011.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>(1)</sup>
Mark Zuckerberg		
Sheryl K. Sandberg		
David A. Ebersman		
Mike Schroepfer	319,500	7,417,512
Theodore W. Ulyot	326,459	7,579,072

- (1) These options were exercised in connection with the sale by Messrs. Schroepfer and Ulyot of certain of these shares to third parties. The aggregate value realized upon the exercise of the options represents the amount by which \$25.07, which was the price per share at which Messrs. Schroepfer and Ulyot sold certain of these shares, exceeded the aggregate exercise price of the options, which was \$1.854 per share.

**Employment Agreements and Offer Letters**

We have entered into employment agreements or offer letters with each of the named executive officers. These agreements provide for at-will employment and generally include the named executive officer's initial base salary, an indication of eligibility for an annual cash incentive award opportunity, and, in some cases, arrangements with respect to the accelerated vesting of equity awards. In addition, each of our named executive officers has executed a form of our standard confidential information and invention assignment agreement. Any potential payments and benefits due upon a termination of employment or a change in control of us are further described and quantified below in Potential Payments upon Termination or Change in Control.

*Mark Zuckerberg*

We entered into an amended and restated offer letter with Mr. Zuckerberg, our founder, Chairman, and CEO, in January 2012. This offer letter agreement has no specific term and constitutes at-will employment. Mr. Zuckerberg's current annual base salary is \$500,000 and he is eligible to receive annual bonus compensation under our Bonus Plan. Effective January 1, 2013, Mr. Zuckerberg's annual base salary will be reduced to \$1.

*Sheryl K. Sandberg*

We entered into an amended and restated employment agreement with Ms. Sandberg, our Chief Operating Officer, in January 2012. The employment agreement has no specific term and constitutes at-will employment. Ms. Sandberg's current annual base salary is \$300,000, and she

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is eligible to receive annual bonus compensation under our Bonus Plan. In the event Ms. Sandberg is either involuntarily terminated without cause (other than as a result of death or disability) or is constructively terminated, in either case within one month prior to or six months following a change in control, she will be entitled to accelerated vesting of 100% of the unvested RSUs in her initial grant, subject to executing a release of claims. In addition, the employment agreement provides that in the event of a change in control where the RSUs are not assumed or substituted for an equivalent award, any unvested RSUs will vest immediately prior to the consummation of the change in control. The employment agreement also provides that if Ms. Sandberg is terminated without cause (other than as a result of death or disability), and other than in connection with a change in control, she will be entitled to accelerated vesting of the unvested RSUs in her initial grant in an amount equal to the number of RSUs that would have vested had her employment continued for the first half of the months remaining between the date of her termination and April 1, 2013, subject to executing a release of claims, and if she is terminated as a result of death or disability, she will be entitled to continued vesting of her unvested RSUs for one year.

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*David A. Ebersman*

We entered into an amended and restated offer letter with Mr. Ebersman, our Chief Financial Officer, in January 2012. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Ebersman's current annual base salary is \$300,000, and he is eligible to receive annual bonus compensation under our Bonus Plan.

*Mike Schroepfer*

We entered into an amended and restated offer letter with Mr. Schroepfer, our Vice President, Engineering, in January 2012. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Schroepfer's current annual base salary is \$275,000, and he is eligible to receive annual bonus compensation under our Bonus Plan.

*Theodore W. Ullyot*

We entered into an amended and restated employment agreement with Mr. Ullyot, our Vice President, General Counsel, and Secretary, in January 2012. The employment agreement has no specific term and constitutes at-will employment. Mr. Ullyot's current annual base salary is \$275,000, and he is eligible to receive annual bonus compensation under our Bonus Plan. In addition, the employment agreement provides that Mr. Ullyot is entitled to an annual retention bonus of \$400,000 for the first five years of his employment (Mr. Ullyot's employment commenced in October 2008). In the event that Mr. Ullyot is either involuntarily terminated without cause (other than as a result of death or disability) or is constructively terminated, in either case within one month prior to or six months following a change in control, he will be entitled to accelerated vesting of 100% of the unvested RSUs and options in his initial grants, subject to executing a release of claims. In addition, the employment agreement provides that in the event that if, in connection with a change in control, the RSUs and shares subject to options are not assumed or substituted for equivalent awards, then any unvested RSUs or shares subject to options will vest immediately prior to the consummation of the change in control. The employment agreement also provides that if Mr. Ullyot is involuntarily terminated in the fourth or fifth years of his employment either without cause (other than as a result of death or disability) or is constructively terminated, other than in connection with a change in control, he will be entitled to accelerated vesting of 50% of the remaining unvested RSUs and shares subject to options in his initial grants, subject to executing a release of claims. The employment agreement also provides that he will be entitled to a severance payment equal to one year of base salary and his annual retention bonus if he is involuntarily terminated either without cause (other than as a result of death or disability) or is constructively terminated, in connection with a change in control or otherwise, subject to executing a release of claims.

## **Potential Payments upon Termination or Change in Control**

Under the terms and conditions of their individual agreements, as described in detail above, Ms. Sandberg and Mr. Ullyot are eligible to receive certain benefits in connection with his or her termination of employment, depending on the circumstances, including following a change in control of us (such as a sale of all or substantially all of our assets or a merger involving the sale of a majority of the outstanding shares of our voting capital stock).

The actual amounts that would be paid or distributed to these named executive officers as a result of a termination event occurring in the future may be different than those presented below as many factors will affect the amount of any payments and benefits upon a termination of employment. For example, some of the factors that could affect the amounts payable include the named executive officer's base salary and the

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market price of our common stock. Although we have, in some instances, entered into written arrangements to provide benefits to the named executive officers in connection with a termination of employment under particular circumstances, we, or an acquirer, may mutually agree with the named executive officers on severance terms that vary from those provided in these pre-existing arrangements. For more information about the named executive officers' outstanding equity awards as of December 31, 2011, see 2011 Outstanding Equity Awards at Year-End Table above.

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For purposes of the tables below as to Ms. Sandberg and Mr. Ulyot, an involuntary termination generally means the termination of the executive's employment by us without cause or such individual's voluntary resignation following a material adverse change in his or her compensation, responsibility, or the location of his or her services. Cause is generally defined to include acts of material dishonesty or gross negligence, failures to comply with our policies or agreements, or any conviction of a felony or crime of moral turpitude.

*Sheryl K. Sandberg*

The table below summarizes the value of the vesting acceleration to which Ms. Sandberg would be entitled, assuming a qualifying termination as of December 31, 2011.

Benefit	No Change in Control <sup>(3)</sup> Involuntary Termination	Change in Control <sup>(4)</sup>	
		No Termination	Involuntary Termination
Vesting Acceleration <sup>(1)(2)</sup>	\$ 207,618,472	\$ 420,104,440	\$ 420,104,440

(1) Calculated based on the initial public offering price of \$38.00 per share.

(2) As of December 31, 2011, the service-based vesting condition on 8,258,748 shares underlying Ms. Sandberg's initial RSUs would be accelerated if she was terminated as a result of her death or disability, which is the number of initial RSUs that would have vested if Ms. Sandberg had remained employed for an additional twelve months from the date of her death or disability. The value of this vesting acceleration was \$313,832,424 as of December 31, 2011 when calculated as described in footnote (1) above.

(3) As of December 31, 2011, the service-based vesting condition on 5,463,644 shares underlying Ms. Sandberg's initial RSUs would be accelerated if she was terminated without cause, other than as a result of her death or disability, which is the number of initial RSUs that would have vested if Ms. Sandberg had remained employed for the first half of the months remaining between the date of termination and April 1, 2013.

(4) As of December 31, 2011, 11,055,380 shares underlying Ms. Sandberg's initial RSUs would be accelerated if she was either involuntarily terminated, other than as a result of her death or disability, within one month prior to or within six months following a change in control, or her initial RSUs were not assumed or substituted for an equivalent award, such that 100% of the shares underlying Ms. Sandberg's initial RSUs would be vested.

*Theodore W. Ulyot*

The table below summarizes the value of vesting acceleration and severance payments to which Mr. Ulyot would be entitled, assuming a qualifying termination as of December 31, 2011.

Benefit	No Change in Control <sup>(2)</sup> Involuntary Termination	Change in Control <sup>(3)</sup>	
		No Termination	Involuntary Termination
Severance	\$ 675,000	\$	\$ 675,000
Vesting Acceleration <sup>(1)</sup>	44,956,844	89,913,689	89,913,689
Total Value	\$ 45,631,844	\$ 89,913,689	\$ 90,588,689

(1) Calculated based on the initial public offering price of \$38.00 per share.

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- (2) As of December 31, 2011, 592,495 shares subject to Mr. Ullyot's initial option and the service-based vesting condition on 619,425 shares underlying Mr. Ullyot's initial RSUs would be accelerated if he was involuntarily terminated, other than as a result of his death or disability, which is 50% of the remaining unvested shares underlying Mr. Ullyot's initial option and RSUs. In addition, Mr. Ullyot would be entitled to severance equal to his base salary of \$275,000 and his retention bonus of \$400,000.
- (3) As of December 31, 2011, 1,184,990 shares subject to Mr. Ullyot's initial option and 1,238,850 shares underlying Mr. Ullyot's initial RSUs would be accelerated if he was involuntarily terminated, other than as a result of his death or disability, within one month prior to or within six months following a change in control, or if his initial option and RSUs were not assumed or substituted for an equivalent award, such that 100% of the shares underlying Mr. Ullyot's initial option and RSUs would be vested.

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### **Employee Benefit Plans**

#### ***2005 Stock Plan***

Our board of directors adopted our 2005 Stock Plan on January 7, 2005, which our stockholders approved on January 14, 2005. Our 2005 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees or any parent or subsidiary's employees, and for the grant of nonstatutory stock options to our employees, directors, and consultants and any parent, subsidiary, or affiliate corporations' employees and consultants. Stock purchase rights and restricted stock units may also be granted under the 2005 Stock Plan. We will cease issuing awards under the 2005 Stock Plan upon the implementation of the 2012 Equity Incentive Plan, which is described below. Likewise, we will not grant any additional awards under our 2005 Stock Plan following our initial public offering. Instead, we will grant equity awards under our 2012 Equity Incentive Plan.

*Share Reserve.* As of March 31, 2012, we had reserved 971,314,985 shares of our Class B common stock for issuance under our 2005 Stock Plan. As of March 31, 2012, options to purchase 441,023,978 of these shares had been exercised, options to purchase 116,756,442 of these shares remained outstanding and 52,466,293 of these shares remained available for future grant. The options outstanding as of March 31, 2012 had a weighted average exercise price of \$0.94 per share. In addition, as of March 31, 2012, we had 378,429,048 RSUs outstanding under the 2005 Stock Plan. However, any outstanding awards granted under the 2005 Stock Plan will remain outstanding, subject to the terms of our 2005 Stock Plan and applicable award agreements, until they are exercised or settled or until they terminate or expire by their terms. Shares of Class B common stock available for issuance pursuant to the 2005 Stock Plan will be rolled into our 2012 Equity Incentive Plan on the date of this prospectus as further described below.

*Administration.* Our compensation committee currently administers our 2005 Stock Plan. Our compensation committee has complete discretion to make all decisions implementing the 2005 Stock Plan, including the power to (1) determine who will receive the awards, (2) determine the fair market value of the Class B common stock, (3) interpret the terms of the 2005 Stock Plan and the awards thereunder, and (4) specify the terms and conditions of such awards, such as the exercise price, the number of shares subject to each award, the vesting schedule and exercisability of awards and the form of consideration payable upon exercise.

*Stock Options.* The exercise price of incentive stock options must be at least equal to the fair market value of our Class B common stock on the date of grant and the term of the incentive stock options may not exceed ten years. With respect to incentive stock options granted to any employee who owns 10% or more of the voting power of all classes of our outstanding stock as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date.

When an employee ceases to provide continuous services to us (or any parent, subsidiary, or affiliate), he or she may exercise his or her incentive stock option for the period of time stated in the incentive stock option agreement, to the extent his or her incentive stock option is vested on the date of termination. Subject to the requirements of all applicable laws, rules or regulations, each nonstatutory stock option agreement shall contain provisions relating to early termination of the nonstatutory stock option based upon termination of the holder's service to us as determined by our compensation committee. In the event of a termination of a service provider for cause, all options held by such service provider will immediately terminate. In addition, any vested shares that were acquired upon the exercise of a stock option may be repurchased by us. A stock option may never be exercised later than the expiration of its term.

*Stock Purchase Rights.* The compensation committee may offer rights to purchase shares of our Class B common stock under the 2005 Stock Plan and, to the extent permitted by applicable law, shall determine the purchase price of the shares subject to each stock purchase right. The



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offer to purchase shares underlying this stock purchase right shall be accepted by the offeree's execution of a restricted stock purchase agreement, in the form prescribed by the compensation committee. This restricted stock purchase agreement may subject the

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acquired shares to a repurchase option, which we could exercise upon the voluntary or involuntary termination of the purchaser's services for any reason. In addition, in the event of a termination of a service provider for cause, vested stock purchased to a stock purchase right may also be repurchased by us.

*Restricted Stock Units.* Our 2005 Stock Plan also permits the issuance of RSUs, to our service providers. RSUs granted under our 2005 Stock Plan represent the right to receive shares of our Class B common stock or cash payment at a specified future date and may be subject to vesting requirements.

*Transferability.* Incentive stock options may not be transferred, except by will or by the laws of descent or distribution. However, the compensation committee may, in its sole discretion, grant nonstatutory stock options or RSUs that may be transferred in the event of death or disability, or to immediate family members.

*Effect of Certain Corporate Transactions.* In the event we experience a sale of all or substantially all of our assets, a merger or certain other corporate transactions including a change in control, all awards granted under the 2005 Stock Plan shall be subject to the agreement evidencing such merger or consolidation and such agreement shall provide for one or more of the following:

the continuation or assumption of such outstanding awards by the surviving corporation or its parent;

the substitution by the surviving corporation or its parent of equivalent awards for such outstanding awards; or

termination of the outstanding awards upon consummation of the corporate transaction.

The 2005 Stock Plan provides for proportional adjustment of awards in the event of a stock split, stock dividend and certain other similar corporate events.

*Payment.* The compensation committee may permit any of the following methods of payments for the exercise of options:

cash or cash equivalents;

a promissory note having such recourse, interest, redemption and security provisions as determined by the compensation committee;

shares of Class B common stock that the optionee already owns;

cancellation of indebtedness; or

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an immediate sale of the option shares through a broker designated by us in a cashless exercise, provided that such a program is adopted by our compensation committee.

*Additional Provisions.* Our compensation committee has the authority to amend, suspend or terminate the 2005 Stock Plan, provided that no amendment may materially or adversely affect awards already granted without the written consent of the holder of the affected award. Our stockholders approve actions that require stockholder approval under applicable law and approve any increase in the number of shares reserved for issuance under the 2005 Stock Plan.

### *2005 Officers' Stock Plan*

On November 8, 2005, our board of directors adopted the 2005 Officers' Stock Plan (Officers' Plan). The Officers' Plan permits the issuance of shares of our Class B common stock or options to purchase such shares to certain of our employees and officers. The total number of shares of our Class B common stock that may be sold under the Officers' Plan is 120,000,000. All shares under this plan are subject to an outstanding award held by our founder, Chairman, and CEO. We will not grant any additional awards under the Officers' Plan following our initial public offering.

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Our board of directors, or a committee designated by the board, determines who will receive grants under this Officers' Plan and the terms and conditions of such grants. The rights or options to purchase shares under the Officers' Plan shall be nontransferable, other than by will or by the laws of descent or distribution. Pursuant to the terms of the Officers' Plan, and if required by applicable law, we must provide annual financial statements to each grantee, unless such grantee has access to equivalent information through other means. Shares issued pursuant to this Officers' Plan are subject to our right of repurchase.

### ***2012 Equity Incentive Plan***

Our board of directors and stockholders adopted our 2012 Equity Incentive Plan, effective as of the date of this prospectus and will serve as the successor to our 2005 Stock Plan.

*Share Reserve.* We have reserved 25,000,000 shares of our Class A common stock for issuance under our 2012 Equity Incentive Plan plus an additional number of shares of Class A common stock equal to any shares reserved but not issued or subject to outstanding awards under our 2005 Stock Plan on the date of this prospectus, plus, on and after the date of this prospectus, (i) shares that are subject to outstanding awards under the 2005 Stock Plan which cease to be subject to such awards, (ii) shares issued under the 2005 Stock Plan which are forfeited or repurchased at their original issue price, and (iii) shares subject to awards under the 2005 Stock Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award, including Pre-2011 RSUs and Post-2011 RSUs. The number of shares reserved for issuance under our 2012 Equity Incentive Plan will increase automatically on the first day of January of each of 2013 through 2022 by a number of shares of Class A common stock equal to (i) the lesser of 2.5% of the total outstanding shares our common stock as of the immediately preceding December 31st or (ii) a number of shares determined by the board of directors. In addition, the following shares of our Class A common stock will again be available for grant or issuance under our 2012 Equity Incentive Plan:

shares subject to options granted under our 2012 Equity Incentive Plan that cease to be subject to the option for any reason other than exercise of the option;

shares subject to awards granted under our 2012 Equity Incentive Plan that are subsequently forfeited or repurchased by us at the original issue price;

shares subject to awards granted under our 2012 Equity Incentive Plan that otherwise terminate without shares being issued; and

shares surrendered, cancelled, or exchanged for cash.

*Term.* Our 2012 Equity Incentive Plan will terminate ten years from the date our board of directors approved the plan, unless it is terminated earlier by our board of directors.

*Eligibility.* Our 2012 Equity Incentive Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, restricted stock units, performance shares and stock bonuses. No person will be eligible to receive more than 2,500,000 shares in any calendar year under our 2012 Equity Incentive Plan other than a new employee of ours, who will be eligible to receive no more than 5,000,000 shares under the plan in the calendar year in which the employee commences employment.

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*Administration.* Our 2012 Equity Incentive Plan is administered by our compensation committee, all of the members of which are non-employee directors under applicable federal securities laws and outside directors as defined under applicable federal tax laws. The compensation committee has the authority to construe and interpret our 2012 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan. Awards under the 2012 Equity Incentive Plan may be made subject to performance factors and other terms in order to qualify as performance based compensation for the purposes of 162(m) of the Code.

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*Stock Options.* Our 2012 Equity Incentive Plan provides for the grant of incentive stock options that qualify under Section 422 of the Code only to our employees. All awards other than incentive stock options may be granted to our employees, directors, consultants, independent contractors and advisors, provided the consultants, independent contractors and advisors render services not in connection with the offer and sale of securities in a capital-raising transaction. The exercise price of each stock option must be at least equal to the fair market value of our Class A common stock on the date of grant. The exercise price of incentive stock options granted to 10% stockholders must be at least equal to 110% of that value.

Our compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any shares issued on exercise being subject to our right of repurchase that lapses as the shares vest. In general, options will vest over a four-year period. The maximum term of options granted under our 2012 Equity Incentive Plan is ten years.

*Restricted Stock.* A restricted stock award is an offer by us to sell shares of our Class A common stock subject to restrictions. The price (if any) of a restricted stock award will be determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to us and unvested shares will be forfeited to or repurchased by us.

*Stock Appreciation Rights.* Stock appreciation rights provide for a payment, or payments, in cash or shares of our Class A common stock, to the holder based upon the difference between the fair market value of our Class A common stock on the date of exercise and the stated exercise price up to a maximum amount of cash or number of shares. Stock appreciation rights may vest based on time or achievement of performance conditions.

*Restricted Stock Units.* An RSU is an award that covers a number of shares of our Class A common stock that may be settled upon vesting in cash, by the issuance of the underlying shares or a combination of both. These awards are subject to forfeiture prior to settlement because of termination of employment or failure to achieve certain performance conditions.

*Performance Shares.* A performance share is an award that covers a number of shares of our Class A common stock that may be settled upon achievement of the pre-established performance conditions in cash or by issuance of the underlying shares. These awards are subject to forfeiture prior to settlement because of termination of employment or failure to achieve the performance conditions.

*Stock Bonus Awards.* Stock bonus awards may be granted as additional compensation for services or performance, and therefore, may not be issued in exchange for cash.

*Additional Provisions.* Awards granted under our 2012 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or as determined by our compensation committee. Unless otherwise restricted by our compensation committee, awards that are nonstatutory stock options may be exercised during the lifetime of the optionee only by the optionee, the optionee's guardian or legal representative, or a family member of the optionee who has acquired the option by a permitted transfer. Awards that are incentive stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative. Options granted under our 2012 Equity Incentive Plan generally may be exercised for a period of three months after the termination of the optionee's service to us, except in the case of death or permanent disability, in which case the options may be exercised for up to 12 months or six months, respectively, following termination of the optionee's service to us.

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If we experience a change in control transaction, outstanding awards, including any vesting provisions, may be assumed or substituted by the successor company. Outstanding awards that are not assumed or substituted will be exercisable for a period of time and will expire upon the closing of a change in control transaction. In the discretion of our compensation committee, the vesting of these awards may be accelerated upon the occurrence of these types of transactions.

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### **Limitations on Liability and Indemnification Matters**

Our restated certificate of incorporation that will be in effect at the closing of our initial public offering contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by the Delaware General Corporation Law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

any breach of the director's duty of loyalty to us or our stockholders;

any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or

any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation and restated bylaws that will be in effect at the closing of our initial public offering require us to indemnify our directors, executive officers and other key employees to the maximum extent not prohibited by the Delaware General Corporation Law or any other applicable law and allow us to indemnify other officers, employees and other agents as set forth in the Delaware General Corporation Law or any other applicable law.

We have entered, and intend to continue to enter, into separate indemnification agreements with our directors, executive officers and other key employees, in addition to the indemnification provided for in our restated bylaws. These agreements, among other things, require us to indemnify our directors, executive officers and other key employees for certain expenses, including attorneys' fees, judgments, penalties, fines and settlement amounts actually and reasonably incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request, including liability arising out of negligence or active or passive wrongdoing by the officer or director. We believe that these charter provisions and indemnification agreements are necessary to attract and retain qualified persons such as directors, officers and key employees. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our restated certificate of incorporation and restated bylaws may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.



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Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (Securities Act), may be permitted to directors, executive officers or persons controlling us, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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**RELATED PARTY TRANSACTIONS**

In addition to the executive officer and director compensation arrangements discussed in Executive Compensation, below we describe transactions since January 1, 2009, to which we have been a participant, in which the amount involved in the transaction exceeds or will exceed \$120,000 and in which any of our directors, executive officers or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

**Amended and Restated Investors' Rights Agreement**

We have entered into an investors' rights agreement with certain holders of our convertible preferred stock and common stock, including entities affiliated with Mr. Andreessen, Mr. Thiel, Mr. Breyer and Accel Partners, and DST Global Limited. Certain holders of shares of our Class A common stock and Class B common stock are entitled to rights with respect to the registration of their shares following our initial public offering under the Securities Act. For a description of these registration rights, see Description of Capital Stock Registration Rights.

**Series E Preferred Stock Financing**

In May 2009, we sold an aggregate of 44,037,540 shares (after giving effect to a 5-for-1 stock split effected in October 2010) of our Series E preferred stock to Mail.ru Group Limited (f/k/a Digital Sky Technologies Limited), at a purchase price per share of \$4.54 (after giving effect to a 5-for-1 stock split effected in October 2010), for an aggregate purchase price of approximately \$200 million. Following this sale, and the purchase of additional shares from our existing stockholders, Mail.ru Group Limited and its affiliates beneficially owned more than 5% of our outstanding capital stock. We have no ongoing obligations under the Series E preferred stock purchase agreement.

**Conversion Agreement**

In connection with their purchase of shares from certain existing stockholders in February 2010, Mail.ru Group Limited and DST Global Limited and their respective affiliates entered into a conversion agreement with us because we and the other parties had agreed such parties' aggregate voting power would be maintained at less than 10% of our total outstanding voting power. The conversion agreement contains the following provisions:

***Lock-up***

Pursuant to this agreement, Mail.ru Group Limited and DST Global Limited and their respective affiliates have agreed not to sell shares of our capital stock, other than any shares they may sell in our initial public offering, for certain periods of time following the date of this prospectus. As to shares held by them as of the date of this prospectus, this agreement was amended in April 2012 to provide that the transfer restrictions will expire as to 75,052,757 of the shares 91 days after the date of this prospectus, and that the remainder of the shares held by Mail.ru Group Limited and DST Global Limited and their respective affiliates will be freely tradable 366 days after the date of this prospectus.

*Automatic Conversion of Shares upon the Occurrence of Certain Events*

In addition, Mail.ru Group Limited and DST Global Limited have agreed, pursuant to the conversion agreement, that if either of their respective voting agreements with Mr. Zuckerberg is terminated because of his death or his failure to be actively engaged in our management, that they and their respective affiliates shall automatically convert their Class B common stock to Class A common stock pursuant to the optional conversion provision of our restated certificate of incorporation. For information regarding Mr. Zuckerberg's voting agreements, see Description of Capital Stock Voting Agreements.

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Mail.ru Group Limited, which was affiliated with DST Global Limited on the date the parties entered into the conversion agreement, underwent a corporate restructuring in November 2010 in connection with its initial public offering on the London Stock Exchange. Following the corporate restructuring, Mail.ru Group Limited was no longer affiliated with DST Global Limited and its affiliates DST Global II, L.P., DST Global III, L.P., DST USA Limited, and DST USA II Limited. Mail.ru Group Limited no longer beneficially owns more than 5% of our outstanding capital stock. For additional information regarding beneficial ownership of our capital stock as of March 31, 2012, see Principal and Selling Stockholders.

## **Class B Common Stock Restriction Agreement**

In 2004 and 2005, Mr. Zuckerberg's father provided us with initial working capital. In consideration for this assistance, we issued him an option to purchase 2,000,000 shares, as adjusted for splits and reclassifications, of our Class B common stock. The option initially expired by its terms one year following the date of grant without having been exercised. Our board of directors (without Mr. Zuckerberg) determined that the option did not reflect the intent of the parties with respect to the equity to be issued to him in consideration of the financial assistance and a release from potential related claims. Accordingly, in December 2009, we issued an aggregate of 2,000,000 shares of our Class B common stock to Glate LLC, an entity owned by Mr. Zuckerberg's father. We have no ongoing obligations under this agreement.

## **Right of First Refusal**

Pursuant to our bylaws and certain agreements with our stockholders, we or our assignees have the right to purchase shares of our capital stock, including shares of Class B common stock issued under our 2005 Stock Plan, which these stockholders propose to sell to other parties. These rights are customary for venture capital-backed companies in our industry and will terminate upon the completion of our initial public offering. In 2009 and 2010, in connection with proposed sales by certain stockholders, we assigned our right to purchase 28,403,845 shares of our Class B common stock to certain entities affiliated with Mail.ru Group Limited and DST Global Limited. Mail.ru Group Limited and DST Global Limited purchased 27,182,595 shares of our Class B common stock in connection with such assignments. For additional information regarding beneficial ownership of our capital stock as of March 31, 2012, see Principal and Selling Stockholders.

## **Class A Common Stock Financing**

In December 2010, we sold an aggregate of 2,398,081 shares of our Class A common stock to DST Global Limited at a purchase price per share of \$20.85, for an aggregate purchase price of approximately \$50 million.

## **Equity Awards, Employment Agreements and Offer Letters**

We have granted stock options or RSUs to our executive officers and our directors. For a description of these equity awards, see Executive Compensation 2011 Outstanding Equity Awards at Year-End Table and Management Director Compensation.

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We have entered into employment agreements or offer letters with each of our named executive officers. For more information regarding these agreements, see [Executive Compensation](#) [Employment Agreements and Offer Letters](#).

### **Employment Arrangements With Immediate Family Members of Our Executive Officers and Directors**

Molly Graham, the daughter of Donald E. Graham, a member of our board of directors, is employed by us. During 2009, 2010, and 2011, Ms. Graham had total cash compensation, including base salary, bonus and other compensation, of \$98,058, \$133,620, and \$189,168.

Randi Zuckerberg, the sister of Mark Zuckerberg, our founder, Chairman, and CEO, was employed by us until August 2011. During 2009, 2010, and 2011, Ms. Zuckerberg had total cash compensation, including base salary, bonus and other compensation, of \$128,750, \$139,578, and \$89,536.

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The compensation levels of Mmes. Graham and Zuckerberg were based on reference to external market practice of similar positions or internal pay equity when compared to the compensation paid to employees in similar positions that were not related to our executive officers and directors. They were also eligible for equity awards on the same general terms and conditions as applicable to other employees in similar positions who were not related to our executive officers and directors.

## **Indemnification Agreements**

We have entered into indemnification agreements with each of our directors, executive officers and other key employees. The indemnification agreements and our amended and restated bylaws will require us to indemnify our directors to the fullest extent permitted by Delaware law. For more information regarding these agreements, see [Executive Compensation](#) [Limitations on Liability and Indemnification Matters](#).

## **Commercial Agreements**

During 2009, 2010, 2011, and the first quarter of 2012, The Washington Post Company and its related companies purchased \$0.6 million, \$4.8 million, \$4.2 million, and \$0.8 million, respectively, of advertisements on our website. Mr. Graham, a member of our board of directors, is the Chief Executive Officer of The Washington Post Company. The purchases by The Washington Post Company and its related entities were made in the ordinary course of business pursuant to our standard online terms and conditions and were all made through our self-service ad system. In addition, Social Code LLC, a wholly-owned subsidiary of The Washington Post Company, is an advertising agency that has clients that do business with us.

During 2009, 2010, 2011, and the first quarter of 2012, Netflix purchased \$1.9 million, \$1.6 million, \$3.8 million, and \$1.2 million, respectively, of advertisements on our website. Mr. Hastings, a member of our board of directors, is the Chief Executive Officer of Netflix. The purchases by Netflix were made in the ordinary course of business pursuant to our standard terms and conditions.

During 2010 and 2011, we made payments to GMG Lifestyle Entertainment Inc. (GMG) of \$0.9 million and \$0.7 million, respectively, for certain sales and marketing services. Rob Goldberg, the founder and Chief Executive Officer of GMG, is the brother-in-law of Ms. Sandberg, our Chief Operating Officer. The GMG relationship was entered into in the ordinary course of business pursuant to a negotiated agreement after we evaluated other commercial alternatives and concluded that GMG was the most suitable alternative. Ms. Sandberg did not participate in the decision to negotiate with GMG or in the negotiations themselves. GMG was acquired by The Topps Company in July 2011.

## **Review, Approval or Ratification of Transactions with Related Parties**

We have adopted a related-party transactions policy under which our executive officers, directors, nominees for election as a director, beneficial owners of more than 5% of any class of our common stock, and any members of the immediate family of any of the foregoing persons are not permitted to enter into a related-party transaction with us without the consent of our audit committee. If the related party is, or is associated with, a member of our audit committee, the transaction must be reviewed and approved by another independent body of our board of directors, such as our governance committee. Any request for us to enter into a transaction with a related party in which the amount involved exceeds \$120,000 and such party would have a direct or indirect interest must first be presented to our audit committee for review, consideration and approval. If advance approval of a related-party transaction was not feasible or was not obtained, the related-party transaction must be submitted to the audit committee as soon as reasonably practicable, at which time the audit committee shall consider whether to ratify and continue, amend and ratify,

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or terminate or rescind such related-party transaction. All of the transactions described above were reviewed and considered by, and were entered into with the approval of, or ratification by, our board of directors or the audit committee.

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**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 31, 2012, and as adjusted to reflect the sale of Class A common stock offered by us and the selling stockholders in our initial public offering, for:

each stockholder known by us to be the beneficial owner of more than 5% of our outstanding shares of Class A common stock or Class B common stock;

each of our directors;

each of our named executive officers;

all of our directors and executive officers as a group; and

all selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of Class A common stock or Class B common stock that they beneficially own, subject to applicable community property laws. Unless otherwise indicated in the footnotes below, based on the information provided to us by or on behalf of the selling stockholders, no selling stockholder is a broker-dealer or an affiliate of a broker-dealer.

Applicable percentage ownership is based on 117,549,393 shares of Class A common stock and 1,780,535,644 shares of Class B common stock outstanding at March 31, 2012, assuming conversion of all outstanding shares of preferred stock in to an aggregate of 545,401,443 shares of our Class B common stock. For purposes of computing percentage ownership after our initial public offering, we have also assumed that 180,000,000 shares of Class A common stock will be issued by us in our initial public offering, that 60,000,000 shares of Class B common stock will be issued by us in connection with the partial exercise of an outstanding stock option by Mark Zuckerberg, our founder, Chairman, and CEO, that certain of our existing stockholders will convert an aggregate of 154,304,257 shares of our Class B common stock into an equivalent number of shares of our Class A common stock in connection with our initial public offering, and that the underwriters will not exercise their right to purchase 63,185,042 additional shares to cover over-allotments. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options, RSUs or other convertible securities held by that person or entity that are currently exercisable or releasable or that will become exercisable or releasable within 60 days of March 31, 2012. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Facebook, Inc., 1601 Willow Road, Menlo Park, California 94025.



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Name of Beneficial Owner	Shares Beneficially Owned Prior to this Offering		% of Total Voting Power Before Our Initial Public Offering <sup>(2)</sup>		Number of Shares Being Offered	Shares Beneficially Owned After this Offering		% of Total Voting Power After Our Initial Public Offering <sup>(2)</sup>			
	Class A	Class B				Class A	Class B				
Shares	%	Shares <sup>(1)</sup>	%	Offering <sup>(2)</sup>	Offered	Shares <sup>(1)</sup>	%	Shares <sup>(1)</sup>	%		
<b>Named Executive Officers and Directors:</b>											
Mark Zuckerberg <sup>(3)</sup>			533,801,850	28.1	27.9	30,200,000 <sup>(4)</sup>		503,601,850	32.2	30.9	
Shares subject to voting proxy <sup>(5)</sup>	42,395,203	36.1	541,994,071	30.4	30.5	91,447,887	7,125,242	1.1	432,682,785	28.8	27.6
Total <sup>(3)(5)</sup>	42,395,203	36.1	1,075,795,921	56.6	56.5	121,647,887	7,125,242	1.1	936,284,635	59.8	57.6
Sheryl K. Sandberg <sup>(6)</sup>			1,899,986	*	*				1,899,986	*	*
David A. Ebersman <sup>(7)</sup>			2,399,999	*	*				2,399,999	*	*
Mike Schroepfer <sup>(8)</sup>			2,291,849	*	*				2,291,849	*	*
Theodore W. Ulyyot <sup>(9)</sup>			2,025,244	*	*				2,025,244	*	*
Marc L. Andreessen <sup>(10)</sup>			6,607,131	*	*				6,607,131	*	*
Erskine B. Bowles <sup>(11)</sup>											
James W. Breyer <sup>(12)</sup>			201,378,349	11.3	11.2	57,726,901 <sup>(13)</sup>	135,722,356	21.4	7,929,092	*	1.4
Donald E. Graham <sup>(14)</sup>											
Reed Hastings <sup>(15)</sup>											
Peter A. Thiel <sup>(16)</sup>			44,724,100	2.5	2.5	16,844,315 <sup>(17)</sup>	18,581,901	2.9	9,297,884	*	*
All executive officers and directors as a group (12 persons) <sup>(18)</sup>	42,395,203	36.1	1,326,579,470	69.6	69.4	193,716,970	161,429,499	25.5	960,694,844	61.1	59.8
<b>Other 5% Stockholders:</b>											
Entities affiliated with Accel Partners <sup>(12)</sup>			201,378,349	11.3	11.2	57,726,901 <sup>(13)</sup>	135,722,356	21.4	7,929,092	*	1.4
Entities affiliated with DST Global Limited <sup>(19)</sup>	36,711,928	31.2	94,567,945	5.3	5.5	45,662,565 <sup>(20)</sup>	5,016,794	*	80,600,514	5.4	5.2
Dustin Moskovitz <sup>(21)</sup>			133,698,645	7.5	7.5				133,698,645	8.9	8.5
Entities affiliated with Goldman Sachs <sup>(22)</sup>	65,947,241	56.1			*	24,324,886 <sup>(23)</sup>	41,622,355	6.6			*
T. Rowe Price Associates, Inc. <sup>(24)</sup>	6,033,630	5.1	12,158,743	*	*		6,033,630	1.0	12,158,743	*	*
<b>Other Selling Stockholders:</b>											
Entities affiliated with Elevation Partners <sup>(25)</sup>			40,109,645	2.3	2.2	4,622,496 <sup>(26)</sup>			35,487,149	2.4	2.3
Entities affiliated with Greylock Partners <sup>(27)</sup>			36,656,372	2.1	2.0	7,607,352 <sup>(28)</sup>			29,049,020	1.9	1.9
Mail.ru Group Limited <sup>(29)</sup>	1,325,775	1.1	55,026,235	3.1	3.1	19,600,699			36,751,311	2.4	2.3
Mark Pincus <sup>(30)</sup>			5,313,920	*	*	1,009,283 <sup>(31)</sup>			4,304,637	*	*
Entities affiliated with Meritech Capital Partners <sup>(32)</sup>			40,355,223	2.3	2.3	6,998,780 <sup>(33)</sup>			33,356,443	2.2	2.1
Microsoft Corporation <sup>(34)</sup>			32,784,626	1.8	1.8	6,556,925			26,227,701	1.7	1.7
Entities Affiliated with Reid Hoffman <sup>(35)</sup>			4,713,920	*	*	942,784 <sup>(36)</sup>			3,771,136	*	*
Sean Parker <sup>(37)</sup>			69,653,657	3.9	3.9				69,653,657	4.6	4.4
Entities affiliated with Tiger Global Management <sup>(38)</sup>	4,207,500	3.6	49,630,486	2.8	2.8	19,059,994 <sup>(39)</sup>	1,958,448	*	32,819,544	2.2	2.1
Valiant Capital Opportunities, LLC <sup>(40)</sup>			36,335,590	2.0	2.0				36,335,590	2.4	2.3
All other selling stockholders <sup>(41)</sup>			352,522	*	*	76,635 <sup>(42)</sup>			275,887	*	*

\* Less than 1%.

(1) There are currently no RSUs which will become releasable within 60 days of March 31, 2012 to the benefit of the individuals and entities listed in the table above.

(2) Percentage of total voting power represents voting power with respect to all shares of our Class A and Class B common stock, as a single class. The holders of our Class B common stock are entitled to ten votes per share, and holders of our Class A common stock are entitled to one vote per share. For more information about the voting rights of our Class A and Class B common stock, see Description of Capital Stock Common Stock.

(3)

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

Consists of (i) 632,765 shares of Class B common stock held of record by Mr. Zuckerberg; (ii) 3,416,823 shares of Class B common stock held of record by Mark Zuckerberg, Trustee of The Mark Zuckerberg 2008 Annuity Trust dated March 13, 2008; (iii) 409,752,262 shares of Class B

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- common stock held of record by Mark Zuckerberg, Trustee of The Mark Zuckerberg Trust dated July 7, 2006; and (iv) 120,000,000 shares of Class B common stock issuable upon exercise of an option that is exercisable within 60 days of March 31, 2012, which will be partially exercised by Mr. Zuckerberg as described in footnote (4) below.
- (4) Mark Zuckerberg, our founder, Chairman, and CEO, will offer and sell 30,200,000 shares in our initial public offering. The substantial majority of the net proceeds Mr. Zuckerberg will receive upon such sale will be used to satisfy taxes that he will incur upon the receipt of 60,000,000 shares of our Class B common stock as a result of the partial exercise of an outstanding stock option to purchase 120,000,000 shares of our Class B common stock.
  - (5) Consists of shares of our Class A and Class B common stock held by other stockholders over which, except under limited circumstances, Mr. Zuckerberg holds an irrevocable proxy, pursuant to voting agreements between Mr. Zuckerberg, us and such stockholders, including certain of our directors and holders of more than 5% of our capital stock with respect to certain matters, as indicated in the footnotes below. We do not believe that the parties to these voting agreements constitute a group under Section 13 of the Securities Exchange Act of 1934, as amended, as Mr. Zuckerberg exercises voting control over these shares. The shares to be sold in our initial public offering that are currently subject to a voting agreement in favor of Mr. Zuckerberg will no longer be subject to the voting agreement following our initial public offering. For more information about the voting agreements, see Description of Capital Stock Voting Agreements.
  - (6) Consists of 1,899,986 shares of Class B common stock held of record by Sheryl K. Sandberg, Trustee of the Sheryl K. Sandberg 2008 Annuity Trust dated April 15, 2008. Ms. Sandberg also holds 39,321,041 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (7) Consists of 2,399,999 shares of Class B common stock issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Ebersman also holds 7,469,424 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (8) Consists of 2,291,849 shares of Class B common stock issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Schroepfer also holds 6,144,188 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (9) Consists of (i) 35,600 shares of Class B common stock held of record by Mr. Ulyot; and (ii) 1,989,644 shares of Class B common stock issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Ulyot also holds 3,782,818 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (10) Consists of 3,571,431 shares of Class B common stock held of record by Andreessen Horowitz Fund II, L.P., as nominee (AH Fund), and 3,035,700 shares of Class B common stock held of record by FBAH, L.P. (FBAH). Does not include up to 1,783,084 shares of our common stock issuable to Andreessen Horowitz Fund I, L.P. upon the closing of our acquisition of Instagram, Inc., including 178,308 shares to be held in escrow. AH Equity Partners II, L.L.C. (AHEP) is the general partner of AH Fund and has sole voting and investment power over the securities held by AH Fund and FBAH. Mr. Andreessen is one of the Managing Members of AHEP, and, therefore, may be deemed to share voting and investment power over the securities held in AH Fund and FBAH. The address of AHEP, AH Fund, and FBAH is 2865 Sand Hill Road, Suite 101, Menlo Park, California 94025. Mr. Andreessen also holds 5,247,490 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (11) Mr. Bowles holds 20,000 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (12) Consists of (i) 11,703,132 shares of Class B common stock held of record by James W. Breyer, Trustee of James W. Breyer 2005 Trust dated March 25, 2005 (Breyer 2005 Trust); (ii) 149,527,730 shares of Class B common stock held of record by Accel IX L.P. (Accel IX); (iii) 15,931,653 shares of Class B common stock held of record by Accel IX Strategic Partners L.P. (Accel SP); (iv) 13,939,214 shares of Class B common stock held of record by Accel Growth Fund L.P. (Accel Growth); (v) 9,949,820 shares of Class B common stock held of record by Accel Growth Fund Strategic Partners L.P. (Accel Growth SP); and (vi) 132,570 shares of Class B common stock held of record by Accel Growth Fund Investors 2009 L.L.C. (Accel Growth 2009). We have received notices of conversion from the holders of record, which provide that in connection with our initial public offering 11,548,527 of the shares of our Class B common stock held of record by the Breyer 2005 Trust, 149,527,730 of the shares of our Class B common stock held of record by Accel IX, 15,931,653 of the shares of our Class B common stock held of record by Accel SP, and 13,939,214 of the shares of our Class B common stock held of record by Accel 2005 will be converted into an equivalent number of shares of our Class A common stock to the extent such shares are not sold in our initial public offering. Accel IX Associates L.L.C. (A9A) is the general partner of Accel IX and Accel SP and has sole voting and investment power over the shares held by these limited partnerships. Accel Growth Fund Associates L.L.C. (AGFA) is the general partner of Accel Growth and Accel Growth SP and has sole voting and investment power over the shares held by these limited partnerships. Mr. Breyer is one of the managing members of A9A, AGFA, Accel 2005, and Accel Growth 2009, and, therefore, may be deemed to share voting and investment power over the securities held by these entities. The address of A9A and AGFA and their affiliated entities is 428 University Avenue, Palo Alto, California 94301. Mr. Breyer is trustee of the Breyer 2005 Trust. Prior to our initial public offering, 10,431,225 shares of Class B common stock are, and after our initial public offering, 7,929,092 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
  - (13) Consists of (i) 3,375,545 shares to be sold by the Breyer 2005 Trust; (ii) 43,216,317 shares to be sold by Accel IX; (iii) 4,604,228 shares to be sold by Accel SP; (iv) 4,028,678 shares to be sold by Accel 2005; (v) 2,422,564 shares to be sold by Accel Growth; (vi) 47,291 shares to be sold by Accel Growth SP; and (vii) 32,278 shares to be sold by Accel Growth 2009.
  - (14) Mr. Graham holds 1,000,000 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (15) Mr. Hastings holds 20,000 RSUs which are subject to vesting conditions not expected to occur within 60 days of March 31, 2012.
  - (16) Consists of (i) 32,875,670 shares of Class B common stock held of record by Rivendell One LLC (Rivendell); (ii) 5,978,140 shares of Class B common stock held of record by The Founders Fund, LP (FF); (iii) 740,960 shares of Class B common stock held of record by The Founders

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- Fund II, LP (FF II); (iv) 36,640 shares of Class B common stock held of record by The Founders Fund II Principals Fund, LP (FFPF); (v) 22,400 shares of Class B common stock held of record by The Founders Fund II Entrepreneurs Fund, LP (FFEF); and (vi) 5,070,290 shares of Class B common stock held of record by Lembas, LLC (Lembas). We have received a notice of conversion from Rivendell, which provides that in connection with our initial public offering all of the shares of our Class B common stock held of record by Rivendell that are not otherwise sold in our initial public offering will be converted into an equivalent number of shares of our Class A common stock. Mr. Thiel is the beneficial owner of Rivendell and has voting and investment power over the securities held by Rivendell. Mr. Thiel is a managing member of the general partner of each of FF, FF II, FFPF, and FFEF, and, therefore, may be deemed to have voting and investment power over the securities held by these entities. Mr. Thiel is the managing member of Lembas and has voting and investment power over the securities held by Lembas. Prior to our initial public offering, 111,884 shares of Class B common stock are, and after our initial public offering, 111,884 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (17) Consists of (i) 14,293,769 shares to be sold by Rivendell; and (ii) 2,550,546 shares to be sold by FF.
- (18) Consists of (i) 42,395,203 shares of Class A common stock; (ii) 1,199,897,978 shares of Class B common stock; and (iii) 126,681,492 shares of Class B common stock issuable upon exercise of options exercisable within 60 days of March 31, 2012.
- (19) Consists of (i) 17,213,540 shares of Class B common stock held of record by DST Global Limited; (ii) 5,995,203 shares of Class A common stock held of record by DST Global II, L.P.; (iii) 1,697,217 shares of Class A common stock held of record by DST Global III, L.P.; (iv) 3,945,582 shares of Class A common stock and 24,290,447 shares of Class B common stock held of record by DST USA Limited; and (v) 25,073,926 shares of Class A common stock and 53,063,958 shares of Class B common stock held of record by DST USA II Limited. Yuri Milner holds ultimate voting and investment power over the securities held by these entities. The address of DST Global Limited, DST Global II, L.P., DST Global III, L.P., DST USA Limited, and DST USA II Limited is c/o Tulloch & Co., 4 Hill Street, London W1J 5NE, United Kingdom. Prior to our initial public offering, 36,711,928 shares of Class A common stock and 94,567,945 shares of Class B common stock are, and after our initial public offering, 5,016,794 shares of Class A common stock and 80,600,514 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above. DST Global Limited and its affiliates are no longer affiliated with Mail.ru Group Limited (f/k/a Digital Sky Technologies Limited). For more information, see Related Party Transactions Conversion Agreement.
- (20) Consists of (i) 5,987,318 shares to be sold by DST Global Limited; (ii) 2,085,289 shares to be sold by DST Global II, L.P.; (iii) 590,337 shares to be sold by DST Global III, L.P.; (iv) 9,821,228 shares to be sold by DST USA Limited; and (v) 27,178,393 shares to be sold by DST USA II Limited.
- (21) Consists of (i) 174,165 shares of Class B common stock held of record by Dustin A. Moskovitz, Trustee of The Justin M. Rosenstein 2009 Trust, a trust established pursuant to the Justin M. Rosenstein 2009 Trust Agreement; (ii) 114,256,629 shares of Class B common stock held of record by Dustin Moskovitz, Trustee of The Dustin A. Moskovitz Trust dated December 27, 2005; (iii) 14,404,516 shares of Class B common stock held of record by Dustin Moskovitz, Trustee of The Dustin Moskovitz 2008 Annuity Trust dated March 10, 2008; and (iv) 4,863,335 shares of Class B common stock held of record by Justin M. Rosenstein, Trustee of The Dustin A. Moskovitz 2009 Trust, a trust established pursuant to the Dustin A. Moskovitz 2009 Trust Agreement dated January 1, 2009. Mr. Moskovitz is trustee or beneficiary of The Justin M. Rosenstein 2009 Trust, The Dustin A. Moskovitz Trust dated December 27, 2005, The Dustin Moskovitz 2008 Annuity Trust dated March 10, 2008, and The Dustin A. Moskovitz 2009 Trust. The address of Mr. Moskovitz is P.O. Box 2929, San Francisco, California 94126. Prior to our initial public offering, 133,698,645 shares of Class B common stock are, and after our initial public offering, 133,698,645 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (22) Consists of (i) 14,214,807 shares of Class A common stock held of record by The Goldman Sachs Group, Inc.; (ii) 2,598,652 shares of Class A common stock held of record by Goldman Sachs Investment Partners Master Fund, L.P.; (iii) 1,010,587 shares of Class A common stock held of record by Goldman Sachs Investment Partners Private Opportunities Holdings, L.P.; and (iv) 48,123,195 shares of Class A common stock held of record by FBDC Investors Offshore Holdings, L.P. ((ii)-(iv), collectively, the Goldman Sachs Limited Partnerships). Affiliates of The Goldman Sachs Group, Inc. are the general partners of the Goldman Sachs Limited Partnerships. GS Investment Strategies, LLC is the investment manager of the Goldman Sachs Limited Partnerships. GS Investment Strategies, LLC is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. Decisions regarding the voting or disposition of the shares in (i) above held by The Goldman Sachs Group, Inc. are made by an investment committee (or an authorized sub-committee or designee thereof). The current voting members of this committee are: Craig Broderick, David Solomon, Gary Cohn, Liz (Beshel) Robinson, Michael S. Sherwood, Sarah Smith, Esta Stecher, and David Viniar. GS Investment Strategies, LLC exercises voting and investment power with respect to the shares in (ii)-(iv) above held by the Goldman Sachs Limited Partnerships. The investment committee within GS Investment Strategies, LLC that advises the Goldman Sachs Limited Partnerships currently includes the following voting members: Raanan Agus, Kenneth Eberts, Hideki Kinuhata, Gaurav Bhandari, Terence Ting, Nick Advani, Sabrina Liak, and Joel Schwartz. The address of The Goldman Sachs Group, Inc., GS Investment Strategies, LLC, and the Goldman Sachs Limited Partnerships is 200 West Street, New York, NY 10282.
- (23) Consists of (i) 5,243,185 shares to be sold by The Goldman Sachs Group, Inc.; (ii) 958,522 shares to be sold by Goldman Sachs Investment Partners Master Fund, L.P.; (iii) 372,758 shares to be sold by Goldman Sachs Investment Partners Private Opportunities Holdings, L.P.; and (iv) 17,750,421 shares to be sold by FBDC Investors Offshore Holdings, L.P. The Goldman Sachs Group, Inc. and the Goldman Sachs Limited Partnerships are affiliates of a registered broker-dealer. These entities have purchased the securities to be sold in our initial public offering in the ordinary course of business and, at the time of such purchase, had no agreements or understandings, directly or indirectly with any person to distribute the securities.

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- (24) Consists of (i) 6,033,630 shares of Class A common stock held of record by 80 funds and accounts advised or sub-advised by T. Rowe Price Associates, Inc.; and (ii) 12,158,743 shares of Class B common stock held of record by 76 funds and accounts advised or sub-advised by T. Rowe Price Associates, Inc. T. Rowe Price Associates, Inc. serves as investment adviser with power to direct investments and/or sole power to vote the securities owned by these funds and accounts. The T. Rowe Price Proxy Committee develops the firm's positions on all major proxy voting issues, creates guidelines, and oversees the voting process. The funds and accounts that hold our securities are each managed by a T. Rowe Price portfolio manager. Ultimately, the T. Rowe Price portfolio manager of each fund or account has sole or shared voting power (shared with an account) and sole investment power in respect of companies in his portfolio. The T. Rowe Price portfolio managers of the funds and accounts that hold our securities are collectively listed as follows: Joseph Milano, Paul R. Bartolo, Robert Sharps, Daniel Martino, David Eiswert, Kennard Allen, Donald Peters, Thomas Huber, Larry Puglia, and Robert Gensler. For purposes of reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. may be deemed to be the beneficial owner of all the shares listed. T. Rowe Price Associates, Inc. is the wholly owned subsidiary of T. Rowe Price Group, Inc., which is a publicly traded financial services holding company. The address for T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, MD 21202. T. Rowe Price Investment Services, Inc. (TRPIS), a registered broker-dealer, is a subsidiary of T. Rowe Price Associates, Inc. TRPIS was formed primarily for the limited purpose of acting as the principal underwriter of shares of the funds in the T. Rowe Price fund family. TRPIS does not engage in underwriting or market-making activities involving individual securities.
- (25) Consists of (i) 40,098,990 shares of Class B common stock held of record by Elevation Partners, L.P. (Elevation Partners); and (ii) 10,655 shares of Class B common stock held of record by Elevation Employee Side Fund, LLC (Side Fund). The general partner of Elevation Partners is Elevation Associates, L.P. The general partner of Elevation Associates, L.P. is Elevation Associates, LLC. The managing member of Side Fund is Elevation Management, LLC. Fred Anderson, Paul Hewson, Roger McNamee, and Bret Pearlman are the managers of Elevation Associates, LLC and Elevation Management, LLC and may be deemed to beneficially own the securities held by Elevation Partners and Side Fund. Prior to our initial public offering, 40,109,645 shares of Class B common stock are, and after our initial public offering, 35,487,149 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (26) Consists of (i) 4,621,111 shares to be sold by Elevation Partners; and (ii) 1,385 shares to be sold by Side Fund.
- (27) Consists of (i) 31,341,221 shares of Class B common stock held of record by Greylock XII Limited Partnership; (ii) 3,482,349 shares of Class B common stock held of record by Greylock XII-A Limited Partnership; and (iii) 1,832,802 shares of Class B common stock held of record by Greylock XII Principals LLC. Greylock XII GP Limited Liability Company is the sole general partner of each of Greylock XII Limited Partnership and Greylock XII-A Limited Partnership. William W. Helman and Aneel Bhusri are the managing members of Greylock XII GP Limited Liability Company and are members of Greylock XII Principals LLC. The address for these entities is 2550 Sand Hill Road, Menlo Park, CA 94025. David Sze, a managing member of Greylock XII GP LLC and Greylock XII Principals LLC, has held observation rights on our board of directors. Prior to our initial public offering, 1,662,550 shares of Class B common stock are, and after our initial public offering, 1,662,550 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above. Does not include up to 530,485 shares of our common stock issuable to Greylock XIII Limited Partnership, Greylock XIII Principals LLC, and Greylock XIII-A Limited Partnership upon the closing of our acquisition of Instagram, including 53,047 shares to be held in escrow.
- (28) Consists of (i) 6,504,293 shares to be sold by Greylock XII Limited Partnership; (ii) 722,695 shares to be sold by Greylock XII-A Limited Partnership; and (iii) 380,364 shares to be sold by Greylock XII Principals LLC.
- (29) Consists of 1,325,775 shares of Class A common stock and 55,026,235 shares of Class B common stock held of record by Mail.ru Group Limited. Mail.ru Group Limited is a publicly-held entity listed on the London Stock Exchange. The address for Mail.ru Group Limited is Office 3307, Shatha Tower, Dubai Media City, Dubai, U.A.E. Prior to our initial public offering, 1,325,775 shares of Class A common stock and 55,026,235 shares of Class B common stock are, and after our initial public offering, 36,751,311 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (30) Consists of (i) 3,863,701 shares of Class B common stock held of record by Mark Pincus; and (ii) 1,450,219 shares of Class B common stock held of record by Ogden Enterprises LLC (Ogden). Mr. Pincus is the manager of Ogden and holds sole voting and investment power over the shares held by Ogden. Mr. Pincus is the Chief Executive Officer of Zynga Inc., our largest Platform developer. For information on our relationship with Zynga, see Business Products for Developers Payments. Does not reflect the sale by Mr. Pincus of 537,500 shares of Class B common stock in private transfers subsequent to March 31, 2012.
- (31) Consists of (i) 719,240 shares to be sold by Mr. Pincus, in his individual capacity; and (ii) 290,043 shares to be sold by Ogden.
- (32) Consists of (i) 39,632,823 shares of Class B common stock held of record by Meritech Capital Partners III L.P.; and (ii) 722,400 shares of Class B common stock held of record by Meritech Capital Affiliates III L.P. Meritech Capital Associates III L.L.C. is the general partner of Meritech Capital Partners III L.P. and Meritech Capital Affiliates III L.P. and has sole voting power with respect to the shares held by Meritech Capital Partners III L.P. and Meritech Capital Affiliates III L.P. Meritech Management Associates III L.L.C. is the managing member of Meritech Capital Associates III L.L.C. George Bischof, Mike Gordon, Paul Madera, and Rob Ward are the managing members of Meritech Management Associates III L.L.C. and may be deemed to share voting and dispositive power with respect to the shares held by Meritech Capital Partners III L.P. and Meritech Capital Affiliates III L.P. Prior to our initial public offering, 2,530,580 shares of Class B common stock are, and after our initial public offering, 2,530,580 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (33) Consists of (i) 6,873,496 shares to be sold by Meritech Capital Partners III L.P.; and (ii) 125,284 shares to be sold by Meritech Capital Affiliates III L.P.

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- (34) Consists of 32,784,626 shares of Class B common stock held of record by Booth & Co. (FBO Microsoft Corporation). Microsoft Corporation is a publicly-held entity listed on the NASDAQ Stock Market LLC. The address for Microsoft is One Microsoft Way, Redmond, Washington 98052. In April 2012, we entered into an agreement with Microsoft pursuant to which we will be assigned Microsoft's rights to acquire certain patent assets of AOL Inc., as well as the entity holding a portion of the assets, in exchange for approximately \$550 million in cash.
- (35) Consists of (i) 400,000 shares of Class B common stock held of record by Reid Hoffman, Trustee of the Reid Hoffman 2011 Annuity Trust Agreement dated 6/7/2011; (ii) 3,913,920 shares of Class B common stock held of record by Aufklarung LLC (Aufklarung); and (iii) 400,000 shares of Class B common stock held of record by Michelle Yee, Trustee of the Michelle Yee 2011 Annuity Trust Agreement dated 6/7/2011. Mr. Hoffman is the manager of Aufklarung and holds sole voting and investment power over the shares held by Aufklarung. Does not reflect the sale by Aufklarung of 600,000 shares of Class B common stock in private transfers subsequent to March 31, 2012.
- (36) Consists of (i) 80,000 shares to be sold by Reid Hoffman, Trustee of the Reid Hoffman 2011 Annuity Trust Agreement dated 6/7/2011; (ii) 782,784 shares to be sold by Aufklarung; and (iii) 80,000 shares to be sold by Michelle Yee, Trustee of the Michelle Yee 2011 Annuity Trust Agreement dated 6/7/2011.
- (37) Consists of (i) 68,153,657 shares of Class B common stock held of record by Sean Parker; (ii) 300,000 shares of Class B common stock held of record by Sean N. Parker, Trustee of The Sean N. Parker 2011 Annuity Trust No. 1 u/a/d 2/22/2011; (iii) 450,000 shares of Class B common stock held of record by Sean N. Parker, Trustee of The Sean N. Parker 2011 Annuity Trust No. 2 u/a/d 2/22/2011; and (iv) 750,000 shares of Class B common stock held of record by Sean N. Parker, Trustee of The Sean N. Parker 2011 Annuity Trust No. 3 u/a/d 2/22/2011. Prior to our initial public offering, 69,653,657 shares of Class B common stock are, and after our initial public offering, 69,653,657 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above. Does not reflect the sale by Mr. Parker of 3,655,000 shares of Class B common stock in private transfers subsequent to March 31, 2012.
- (38) Consists of (i) 4,207,500 shares of Class A common stock and 43,108,746 shares of Class B common stock held of record by Tiger Global FB Holdings, LLC; and (ii) 6,521,740 shares of Class B common stock held by Tiger Global FB Holdings II LLC. Each of Tiger Global FB Holdings, LLC and Tiger Global FB Holdings II LLC is ultimately controlled by Charles P. Coleman III. The business address of Tiger Global FB Holdings, LLC and Tiger Global FB Holdings II LLC is c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, New York. Prior to our initial public offering, 4,207,500 shares of Class A common stock and 43,108,746 shares of Class B common stock are, and after our initial public offering, 1,958,448 shares of Class A common stock and 26,297,804 shares of Class B common stock will be subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (39) Consists of 19,059,994 shares to be sold by Tiger Global FB Holdings, LLC.
- (40) Consists of 36,335,590 shares of Class B common stock held of record by Valiant Capital Opportunities, LLC. The manager of Valiant Capital Opportunities, LLC is Valiant Capital Management, L.P. The general partner of Valiant Capital Management, L.P. is Valiant Capital Management, LLC. The controlling owner of Valiant Capital Management, LLC is Christopher R. Hansen. Prior to our initial public offering, 6,358,717 shares of Class B common stock are, and after our initial public offering, 6,358,717 shares of Class B common stock will be, subject to a voting agreement in favor of Mr. Zuckerberg referred to in footnote (5) above.
- (41) Consists of 352,522 shares of Class B common stock held of record by one selling stockholder not listed above who owned less than 1% of our shares of Class A and Class B common stock prior to our initial public offering.
- (42) Consists of 76,635 shares to be sold by the other selling stockholders described above.



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The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 31, 2012, as adjusted to reflect the sale of Class A common stock by us and the selling stockholders in our initial public offering assuming exercise in full of the underwriters' option to purchase additional shares.

Beneficial ownership is determined on the same basis as described in the introductory paragraphs for, and the footnotes to, the previous table.

Name of Beneficial Owner	Number of Additional Shares to be Sold if the Underwriters Option is Exercised in Full	Shares Beneficially Owned After this Offering if the Underwriters Option is Exercised in Full				% of Total Voting Power After Our Initial Public Offering <sup>(1)</sup>
		Class A		Class B		
		Shares	%	Shares	%	
Named Executive Officers and Directors:						
Mark Zuckerberg				503,601,850	33.1	31.7
Shares subject to voting proxy	31,217,187	4,765,449	*	403,825,391	27.6	26.4
Total	31,217,187	4,765,449	*	907,427,241	59.7	57.1
Sheryl K. Sandberg				1,899,986	*	*
David A. Ebersman				2,399,999	*	*
Mike Schroepfer				2,291,849	*	*
Theodore W. Ulyot				2,025,244	*	*
Marc L. Andreessen				6,607,131	*	*
Erskine B. Bowles						
James W. Breyer	8,659,038 <sup>(2)</sup>	127,063,318	18.7	7,929,092	*	1.3
Donald E. Graham						
Reed Hastings						
Peter A. Thiel	5,461,793 <sup>(3)</sup>	13,120,108	1.9	9,297,884	*	*
All executive officers and directors as a group (12 persons)	44,962,697	144,948,875	21.3	931,837,450	58.7	59.3
Other 5% Stockholders:						
Entities affiliated with Accel Partners	8,659,038 <sup>(2)</sup>	127,063,318	18.7	7,929,092	*	1.3
Entities affiliated with DST Global Limited	6,849,388 <sup>(4)</sup>	4,615,449	*	74,152,471	5.1	4.9
Dustin Moskowitz	7,500,000 <sup>(5)</sup>			126,198,645	8.6	8.3
Entities affiliated with Goldman Sachs	3,648,735 <sup>(6)</sup>	37,973,620	5.6			*
T. Rowe Price Associates, Inc.		6,033,630	*	12,158,743	*	*
Other Selling Stockholders:						
Entities affiliated with Elevation Partners	693,374 <sup>(7)</sup>			34,793,775	2.4	2.3
Entities affiliated with Greylock Partners	1,141,104 <sup>(8)</sup>			27,907,916	1.9	1.8
Mail.ru Group Limited	2,940,105			33,811,206	2.3	2.2
Mark Pincus	151,393 <sup>(9)</sup>			4,153,244	*	*
Entities affiliated with Meritech Capital Partners	1,049,818 <sup>(10)</sup>			32,306,625	2.2	2.1
Microsoft Corporation	983,539			25,244,162	1.7	1.7
Entities Affiliated with Reid Hoffman	141,418 <sup>(11)</sup>			3,629,718	*	*
Sean Parker	10,000,000 <sup>(12)</sup>			59,653,657	4.1	3.9
Entities affiliated with the Tiger Global Management	2,858,999 <sup>(13)</sup>			31,918,993	2.2	2.1
Valiant Capital Opportunities, LLC	8,000,000			28,335,590	1.9	1.9
All other selling stockholders	11,496 <sup>(14)</sup>			264,391	*	*

\* Less than 1%.

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- (1) Any additional shares of Class B common stock sold by the selling stockholders upon exercise of the underwriters' over-allotment option will be automatically converted into shares of Class A common stock. In addition, any such shares, to the extent subject to a voting agreement in favor of Mr. Zuckerberg, will no longer be subject to the voting agreement.



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- (2) Consists of (i) 506,332 shares to be sold by the Breyer 2005 Trust; (ii) 6,482,448 shares to be sold by Accel IX; (iii) 690,635 shares to be sold by Accel SP; (iv) 604,302 shares to be sold by Accel 2005; (v) 363,385 shares to be sold by Accel Growth; (vi) 7,094 shares to be sold by Accel Growth SP; and (vii) 4,842 shares to be sold by Accel Growth 2009.
- (3) Consists of (i) 2,144,066 shares to be sold by Rivendell; (ii) 382,582 shares to be sold by FF; (iii) 370,480 shares to be sold by FF II; (iv) 18,320 shares to be sold by FFPF; (v) 11,200 shares to be sold by FFEF; and (vi) 2,535,145 shares to be sold by Lembas.
- (4) Consists of (i) 898,098 shares to be sold by DST Global Limited; (ii) 312,794 shares to be sold by DST Global II, L.P.; (iii) 88,551 shares to be sold by DST Global III, L.P.; (iv) 1,473,185 shares to be sold by DST USA Limited; and (v) 4,076,760 shares to be sold by DST USA II Limited.
- (5) Consists of 7,500,000 shares to be sold by Dustin Moskowitz, Trustee of the Dustin A. Moskowitz Trust dated December 27, 2005.
- (6) Consists of (i) 786,478 shares to be sold by The Goldman Sachs Group, Inc.; (ii) 143,779 shares to be sold by Goldman Sachs Investment Partners Master Fund, L.P.; (iii) 55,914 shares to be sold by Goldman Sachs Investment Partners Private Opportunities Holdings, L.P.; and (iv) 2,662,564 to be sold by FBDC Investors Offshore Holdings, L.P.
- (7) Consists of (i) 693,166 shares to be sold by Elevation Partners; and (ii) 208 shares to be sold by Side Fund.
- (8) Consists of (i) 975,644 shares to be sold by Greylock XII Limited Partnership; (ii) 108,405 shares to be sold by Greylock XII-A Limited Partnership; and (iii) 57,055 shares to be sold by Greylock XII Principals LLC.
- (9) Consists of (i) 107,886 shares to be sold by Mr. Pincus, in his individual capacity; and (ii) 43,507 shares to be sold by Ogden.
- (10) Consists of (i) 1,031,025 shares to be sold by Meritech Capital Partners III L.P.; and (ii) 18,793 shares to be sold by Meritech Capital Affiliates III L.P.
- (11) Consists of (i) 12,000 shares to be sold by Reid Hoffman, Trustee of the Reid Hoffman 2011 Annuity Trust Agreement dated 6/7/2011, (ii) 117,418 shares to be sold by Aufklarung LLC; and (iii) 12,000 shares to be sold by Michelle Yee, Trustee of the Michelle Yee 2011 Annuity Trust Agreement dated 6/7/2011.
- (12) Consists of 10,000,000 shares to be sold by Mr. Parker, in his individual capacity.
- (13) Consists of 2,858,999 shares to be sold by Tiger Global FB Holdings, LLC.
- (14) Consists of 11,496 shares to be sold by the other selling stockholders described above.

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**DESCRIPTION OF CAPITAL STOCK**

Upon the completion of our initial public offering, our authorized capital stock will consist of 5,000,000,000 shares of Class A common stock, \$0.000006 par value per share, 4,141,000,000 shares of Class B common stock, \$0.000006 par value per share, and 100,000,000 shares of undesignated preferred stock, \$0.000006 par value per share. A description of the material terms and provisions of our restated certificate of incorporation and restated bylaws that will be in effect at the closing our initial public offering and affecting the rights of holders of our capital stock is set forth below. The description is intended as a summary, and is qualified in its entirety by reference to the form of our restated certificate of incorporation and the form of our restated bylaws to be adopted in connection with our initial public offering that have been filed with the registration statement relating to this prospectus.

As of March 31, 2012, and after giving effect to the automatic conversion of all of our outstanding preferred stock into Class B common stock in connection with our initial public offering, there were outstanding:

117,549,393 shares of our Class A common stock held by approximately 115 stockholders;

1,780,535,644 shares of our Class B common stock held by approximately 1,305 stockholders;

236,756,442 shares issuable upon exercise of outstanding stock options; and

378,429,048 shares subject to outstanding restricted stock units (RSUs).

**Common Stock**

***Dividend Rights***

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and only then at the times and in the amounts that our board of directors may determine. See [Dividend Policy](#) for more information.

***Voting Rights***

The holders of our Class B common stock are entitled to ten votes per share, and holders of our Class A common stock are entitled to one vote per share. The holders of our Class A common stock and Class B common stock vote together as a single class, unless otherwise required by law. Delaware law could require either holders of our Class A common stock or our Class B common stock to vote separately as a single class in the following circumstances:

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if we were to seek to amend our certificate of incorporation to increase the authorized number of shares of a class of stock, or to increase or decrease the par value of a class of stock, then that class would be required to vote separately to approve the proposed amendment; and

if we were to seek to amend our certificate of incorporation in a manner that alters or changes the powers, preferences or special rights of a class of stock in a manner that affected its holders adversely, then that class would be required to vote separately to approve the proposed amendment.

Stockholders do not have the ability to cumulate votes for the election of directors. Our restated certificate of incorporation and restated bylaws that will be in effect at the closing of our initial public offering will provide for a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms, when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock. Our directors will be assigned by the then current board of directors to a class when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock.

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### ***No Preemptive or Similar Rights***

Our common stock is not entitled to preemptive rights and is not subject to conversion, redemption or sinking fund provisions.

### ***Right to Receive Liquidation Distributions***

Upon our dissolution, liquidation or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

### ***Conversion***

The outstanding shares of Class B common stock are convertible at any time as follows: (1) at the option of the holder, a share of Class B common stock may be converted at any time into one share of Class A common stock or (2) upon the election of the holders of a majority of the then outstanding shares of Class B common stock, all outstanding shares of Class B common stock may be converted into shares of Class A common stock. In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our restated certificate of incorporation, including transfers to family members, trusts solely for the benefit of the stockholder or their family members, and partnerships, corporations, and other entities exclusively owned by the stockholder or their family members, and certain transfers to organizations that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Once converted or transferred and converted into Class A common stock, the Class B common stock will not be reissued.

### ***Preferred Stock***

Upon the closing of our initial public offering, no shares of preferred stock will be outstanding, but we will be authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors also can increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the market price of our Class A common stock and the voting and other rights of the holders of our common stock. We have no current plan to issue any shares of preferred stock.

### ***Options***

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As of March 31, 2012, we had options to purchase 236,756,442 shares of our Class B common stock outstanding pursuant to our 2005 Stock Plan and the Officers' Plan.

### RSUs

As of March 31, 2012, we had 378,429,048 shares of Class B common stock subject to RSUs outstanding pursuant to our 2005 Stock Plan.

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### **Voting Agreements**

Our CEO has entered into voting agreements with certain of our stockholders, which voting agreements will remain in effect after the completion of this offering. These voting agreements cover approximately 7,125,242 shares of Class A common stock and 432,691,218 shares of Class B common stock, which will represent approximately 27.6% of the outstanding voting power of our capital stock after our initial public offering.

Under one type of voting agreement (which is filed as an exhibit to the registration statement of which this prospectus is a part as a Type 1 Holder Voting Agreement), stockholders agreed to vote all of their shares as directed by, and granted an irrevocable proxy to, Mr. Zuckerberg at his discretion on all matters to be voted upon by stockholders. The following individuals and entities hold shares of our capital stock that are subject to this type of voting agreement: ARPI 2, LLC; Matt Cohler and certain affiliated entities; Gregory Druckman; Michael Druckman; Richard Druckman; Steven Druckman; The Founders Fund, LP; Glynn Partners; Hommels Holding GmbH; Adam Moskovitz; Dustin Moskovitz and certain affiliated entities; Nancy and Richard Moskovitz and certain affiliated entities; Sean Parker and certain affiliated entities; Cara & Robert Scudder; certain entities affiliated with Technology Crossover Ventures; Valiant Capital Opportunities, LLC; and VHPI 2, LLC.

Under a second type of voting agreement (which is filed as an exhibit to the registration statement of which this prospectus is a part as a Type 2 Holder Voting Agreement), Mr. Zuckerberg has the authority (and irrevocable proxy) to vote these investors' shares at his discretion on all matters to be voted upon by stockholders, except for issuances of capital stock by us in excess of 20% of our then outstanding stock and matters which would disproportionately, materially and adversely affect such stockholder. This type of voting agreement also provides that the investor shall not: (1) acquire any ownership of any of our assets or business, (2) make any solicitation of proxies with respect to the voting of any of our securities, (3) form any group within the meaning of Section 13(d) of the Exchange Act, (4) nominate any person as director who is not nominated by the then incumbent directors, propose any matter to be voted upon by our stockholders or initiate or vote in favor of or call for a special meeting of the stockholders, or (5) publicly announce an intention to do any of the above. Following the completion of our initial public offering, a transferee of the shares currently subject to this type of voting agreement shall no longer be subject to the terms of the voting agreement if we have a two-class capital stock structure and a party to the agreement is transferring Class B common stock that, upon completion of the transfer, becomes Class A common stock or is transferring Class A common stock. DST Global Limited and certain affiliated entities and Mail.ru Group Limited hold shares of our capital stock that are subject to this type of voting agreement.

The third type of voting agreement (which is filed as an exhibit to the registration statement of which this prospectus is a part as a Type 3 Holder Voting Agreement) contains the same substantive provisions as the second type of agreement. For some of the parties to this type of voting agreement, the provisions of the agreement do not apply to shares held by the investors prior to their secondary purchases. The following entities hold shares of our capital stock that are subject to this type of voting agreement: certain entities affiliated with Accel Partners and James W. Breyer, a member of our board of directors; certain entities affiliated with Elevation Partners; Felarmon Group Limited; certain entities affiliated with Greylock Partners; Li Ka Shing (Canada) Foundation; certain entities affiliated with Meritech Capital Partners; certain entities affiliated with Anand Rajaraman; Tiger Global FB Holdings, LLC; and certain entities affiliated with Venkatesh Harinarayan.

Under a fourth type of voting agreement (which is filed as an exhibit to the registration statement of which this prospectus is a part as a Type 4 Holder Voting Agreement), Mr. Zuckerberg has the authority (and irrevocable proxy) to vote these investors' shares at his discretion on all matters to be voted upon by stockholders, except for issuances of capital stock by us in excess of 20% of our then outstanding stock and matters which would disproportionately, materially and adversely affect such stockholder. This type of voting agreement does not contain the restrictive provisions contained in the second and third types of voting agreements with respect to acquiring ownership of our assets or business, making a solicitation of proxies with respect to voting of any of our securities, forming a group within the meaning of Section 13(d) of the Exchange Act, or nominating any person as a director who is not nominated by the then incumbent directors or proposing



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any matters to be voted upon by our stockholders or initiating or voting in favor of or calling for a special meeting of the stockholders. The following individuals and entities hold shares of our capital stock that are subject to this type of voting agreement: Galium Special Situations LLC, Glynn Partners, L.P., entities affiliated with Invesco, Li Ka Shing (Canada) Foundation, Montecito Ventures VI, LLC, Profectus QP Opportunity Fund LLC, Silicon Valley Community Foundation, William Shea, Social Media Partners II LLC, and Valiant Capital Opportunities, LLC.

Until Mr. Zuckerberg's death, 232,550,991 shares of our Class B common stock will remain subject to the provisions of a voting agreement regardless of any sale, transfer, assignment, pledge, or other disposition of the shares, provided, that 8,473,633 of these shares will no longer be subject to the provisions of a voting agreement if an investor sells, transfers, assigns, pledges, or otherwise disposes of or encumbers the shares after the date that is six months following our initial public offering. Except for the 232,550,991 shares described in the preceding sentence, any shares subject to a voting agreement will no longer be subject to the provisions of the voting agreement if an investor sells, transfers, assigns, pledges, or otherwise disposes of or encumbers the shares subject to the voting agreements after the completion of our initial public offering. In addition, voting agreements covering 7,125,242 shares of our Class A common stock and 200,205,227 shares of our Class B common stock will terminate if Mr. Zuckerberg is no longer a director, no longer devoting substantially all of his business efforts to our company, and he holds less than 210,758,960 shares of our capital stock.

We do not believe that the parties to these voting agreements constitute a group under Section 13 of the Exchange Act, as Mr. Zuckerberg exercises voting control over the shares held by these stockholders.

## **Registration Rights**

After our initial public offering, holders of up to approximately 466,959,842 shares of our common stock outstanding will be entitled to certain rights with respect to registration of such shares under the Securities Act. These shares are referred to as registrable securities. The holders of these registrable securities possess registration rights pursuant to the terms of our Sixth Amended and Restated Investors' Rights Agreement dated as of December 27, 2010 (IRA) and are described in additional detail below. We, along with entities affiliated with Mr. Andreessen, Mr. Thiel, Mr. Breyer and Accel Partners, and DST Global Limited, as well as certain other parties, are parties to the IRA. We originally entered into the IRA in connection with our Series A financing in 2005 and it was amended in each of our future preferred stock financing rounds. The IRA was most recently amended in May 2012.

## ***Demand Registration Rights***

Under our IRA, upon the written request of the holders of a majority of the registrable securities then outstanding that we file a registration statement under the Securities Act with an anticipated aggregate price to the public of at least \$10 million, we will be obligated to use our commercially reasonable efforts to register the sale of all registrable securities that holders may request in writing to be registered within 20 days of the mailing of a notice by us to all holders of such registration. The demand registration rights may not be exercised until six months after our initial public offering. We are required to effect no more than three registration statements which are declared or ordered effective. We may postpone the filing of a registration statement for up to 120 days once in a 12-month period if in the good faith judgment of our board of directors such registration would be detrimental to us, and we are not required to effect the filing of a registration statement during the period beginning 60 days prior to our good faith estimate of the date of the filing of, and ending on a date 90 days following the effective date of, a registration initiated by us (unless such offering is our initial public offering, in which case such ending date is 180 days following such registration).



*Piggyback Registration Rights*

If we register any of our securities for public sale, we will have to use all commercially reasonable efforts to register all registrable securities that the holders of such securities request in writing be registered within 20 days of mailing of notice by us to all holders of the proposed registration. However, this right does not apply to a

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registration relating to any of our stock plans, the offer and sale of debt securities, a corporate reorganization or other transaction under Rule 145 of the Securities Act, or a registration on any registration form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the registrable securities. The managing underwriter of any underwritten offering will have the right to limit, due to marketing reasons, the number of shares registered by these holders to 30% of the total shares covered by the registration statement, unless such offering is our initial public offering, in which case, these holders may be excluded if the underwriters determine that the sale of their shares may jeopardize the success of the offering.

### ***Form S-3 Registration Rights***

The holders of at least 30% of the registrable securities can request that we register all or a portion of their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 and the aggregate price to the public of the shares offered is at least \$2 million. We are required to file no more than two registration statements on Form S-3 upon exercise of these rights per 12-month period. We may postpone the filing of a registration statement for up to 120 days once in a 12-month period if in the good faith judgment of our board of directors such registration would be detrimental to us.

### ***Registration Expenses***

We will pay all expenses incurred in connection with each of the registrations described above, except for underwriting discounts and commissions. However, we will not pay for any expenses of any demand or Form S-3 registration if the request is subsequently withdrawn at the request of a majority of the holders of the registrable securities to be registered, subject to limited exceptions.

### ***Expiration of Registration Rights***

The registration rights described above will survive our initial public offering and will terminate as to any stockholder at such time as all of such stockholders' securities (together with any affiliate of the stockholder with whom such stockholder must aggregate its sales) could be sold without compliance with the registration requirements of the Securities Act pursuant to Rule 144 or following a deemed liquidation event under our current restated certificate of incorporation, but in any event no later than the five-year anniversary of our initial public offering.

### ***Anti-Takeover Provisions***

So long as the outstanding shares of our Class B common stock represent a majority of the combined voting power of common stock, Mark Zuckerberg will effectively control all matters submitted to our stockholders for a vote, as well as the overall management and direction of our company, which will have the effect of delaying, deferring or discouraging another person from acquiring control of our company.

After such time as the shares of our Class B common stock no longer represent a majority of the combined voting power of our common stock, the provisions of Delaware law, our restated certificate of incorporation and our restated bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of our company.

*Delaware Law*

Section 203 of the Delaware General Corporation Law prevents some Delaware corporations from engaging, under some circumstances, in a business combination, which includes a merger or sale of at least 10% of the corporation's assets with any interested stockholder, meaning a stockholder who, together with affiliates

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and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of the corporation's outstanding voting stock, unless:

the transaction is approved by the board of directors prior to the time that the interested stockholder became an interested stockholder;

upon consummation of the transaction which resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding stock owned by directors who are also officers of the corporation; or

subsequent to such time that the stockholder became an interested stockholder the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may opt out of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We have opted out of these provisions.

### ***Restated Certificate of Incorporation and Bylaw Provisions***

Our restated certificate of incorporation and our restated bylaws will include a number of provisions that may have the effect of deterring hostile takeovers or delaying or preventing changes in control of our company, even after such time as the shares of our Class B common stock no longer represent a majority of the combined voting power of our common stock, including the following:

*Separate Class B Vote for Certain Transactions.* Until the first date on which the outstanding shares of our Class B common stock represent less than 35% of the combined voting power of our common stock, any transaction that would result in a change in control of our company will require the approval of a majority of our outstanding Class B common stock voting as a separate class. This provision could delay or prevent the approval of a change in control that might otherwise be approved by a majority of outstanding shares of our Class A and Class B common stock voting together on a combined basis.

*Dual Class Stock.* As described above in Common Stock Voting Rights, our restated certificate of incorporation provides for a dual class common stock structure, which provides Mark Zuckerberg, our founder, Chairman, and CEO, with the ability to control the outcome of matters requiring stockholder approval, even if he owns significantly less than a majority of the shares of our outstanding Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets.

*Supermajority Approvals.* Our restated certificate of incorporation and restated bylaws do not provide that certain amendments to our restated certificate of incorporation or restated bylaws by stockholders will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock. However, when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, certain amendments to our restated certificate of incorporation or restated bylaws by stockholders will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock. This will have the effect of making it more difficult to amend our certificate of incorporation or restated bylaws to remove or modify certain provisions.

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*Board of Directors Vacancies.* Our restated certificate of incorporation and restated bylaws provide that stockholders may fill vacant directorships. When the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our restated certificate of incorporation and restated bylaws authorize only our board of directors to fill vacant

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directorships. In addition, the number of directors constituting our board of directors is set only by resolution adopted by a majority vote of our entire board of directors. These provisions restricting the filling of vacancies will prevent a stockholder from increasing the size of our board of directors and gaining control of our board of directors by filling the resulting vacancies with its own nominees.

*Classified Board.* Our board of directors will not initially be classified. Our restated certificate of incorporation and restated bylaws provide that when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our board of directors will be classified into three classes of directors each of which will hold office for a three-year term. In addition, thereafter, directors may only be removed from the board of directors for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding shares of our Class A and Class B common stock. The existence of a classified board could delay a successful tender offeror from obtaining majority control of our board of directors, and the prospect of that delay might deter a potential offeror.

*Stockholder Action; Special Meeting of Stockholders.* Our restated certificate of incorporation provides that stockholders will be able to take action by written consent. When the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our stockholders will no longer be able to take action by written consent, and will only be able to take action at annual or special meetings of our stockholders. Stockholders will not be permitted to cumulate their votes for the election of directors. Our restated bylaws further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our chief executive officer or our president.

*Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at any meeting of stockholders. Our restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our meetings of stockholders.

*Issuance of Undesignated Preferred Stock.* Our board of directors has the authority, without further action by the stockholders, to issue up to 100,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

## **Choice of Forum**

Our restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation or our restated bylaws; any action to interpret, apply, enforce, or determine the validity of our restated certificate of incorporation or bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable.

## **Listing**

Our Class A common stock has been approved for listing on the NASDAQ Global Select Market under the symbol FB.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

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**SHARES ELIGIBLE FOR FUTURE SALE**

Before our initial public offering, there has not been a public market for shares of our Class A common stock. Future sales of substantial amounts of shares of our common stock, including shares issued upon the settlement of restricted stock units (RSUs) and exercise of outstanding options, in the public market after our initial public offering, or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

After our initial public offering, we will have outstanding 633,492,418 shares of our Class A common stock and 1,504,592,619 shares of our Class B common stock, based on the number of shares outstanding as of March 31, 2012. This includes 421,233,615 shares that we and the selling stockholders are selling in our initial public offering, which shares may be resold in the public market immediately following our initial public offering, and assumes no additional exercise of outstanding options (other than the partial exercise of an outstanding stock option to purchase 120,000,000 shares of Class B common stock held by Mr. Zuckerberg, resulting in the issuance of 60,000,000 shares of our Class B common stock as described elsewhere in this prospectus). Shares of our Class B common stock are convertible into an equivalent number of shares of our Class A common stock and generally convert into shares of our Class A common stock upon transfer.

The 1,716,851,422 shares of common stock that were not offered and sold in our initial public offering as well as shares underlying outstanding RSUs and shares subject to employee stock options will be upon issuance, restricted securities, as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which are summarized below.

As a result of the lock-up agreements and market standoff provisions described below and subject to the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market as follows:

on the date of this prospectus, none of these restricted securities will be available for sale in the public market;

91 days after the date of this prospectus, 271,123,815 shares held by the selling stockholders other than Mr. Zuckerberg;

151 to 180 days after the date of this prospectus, approximately 137 million shares underlying net-settled Pre-2011 RSUs held by our directors and then current employees and approximately 55 million outstanding shares and approximately 55 million shares subject to stock options held by then current employees other than Mr. Zuckerberg;

181 days after the date of this prospectus, 1,194,153,445 outstanding shares and approximately 18 million shares underlying other net-settled Pre-2011 RSUs;

211 days after the date of this prospectus, 149,432,006 shares held by the selling stockholders other than Mr. Zuckerberg; and

366 days after the date of this prospectus, 47,315,862 shares held by Mail.ru Group Limited and DST Global Limited and their respective affiliates.



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In addition, as of March 31, 2012, options to purchase 49,390,599 shares of Class B common stock held by former employees were outstanding and fully vested and the Class B common stock underlying such options will be eligible for sale 181 days after the date of this prospectus. Furthermore, following our initial public offering, the remaining 60,000,000 shares subject to the partially exercised stock option held by Mr. Zuckerberg will be eligible for sale 181 days after the date of this prospectus. We expect an additional approximately 2 million shares of Class B common stock to be delivered upon the net settlement of RSUs between the date of the initial settlement of RSUs described above and December 31, 2012 will be eligible for sale in the public market immediately following settlement.

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### **Rule 144**

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person is entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon the expiration of the lock-up agreements described below, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

1% of the number of shares of common stock then outstanding, which will equal approximately 21,380,850 shares immediately after our initial public offering, or

the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

### **Rule 701**

In general, under Rule 701 as currently in effect, any of our employees, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction before the effective date of our initial public offering that was completed in reliance on Rule 701 and complied with the requirements of Rule 701 will, subject to the lock-up restrictions described below, be eligible to resell such shares 90 days after the date of this prospectus in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

### **Lock-Up Agreements and Market Standoff Provisions**

Our officers, directors, employees, and substantially all of our stockholders have agreed with the underwriters or us, not to dispose of any of our common stock or securities convertible into or exchangeable for shares of our common stock for specified periods of time after the date of this prospectus, except with the prior written consent of Morgan Stanley & Co. LLC or us, as applicable. Under the terms of their lock-up agreements with the underwriters, the selling stockholders, other than Mr. Zuckerberg, are eligible to sell up to 271,123,815 shares of our common stock in the aggregate on the date that is 91 days after the date of this prospectus, up to 711,494,326 shares of our common stock in the aggregate on the date that is 181 days after the date of this prospectus, and the remaining shares of our common stock held by them 211 days after the date of this prospectus. Under the terms of their lock-up agreement with the underwriters, our directors, our executive officers, and

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certain stockholders not selling shares in this offering are eligible to sell shares of our common stock 181 days after the date of this prospectus, subject to certain exceptions as described in Underwriting. All other holders of our common stock, RSUs and options have previously entered into market standoff agreements with us not to sell or otherwise transfer any of their common stock or securities convertible into or exchangeable for shares of common stock for a period that extends through 180 days after the date of this prospectus. We intend to waive this provision to allow our directors and then current employees to sell shares held by them or

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shares subject to RSUs or stock options on a date that is between 151 and 180 days after the date of this prospectus. In addition, Mail.ru Group Limited and DST Global Limited and their respective affiliates have entered into an agreement with us to not sell their shares for certain periods of time ranging from 90 days to 365 days following the date of this prospectus. See [Related Party Transactions](#) [Conversion Agreement](#) for additional information about this agreement.

In addition, we have agreed with our underwriters not to sell any shares of our common stock or securities convertible into or exchangeable for shares of our common stock for a period of 180 days after the date of this prospectus, subject to certain exceptions, including an exception that would permit us to raise capital in an underwritten offering to fund our tax withholding and remittance obligations in connection with the initial settlement of RSUs granted prior to January 1, 2011. Morgan Stanley & Co. LLC may, with our prior written consent, at any time, waive these restrictions.

See [Underwriting](#) for a more complete description of the lock-up agreements that we and our directors, executive officers, and the selling stockholders have entered into with the underwriters.

## **Registration Rights**

Upon the closing of our initial public offering, certain holders of shares of our Class A common stock (including such shares of Class A common stock issuable upon conversion of our Class B common stock) will be entitled to rights with respect to the registration of the sale of these shares under the Securities Act. Registration of the sale of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See [Description of Capital Stock](#) [Registration Rights](#) for additional information.

## **Registration Statement**

We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of common stock subject to RSUs and options outstanding, as well as reserved for future issuance, under our stock plans. We expect to file this registration statement as soon as practicable after our initial public offering. However, none of the shares registered on Form S-8 will be eligible for resale until the expiration of the lock-up agreements to which they are subject.

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**MATERIAL U.S. FEDERAL TAX CONSIDERATIONS**

**FOR NON-U.S. HOLDERS OF CLASS A COMMON STOCK**

This section summarizes the material U.S. federal income and estate tax considerations relating to the acquisition, ownership and disposition of our common stock by non-U.S. holders (defined below) pursuant to this offering. This summary does not provide a complete analysis of all potential U.S. federal income tax considerations relating thereto. The information provided below is based upon provisions of the Code, Treasury regulations promulgated thereunder, administrative rulings, and judicial decisions currently in effect. These authorities may change at any time, possibly retroactively, or the Internal Revenue Service (IRS), might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of our common stock could differ from those described below.

For purposes of this summary, a non-U.S. holder is any holder of our Class A common stock, other than a partnership, that is not:

an individual who is a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized under the laws of the United States, any state therein or the District of Columbia;

a trust if it (1) is subject to the primary supervision of a U.S. court and one or more U.S. persons have authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate whose income is subject to U.S. income tax regardless of source.

If you are an individual, you may, in many cases, be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For these purposes, all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to U.S. federal income tax as if they were U.S. citizens. Such an individual is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the ownership or disposition of our common stock. If a partnership or other pass-through entity is a beneficial owner of our common stock, the tax treatment of a partner in the partnership or an owner of the entity will depend upon the status of the partner or other owner and the activities of the partnership or other entity. Any partner in a partnership or owner of a pass-through entity holding shares of our common stock should consult its own tax advisor.

This discussion assumes that a non-U.S. holder will hold our common stock as a capital asset (generally, property held for investment). The summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules, including, without limitation, if the investor is a former citizen or long-term resident of the United States, controlled foreign corporation, passive foreign investment company, corporation that accumulates earnings to avoid U.S. federal income tax, real estate investment trust, regulated investment company, dealer in securities or currencies, financial institution, tax-exempt entity, insurance company, person holding our common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, trader in securities that elects to use a mark-to-market method of accounting, person liable for the alternative minimum tax, person who acquired our common stock as compensation for services, or partner in a partnership or beneficial owner of a pass-through entity that holds our common stock. Finally, the summary does not describe the effects of any applicable foreign, state or local laws, or, except to the extent discussed below, the effects of any applicable gift or estate tax laws.

**INVESTORS CONSIDERING THE PURCHASE OF OUR CLASS A COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF FOREIGN, STATE OR LOCAL LAWS, AND TAX TREATIES.**

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### **Dividends**

We do not expect to declare or pay any dividends on our Class A common stock in the foreseeable future. If we do pay dividends on shares of our Class A common stock, however, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will constitute a return of capital that is applied against and reduces, but not below zero, a non-U.S. holder's adjusted tax basis in shares of our common stock. Any remaining excess will be treated as gain realized on the sale or other disposition of our Class A common stock. See [Sale of Class A Common Stock](#).

Any dividend paid to a non-U.S. holder on our Class A common stock will generally be subject to U.S. withholding tax at a 30% rate. The withholding tax might not apply, however, or might apply at a reduced rate, under the terms of an applicable income tax treaty between the United States and the non-U.S. holder's country of residence. You should consult your tax advisors regarding your entitlement to benefits under a relevant income tax treaty. Generally, in order for us or our paying agent to withhold tax at a lower treaty rate, a non-U.S. holder must certify its entitlement to treaty benefits. A non-U.S. holder generally can meet this certification requirement by providing a Form W-8BEN (or any successor form) or appropriate substitute form to us or our paying agent. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the holder's behalf, the holder will be required to provide appropriate documentation to the agent. The holder's agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. For payments made to a partnership or other pass-through entity, the certification requirements generally apply to the partners or other owners rather than to the partnership or other entity, and the partnership or other entity must provide the partners' or other owners' documentation to us or our paying agent. If you are eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty, you may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS in a timely manner.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder, and if required by an applicable income tax treaty between the United States and the non-U.S. holder's country of residence, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, are not subject to such withholding tax. To obtain this exemption, a non-U.S. holder must provide us with an IRS Form W-8ECI properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition to the graduated tax described above, dividends received by corporate non-U.S. holders that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

### **Sale of Class A Common Stock**

Non-U.S. holders will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange or other disposition of our Class A common stock unless:

the gain (1) is effectively connected with the conduct by the non-U.S. holder of a U.S. trade or business and (2) if required by an applicable income tax treaty between the United States and the non-U.S. holder's country of residence, is attributable to a permanent establishment (or, in certain cases involving individual holders, a fixed base) maintained by the non-U.S. holder in the United States (in which case the special rules described below apply);

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition of our common stock, and certain other requirements are met (in which case the gain would be subject to a flat

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30% tax, or such reduced rate as may be specified by an applicable income tax treaty, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States); or



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the rules of the Foreign Investment in Real Property Tax Act (FIRPTA) treat the gain as effectively connected with a U.S. trade or business.

The FIRPTA rules may apply to a sale, exchange or other disposition of our common stock if we are, or were within the shorter of the five-year period preceding the disposition and the non-U.S. holder's holding period, a U.S. real property holding corporation, or USRPHC. In general, we would be a USRPHC if interests in U.S. real estate comprised at least half of our business assets. We do not believe that we are a USRPHC and we do not anticipate becoming one in the future. Even if we become a USRPHC, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if beneficially owned by a non-U.S. holder that actually or constructively owned more than 5% of our outstanding common stock at some time within the five-year period preceding the disposition.

If any gain from the sale, exchange or other disposition of our Class A common stock, (1) is effectively connected with a U.S. trade or business conducted by a non-U.S. holder and (2) if required by an applicable income tax treaty between the United States and the non-U.S. holder's country of residence, is attributable to a permanent establishment (or, in certain cases involving individuals, a fixed base) maintained by such non-U.S. holder in the United States, then the gain generally will be subject to U.S. federal income tax at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. If the non-U.S. holder is a corporation, under certain circumstances, that portion of its earnings and profits that is effectively connected with its U.S. trade or business, subject to certain adjustments, generally would be subject also to a branch profits tax. The branch profits tax rate is generally 30%, although an applicable income tax treaty between the United States and the non-U.S. holder's country of residence might provide for a lower rate.

## **U.S. Federal Estate Tax**

The estates of nonresident alien individuals generally are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our Class A common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent, unless an applicable estate tax treaty between the United States and the decedent's country of residence provides otherwise.

## **Backup Withholding and Information Reporting**

The Code and the Treasury regulations require those who make specified payments to report the payments to the IRS. Among the specified payments are dividends and proceeds paid by brokers to their customers. The required information returns enable the IRS to determine whether the recipient properly included the payments in income. This reporting regime is reinforced by backup withholding rules. These rules require the payors to withhold tax from payments subject to information reporting if the recipient fails to cooperate with the reporting regime by failing to provide his taxpayer identification number to the payor, furnishing an incorrect identification number, or failing to report interest or dividends on his returns. The backup withholding tax rate is currently 28%. The backup withholding rules do not apply to payments to corporations, whether domestic or foreign.

Payments to non-U.S. holders of dividends on Class A common stock generally will not be subject to backup withholding, so long as the non-U.S. holder certifies its nonresident status (and we or our paying agent do not have actual knowledge or reason to know the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied) or otherwise establishes an exemption. The certification procedures to claim treaty benefits described in Dividends will satisfy the certification requirements necessary to avoid the backup withholding tax as well. We must report annually to the IRS any dividends paid to each non-U.S. holder and the tax withheld, if any, with respect to these dividends. Copies of these reports may be made available to tax authorities in the country where the non-U.S. holder resides.

Under the Treasury regulations, the payment of proceeds from the disposition of shares of our Class A common stock by a non-U.S. holder made to or through a U.S. office of a broker generally will be subject to

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information reporting and backup withholding unless the beneficial owner certifies, under penalties of perjury, among other things, its status as a non-U.S. holder (and the broker does not have actual knowledge or reason to know the holder is a U.S. person) or otherwise establishes an exemption. The payment of proceeds from the disposition of shares of our Class A common stock by a non-U.S. holder made to or through a non-U.S. office of a broker generally will not be subject to backup withholding and information reporting, except as noted below. Information reporting, but not backup withholding, will apply to a payment of proceeds, even if that payment is made outside of the United States, if you sell our common stock through a non-U.S. office of a broker that is:

a U.S. person (including a foreign branch or office of such person);

a controlled foreign corporation for U.S. federal income tax purposes;

a foreign person 50% or more of whose gross income from certain periods is effectively connected with a U.S. trade or business; or

a foreign partnership if at any time during its tax year (a) one or more of its partners are U.S. persons who, in the aggregate, hold more than 50% of the income or capital interests of the partnership or (b) the foreign partnership is engaged in a U.S. trade or business;

unless the broker has documentary evidence that the beneficial owner is a non-U.S. holder and certain other conditions are satisfied, or the beneficial owner otherwise establishes an exemption (and the broker has no actual knowledge or reason to know to the contrary).

Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder of Class A common stock under the backup withholding rules can be credited against any U.S. federal income tax liability of the holder and may entitle the holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

Recent legislation and administrative guidance generally imposes withholding at a rate of 30% on payments to certain foreign entities of dividends on and the gross proceeds of dispositions of U.S. common stock, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. These withholding requirements are expected to be phased in for dividend payments made on or after January 1, 2014, and for payments of gross proceeds of dispositions of U.S. common stock made on or after January 1, 2015. Non-U.S. holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

**THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR CLASS A COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.**

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for which Morgan Stanley & Co. LLC is acting as representative, have severally agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

<b>Name</b>	<b>Number of Shares</b>
Morgan Stanley & Co. LLC	162,174,942
J.P. Morgan Securities LLC	84,878,573
Goldman, Sachs & Co.	63,185,042
Merrill Lynch, Pierce, Fenner & Smith	
Incorporated	27,380,185
Barclays Capital Inc.	27,380,185
Allen & Company LLC	8,424,672
Citigroup Global Markets Inc.	9,477,755
Credit Suisse Securities (USA) LLC	9,477,755
Deutsche Bank Securities Inc.	9,477,755
RBC Capital Markets, LLC	4,212,336
Wells Fargo Securities, LLC	4,212,336
Blaylock Robert Van LLC	673,974
BMO Capital Markets Corp.	421,234
C.L. King & Associates, Inc.	631,850
Cabrera Capital Markets, LLC	421,234
CastleOak Securities, L.P.	673,974
Cowen and Company, LLC.	421,234
E*TRADE Securities LLC	210,617
Itaú BBA USA Securities, Inc.	210,617
Lazard Capital Markets LLC	421,234
Lebenthal & Co., LLC	673,974
Loop Capital Markets LLC	673,974
M.R. Beal & Company	673,974
Macquarie Capital (USA) Inc.	421,234
Muriel Siebert & Co., Inc.	673,974
Oppenheimer & Co. Inc.	421,234
Pacific Crest Securities LLC	421,234
Piper Jaffray & Co.	421,234
Raymond James & Associates, Inc.	421,234
Samuel A. Ramirez & Company, Inc.	631,850
Stifel, Nicolaus & Company, Incorporated	421,234
The Williams Capital Group, L.P.	589,727
William Blair & Company, L.L.C.	421,234
Total:	421,233,615

The underwriters and the representative are collectively referred to as the underwriters and the representative, respectively. The underwriters are offering the shares of Class A common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of Class A common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of Class A common stock offered by this prospectus if any such shares are taken. However, the

underwriters are not required to take or pay for the

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shares covered by the underwriters' over-allotment option described below. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased.

The underwriters initially propose to offer part of the shares of Class A common stock directly to the public at the initial public offering price of \$38.00 per share and part to certain dealers at a price that represents a concession not in excess of \$0.2508 a share under the public offering price. After the initial offering of the shares of Class A common stock, the offering price and other selling terms may from time to time be varied by the representative.

We and the selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 63,185,042 additional shares of common stock at the initial public offering price of \$38.00 per share, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of Class A common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of Class A common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of Class A common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional        shares of common stock.

	Per Share	No Exercise	Total Full Exercise
Public offering price	\$ 38.00	\$ 16,006,877,370	\$ 18,407,908,966
Underwriting discounts and commissions to be paid by:			
Us	\$ 0.418	\$ 75,240,000	\$ 76,533,644
The selling stockholders	\$ 0.418	\$ 100,835,651	\$ 125,953,355
Proceeds, before expenses, to us	\$ 37.582	\$ 6,764,760,000	\$ 6,881,070,352
Proceeds, before expenses, to the selling stockholders	\$ 37.582	\$ 9,066,041,719	\$ 11,324,351,615

The underwriters have agreed to reimburse us for certain expenses in connection with our initial public offering and to donate up to \$200,000 to non-affiliated charitable organizations that we designate. The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately \$7 million, which includes legal, accounting, and printing costs and various other fees associated with the registration and listing of our Class A common stock.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of Class A common stock offered by them.

Our Class A common stock has been approved for listing on the NASDAQ Global Select Market under the trading symbol FB.

We, all of our directors and executive officers, and the selling stockholders have agreed that, without the prior written consent of Morgan Stanley & Co. LLC on behalf of the underwriters, we and they will not, during specified periods of time after the date of this prospectus:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase lend or otherwise transfer or dispose of,

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directly or indirectly, any shares of common stock or other securities convertible into or exercisable or exchangeable for common stock;

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock; or

make a demand for, or in our case file, a registration statement with the SEC relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph do not apply to:

the sale of shares of common stock pursuant to the underwriting agreement;

transactions by a director, officer, or stockholder relating to shares of common stock or other securities acquired in open market transactions after the completion of our initial public offering, provided that no filing under Section 16(a) of the Exchange Act is required or voluntarily made in connection with subsequent sales of common stock or other securities acquired in such open market transactions;

transfers of shares of common stock or any securities convertible into or exercisable or exchangeable for common stock by a director, officer, or stockholder (i) as a bona fide gift or gifts, (ii) to an immediate family member or a trust for the direct or indirect benefit of the director, officer, stockholder or immediate family member, or (iii) by will or intestacy;

transfers or distributions of shares of common stock or any securities convertible into or exercisable or exchangeable for common stock by a (i) stockholder that is a corporation, partnership, or other business entity (A) to another corporation, partnership, or other business entity that controls, is controlled by or managed by or is under common control with the director, officer, or other stockholder or (B) as part of a distribution to an equity holder of such stockholder or to the estate of any such equity holder, or (ii) in the case of a stockholder which is a trust, transfers of shares of common stock or any securities convertible into or exercisable or exchangeable for common stock to a trust or beneficiary of the trust or to the estate of such beneficiary;

the exercise of options granted under our equity incentive plans, in each case by a director, officer, or stockholder, provided that the shares of common stock delivered upon such exercise are subject to the restrictions described in the immediately preceding paragraph;

transfer of shares of common stock to us (i) as forfeitures of common stock to satisfy tax withholding and remittance obligations of our stockholders in connection with the vesting or exercise of equity awards by stockholders pursuant to our equity incentive plans, or (ii) pursuant to a net exercise or cashless exercise by a stockholder of outstanding equity awards pursuant to our equity incentive plans;

the transfer of shares of common stock delivered to a stockholder directly from us upon the vesting and settlement or exercise of outstanding equity awards granted pursuant to our equity incentive plans if prior to such transfer we have waived for our employees the transfer restrictions contained in their awards;

the sale of shares of common stock by us or our stockholders in an underwritten public offering no earlier than 150 days after the date of this prospectus where the proceeds to us are used to fund tax liabilities related to the settlement of restricted stock units (RSUs);



the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock, provided that such plan does not provide for the transfer of common stock during the restricted period and that no public filing or other public announcement of such plan by us or such holders regarding the establishment of such plan is required to be or voluntarily made during the applicable restricted period;

the issuance by us of shares of common stock in connection with our acquisition of one or more businesses, products or technologies, joint ventures, or other strategic corporate transactions, provided

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the recipients of such shares agree to be bound by the restrictions described in the immediately preceding paragraph; and

the filing by us of a registration statement on Form S-8 in respect of any shares issued under or the grant of any award pursuant to an employee benefit plan in effect on the date of this prospectus;

*provided* that in the case of any transfer or distribution pursuant to the third and fourth bullets above, it shall be a condition of the transfer or distribution that each transferee, donee, or distributee shall agree to the restrictions described in the immediately preceding paragraph prior to or upon such transfer and no filing under Section 16(a) of the Exchange Act reporting a reduction in beneficial ownership of shares of common stock shall be required or shall be made voluntarily during the applicable restricted period. Any waiver by Morgan Stanley & Co. LLC of the above restrictions for our directors, executive officers, or stockholders requires our consent.

In order to facilitate our initial public offering of the Class A common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Class A common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in our initial public offering. As an additional means of facilitating our initial public offering, the underwriters may bid for, and purchase, shares of Class A common stock in the open market. The underwriting syndicate also may reclaim selling concessions allowed to an underwriter or a dealer for distributing the Class A common stock in the offering, if the syndicate repurchases previously distributed Class A common stock to cover syndicate short positions or to stabilize the price of the common stock. These activities may raise or maintain the market price of the Class A common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We, the selling stockholders, and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in our initial public offering. The representative may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representative to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us or our affiliates, for which they received or will receive customary fees and expenses.

From October 2010 through March 2012, 18 mutual funds and two other discretionary client accounts managed by Morgan Stanley Investment Management Inc., an affiliate of Morgan Stanley & Co. LLC, purchased an aggregate of 6,585,563 shares of our Class B common stock from certain existing stockholders for an aggregate purchase price of approximately \$139 million. In addition, Erskine B. Bowles, a member of our

board of directors, also serves as a member of the board of directors of Morgan Stanley.

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In February 2011, we entered into a credit agreement with five lenders, including affiliates of Morgan Stanley & Co. LLC, J.P. Morgan Securities LLC, Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Barclays Capital Inc., to borrow up to \$1,500 million in revolving loans. In September 2011, the credit agreement was amended to increase the borrowing capacity to \$2,500 million. In February 2012, we terminated the credit facility provided for by this agreement and we entered into a new agreement for an unsecured five-year revolving credit facility with these lenders, as well as affiliates of Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., RBC Capital Markets, LLC, and Wells Fargo Securities, LLC, that allows us to borrow up to \$5,000 million for general corporate purposes. Concurrent with our entering into the new revolving credit facility, we entered into a bridge credit facility with the lenders that are parties to our new revolving credit facility. This bridge credit facility allows us to borrow up to \$3,000 million to fund tax withholding and remittance obligations related to the settlement of RSUs in connection with our initial public offering. For additional information on our credit facilities, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

In December 2010 and January 2011, affiliates of Goldman, Sachs & Co., one of the underwriters, purchased an aggregate of 69,544,363 shares of our Class A common stock for an aggregate purchase price of \$1,450 million. As part of the transaction, the affiliates entered into the Sixth Amended and Restated Investors' Rights Agreement. Pursuant to the purchase agreement, one of the affiliates had an option to sell 3,597,122 shares of Class A common stock to DST Global Limited at the same price, and on the same terms, set forth in the purchase agreement. The affiliate exercised its option in January 2011.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments. In addition, certain of our employees who are considered associated persons of some of the underwriters have been granted RSUs as part of our ordinary course employee compensation practices. These grants are deemed to be underwriting compensation by the Financial Industry Regulatory Authority.

Lazard Frères & Co. LLC referred this transaction to Lazard Capital Markets LLC and will receive a referral fee from Lazard Capital Markets LLC in connection therewith.

## **Pricing of the Offering**

Prior to our initial public offering, there has been no public market for our Class A common stock. The initial public offering price was determined by negotiations among us, the selling stockholders, and the representative of the underwriters. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours. Neither we nor the underwriters can assure investors that an active trading market for the shares will develop, or that after the offering the shares will trade in the public market at or above the initial public offering price.

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### **Selling Restrictions**

#### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, with effect from and including the date on which the Prospectus Directive is implemented in that Member State, an offer of securities may not be made to the public in that Member State, other than:

(a) to any legal entity that is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if that Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative; or

(c) in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive;

provided that no such offer of securities shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an offer of securities to the public in relation to any securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in that Member State), and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

#### ***United Kingdom***

This prospectus and any other material in relation to the shares described herein is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospective Directive (qualified investors) that also (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, (ii) who fall within Article 49(2)(a) to (d) of the Order or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). The shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such shares will be engaged in only with, relevant persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus or any of its contents.

*Hong Kong*

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or

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the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571 Laws of Hong Kong) and any rules made thereunder.

### ***Singapore***

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

### ***Japan***

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Notice to Prospective Investors in Switzerland***

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

Neither this document nor any other offering or marketing material relating to the offering, the Company, or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under



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the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the shares.

*Notice to Prospective Investors in the Dubai International Financial Centre*

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

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**LEGAL MATTERS**

The validity of the shares of Class A common stock offered hereby will be passed upon for us by Fenwick & West LLP, Mountain View, California. Simpson Thacher & Bartlett LLP, Palo Alto, California is acting as counsel to the underwriters.

**EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2010 and 2011, and for each of the three years in the period ended December 31, 2011, as set forth in their report. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of Class A common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information about us and the common stock offered hereby, reference is made to the registration statement and the exhibits filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and in each instance we refer you to the copy of such contract or other document filed as an exhibit to the registration statement. We currently do not file periodic reports with the SEC. Upon closing of our initial public offering, we will be required to file periodic reports, proxy statements and other information with the SEC pursuant to the Exchange Act. A copy of the registration statement and the exhibits filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, NE, Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from that office. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is [www.sec.gov](http://www.sec.gov).

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FACEBOOK, INC.

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**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Facebook, Inc.

We have audited the accompanying consolidated balance sheets of Facebook, Inc. as of December 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Facebook, Inc. at December 31, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

February 1, 2012,

except for the retrospective adoption of amendments to the accounting standard relating to the reporting and display of comprehensive income as described in Note 1, as to which the date is

April 23, 2012

**Table of Contents****FACEBOOK, INC.****CONSOLIDATED BALANCE SHEETS***(In millions, except for number of shares and par value)*

	December 31,		March 31,	Pro Forma
	2010	2011	2012	March 31,
			(unaudited)	2012
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,785	\$ 1,512	\$ 1,282	\$ 1,282
Marketable securities		2,396	2,628	2,628
Accounts receivable, net of allowances for doubtful accounts of \$11, \$17 and \$16 as of December 31, 2010 and 2011 and March 31, 2012, respectively	373	547	482	482
Prepaid expenses and other current assets	88	149	302	627
<b>Total current assets</b>	<b>2,246</b>	<b>4,604</b>	<b>4,694</b>	<b>5,019</b>
Property and equipment, net	574	1,475	1,855	1,855
Goodwill and intangible assets, net	96	162	189	189
Other assets	74	90	121	121
<b>Total assets</b>	<b>\$ 2,990</b>	<b>\$ 6,331</b>	<b>\$ 6,859</b>	<b>\$ 7,184</b>
<b>Liabilities and stockholders' equity</b>				
Current liabilities:				
Accounts payable	\$ 29	\$ 63	\$ 129	\$ 129
Platform partners payable	75	171	178	178
Accrued expenses and other current liabilities	137	296	337	337
Deferred revenue and deposits	42	90	93	93
Current portion of capital lease obligations	106	279	302	302
<b>Total current liabilities</b>	<b>389</b>	<b>899</b>	<b>1,039</b>	<b>1,039</b>
Capital lease obligations, less current portion	117	398	404	404
Long-term debt	250			
Other liabilities	72	135	144	144
<b>Total liabilities</b>	<b>828</b>	<b>1,432</b>	<b>1,587</b>	<b>1,587</b>
Commitments and contingencies				
<b>Stockholders' equity:</b>				
Convertible preferred stock, \$0.000006 par value, issuable in series: 569 million shares authorized, 541 million shares issued and outstanding at December 31, 2010 and 543 million shares issued and outstanding at December 31, 2011 and March 31, 2012 (unaudited) (aggregate liquidation preference of \$615 million as of December 31, 2011 and March 31, 2012 (unaudited)); no shares authorized, issued and outstanding, pro forma (unaudited)	615	615	615	
Common stock, \$0.000006 par value: 4,141 million Class A shares authorized, 60 million shares issued and outstanding at December 31, 2010, 117 million shares issued and outstanding, including 1 million outstanding shares subject to repurchase at December 31, 2011 and 118 million shares issued and outstanding, including 1 million outstanding shares subject to repurchase at March 31, 2012 (unaudited) and pro forma (unaudited); 4,141 million Class B shares authorized, 1,112 million, 1,213 million, 1,235 million and 1,781 million shares issued and outstanding, including 5 million, 2 million, 2 million and 2 million outstanding shares subject to repurchase, at December 31, 2010, 2011, March 31, 2012 (unaudited) and pro forma (unaudited), respectively				
Additional paid-in capital	947	2,684	2,853	4,433
Accumulated other comprehensive loss	(6)	(6)	(7)	(7)

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

Retained earnings	606	1,606	1,811	1,171
Total stockholders' equity	2,162	4,899	5,272	5,597
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,990</b>	<b>\$ 6,331</b>	<b>\$ 6,859</b>	<b>\$ 7,184</b>

*See Notes to Consolidated Financial Statements.*

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**Table of Contents****FACEBOOK, INC.****CONSOLIDATED STATEMENTS OF INCOME***(In millions, except per share amounts)*

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
				(unaudited)	
<b>Revenue</b>	\$ 777	\$ 1,974	\$ 3,711	\$ 731	\$ 1,058
<b>Costs and expenses:</b>					
Cost of revenue	223	493	860	167	277
Marketing and sales	115	184	427	68	159
Research and development	87	144	388	57	153
General and administrative	90	121	280	51	88
<b>Total costs and expenses</b>	<b>515</b>	<b>942</b>	<b>1,955</b>	<b>343</b>	<b>677</b>
<b>Income from operations</b>	<b>262</b>	<b>1,032</b>	<b>1,756</b>	<b>388</b>	<b>381</b>
Interest and other income (expense), net:					
Interest expense	(10)	(22)	(42)	(7)	(13)
Other income (expense), net	2	(2)	(19)	17	14
Income before provision for income taxes	254	1,008	1,695	398	382
Provision for income taxes	25	402	695	165	177
<b>Net income</b>	<b>\$ 229</b>	<b>\$ 606</b>	<b>\$ 1,000</b>	<b>\$ 233</b>	<b>\$ 205</b>
Net income attributable to participating securities	107	234	332	80	68
<b>Net income attributable to Class A and Class B common stockholders</b>	<b>\$ 122</b>	<b>\$ 372</b>	<b>\$ 668</b>	<b>\$ 153</b>	<b>\$ 137</b>
<b>Earnings per share attributable to Class A and Class B common stockholders:</b>					
Basic	\$ 0.12	\$ 0.34	\$ 0.52	\$ 0.12	\$ 0.10
Diluted	\$ 0.10	\$ 0.28	\$ 0.46	\$ 0.11	\$ 0.09
<b>Pro forma earnings per share attributable to Class A and Class B common stockholders (unaudited):</b>					
Basic			\$ 0.49		\$ 0.10
Diluted			\$ 0.43		\$ 0.09
<b>Share-based compensation expense included in costs and expenses:</b>					
Cost of revenue	\$	\$	\$ 9	\$	\$ 4
Marketing and sales	2	2	43		23
Research and development	6	9	114	4	60
General and administrative	19	9	51	3	16
<b>Total share-based compensation expense</b>	<b>\$ 27</b>	<b>\$ 20</b>	<b>\$ 217</b>	<b>\$ 7</b>	<b>\$ 103</b>

*See Notes to Consolidated Financial Statements.*

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**FACEBOOK, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In millions)*

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011 (unaudited)	2012
<b>Net income</b>	\$ 229	\$ 606	\$ 1,000	\$ 233	\$ 205
<b>Other comprehensive income (loss):</b>					
Foreign currency translation adjustments		(6)		1	(1)
<b>Comprehensive income</b>	\$ 229	\$ 600	\$ 1,000	\$ 234	\$ 204

*See Notes to Consolidated Financial Statements.*

**Table of Contents****FACEBOOK, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY***(In millions)*

	<b>Convertible Preferred Stock</b>		<b>Class A and Class B Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total Stockholders Equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Par Value</b>				
Balances at December 31, 2008	499	\$ 415	1,007	\$	\$ 147	\$	\$ (229)	\$ 333
Issuance of Series E convertible preferred stock, net of issuance costs	44	200						200
Issuance of common stock for cash upon exercise of stock options			57		9			9
Issuance of common stock to nonemployees for past services			2		9			9
Issuance of common stock related to acquisition			4		20			20
Share-based compensation, related to employee share-based awards					16			16
Share-based compensation, related to nonemployee share-based awards					2			2
Excess tax benefit from share-based award activity					50			50
Net income							229	229
Balances at December 31, 2009	543	\$ 615	1,070	\$	\$ 253	\$	\$	\$ 868
Issuance of common stock, net of issuance costs			24		500			500
Issuance of common stock for cash upon exercise of stock options			70		6			6
Issuance of common stock related to acquisitions			6		60			60
Conversion of Series A preferred stock to common stock	(2)		2					
Reclassification of option liability to additional paid-in capital					3			3
Share-based compensation, related to employee share-based awards					17			17
Share-based compensation, related to nonemployee share-based awards					1			1
Excess tax benefit from share-based award activity, net of deferred tax impact					107			107
Other comprehensive income						(6)		(6)
Net income							606	606
Balances at December 31, 2010	541	\$ 615	1,172	\$	\$ 947	\$ (6)	\$ 606	\$ 2,162
Issuance of common stock, net of issuance costs			48		998			998
Issuance of common stock for cash upon exercise of stock options			102		28			28
Issuance of common stock to nonemployees for past services					3			3
Issuance of common stock related to acquisitions			2		58			58
Exercise of preferred stock warrants	8							
Conversion of Series B preferred stock to common stock	(2)		2					
Conversion of Series C preferred stock to common stock.	(4)		4					
Share-based compensation, related to employee share-based awards					217			217
Excess tax benefit from share-based award activity					433			433
Net income							1,000	1,000
Balances at December 31, 2011	543	\$ 615	1,330	\$	\$ 2,684	\$ (6)	\$ 1,606	\$ 4,899



**Table of Contents****FACEBOOK, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (CONTINUED)***(In millions)*

	<b>Convertible Preferred Stock</b>		<b>Class A and Class B Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total Stockholders Equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Par Value</b>				
Balances at December 31, 2011	543	\$ 615	1,330	\$	\$ 2,684	\$ (6)	\$ 1,606	\$ 4,899
Issuance of common stock for cash upon exercise of stock options (unaudited)			22		5			5
Issuance of common stock to nonemployees for past services (unaudited)					1			1
Issuance of common stock related to asset acquisition (unaudited)					6			6
Share-based compensation, related to employee share-based awards (unaudited)					103			103
Excess tax benefit from share-based award activity (unaudited)					54			54
Other comprehensive income (unaudited)						(1)		(1)
Net income (unaudited)							205	205
Balances at March 31, 2012 (unaudited)	543	\$ 615	1,352	\$	\$ 2,853	\$ (7)	\$ 1,811	\$ 5,272

*See Notes to Consolidated Financial Statements.*

**Table of Contents****FACEBOOK, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In millions)*

	<b>Year Ended December 31,</b>			<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>
				<b>(unaudited)</b>	
<b>Cash flows from operating activities</b>					
Net income	\$ 229	\$ 606	\$ 1,000	\$ 233	\$ 205
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	78	139	323	51	110
Loss on write-off of assets	1	3	4	1	1
Share-based compensation	27	20	217	7	103
Tax benefit from share-based award activity	50	115	433	69	54
Excess tax benefit from share-based award activity	(51)	(115)	(433)	(69)	(54)
Changes in assets and liabilities:					
Accounts receivable	(112)	(209)	(174)	27	65
Prepaid expenses and other current assets	(30)	(38)	(31)	(26)	(28)
Other assets	(59)	17	(32)	(10)	(32)
Accounts payable	(7)	12	6	(3)	(3)
Platform partners payable		75	96	24	7
Accrued expenses and other current liabilities	27	20	38	6	2
Deferred revenue and deposits	1	37	49	17	3
Other liabilities	1	16	53	18	8
<b>Net cash provided by operating activities</b>	<b>155</b>	<b>698</b>	<b>1,549</b>	<b>345</b>	<b>441</b>
<b>Cash flows from investing activities</b>					
Purchases of property and equipment	(33)	(293)	(606)	(153)	(453)
Purchases of marketable securities			(3,025)		(876)
Maturities of marketable securities			516		567
Sales of marketable securities			113		69
Investments in non-marketable equity securities			(3)		(1)
Acquisitions of business, net of cash acquired, and purchases of intangible and other assets	3	(22)	(24)	(1)	(25)
Change in restricted cash and deposits	(32)	(9)	6	1	(1)
<b>Net cash used in investing activities</b>	<b>(62)</b>	<b>(324)</b>	<b>(3,023)</b>	<b>(153)</b>	<b>(720)</b>
<b>Cash flows from financing activities</b>					
Net proceeds from issuance of convertible preferred stock	200				
Net proceeds from issuance of common stock		500	998	998	
Proceeds from exercise of stock options	9	6	28	9	5
Proceeds from (repayments of) long-term debt		250	(250)	(250)	
Proceeds from sale and lease-back transactions	31		170	1	62
Principal payments on capital lease obligations	(48)	(90)	(181)	(29)	(71)
Excess tax benefit from share-based award activity	51	115	433	69	54
<b>Net cash provided by financing activities</b>	<b>243</b>	<b>781</b>	<b>1,198</b>	<b>798</b>	<b>50</b>
Effect of exchange rate changes on cash and cash equivalents		(3)	3	1	(1)
Net increase (decrease) in cash and cash equivalents	336	1,152	(273)	991	(230)
Cash and cash equivalents at beginning of period	297	633	1,785	1,785	1,512
<b>Cash and cash equivalents at end of period</b>	<b>\$ 633</b>	<b>\$ 1,785</b>	<b>\$ 1,512</b>	<b>\$ 2,776</b>	<b>\$ 1,282</b>

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### Supplemental cash flow data

Cash paid during the period for:

Interest	\$	9	\$	23	\$	28	\$	7	\$	9
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Income taxes	\$	42	\$	261	\$	197	\$	103	\$	174
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### Non-cash investing and financing activities:

Property and equipment additions included in accounts payable and accrued expenses and other liabilities	\$	5	\$	47	\$	135	\$	43	\$	110
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Property and equipment acquired under capital leases	\$	56	\$	217	\$	473	\$	211	\$	38
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Fair value of shares issued related to acquisitions of business and other assets	\$	20	\$	60	\$	58	\$	6	\$	6
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*See Notes to Consolidated Financial Statements.*

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

**Note 1. Summary of Significant Accounting Policies**

***Organization and Description of Business***

Facebook was incorporated in Delaware in July 2004. Our mission is to make the world more open and connected. We build products that support our mission by providing utility to Facebook users, Platform developers, and advertisers. We generate substantially all of our revenue from advertising and from fees associated with our Payments infrastructure that enables users to purchase virtual and digital goods from our Platform developers.

***Basis of Presentation***

We prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Facebook, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

***Unaudited Interim Consolidated Financial Information***

The accompanying interim consolidated balance sheet as of March 31, 2012, and the consolidated statements of income, comprehensive income, and cash flows for the three months ended March 31, 2011 and 2012 and the consolidated statement of stockholders' equity for the three months ended March 31, 2012 and the related footnote disclosures are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with GAAP. In management's opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our statement of financial position as of March 31, 2012 and our consolidated results of operations and our cash flows for the three months ended March 31, 2011 and 2012. The results for the three months ended March 31, 2012 are not necessarily indicative of the results expected for the full fiscal year.

***Use of Estimates***

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical information and on various other assumptions that we

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believe are reasonable under the circumstances. GAAP requires us to make estimates and judgments in several areas, including, but not limited to, those related to revenue recognition, collectability of accounts receivable, contingent liabilities, fair value of share-based awards, fair value of financial instruments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, and income taxes. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates.

### *Cash and Cash Equivalents, and Marketable Securities*

We hold investments in short-term and long-term marketable securities, consisting of U.S. government and government agency securities. We classify our marketable securities as available-for-sale investments in our current assets because they represent investments of cash available for current operations. Our available-for-sale investments are carried at estimated fair value with any unrealized gains and losses, net of taxes, included in accumulated other comprehensive income/(loss) in stockholders' equity. Unrealized losses are charged against



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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

other income (expense), net when a decline in fair value is determined to be other-than-temporary. We have not recorded any such impairment charge in any period presented. We determine realized gains or losses on sale of marketable securities on a specific identification method, and record such gains or losses as other income (expense), net.

We classify certain restricted cash balances within prepaid expenses and other current assets and other assets on the accompanying consolidated balance sheets based upon the term of the remaining restrictions.

***Non-Marketable Securities***

We invest in certain investment funds that are not publicly traded. We carry these investments at cost because we do not have significant influence over the underlying investee. We assess for any other-than-temporary impairment at least on an annual basis. No impairment charge has been recorded to-date on our non-marketable securities.

***Fair Value of Financial Instruments***

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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*Level 3* Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Our valuation techniques used to measure the fair value of money market funds and marketable debt securities were derived from quoted prices in active markets for identical assets or liabilities.

### *Foreign Currency*

Generally the functional currency of our international subsidiaries is the local currency. We translate the financial statements of these subsidiaries to U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenue, costs, and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Net losses resulting from foreign exchange transactions were insignificant for the year ended December 31, 2009, and were \$1 million and \$29 million, respectively, for the years ended December 31, 2010 and 2011. Net gains resulting

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

from foreign exchange transactions were \$16 million and \$10 million, respectively, for the three months ended March 31, 2011 and 2012. These gains and losses were recorded as other income (expense), net.

***Property and Equipment***

Property and equipment, which includes amounts recorded under capital leases, are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the remaining lease term, in the case of a capital lease, whichever is shorter.

The estimated useful lives of property and equipment are described below:

<b>Property and Equipment</b>	<b>Useful Life</b>
Network equipment	Three to four years
Computer software, office equipment and other	Two to five years
Buildings	15 to 20 years
Leased equipment and leasehold improvements	Lesser of estimated useful life or remaining lease term

Land and assets held within construction in progress are not depreciated. Construction in progress is related to the construction or development of property and equipment that have not yet been placed in service for their intended use.

The cost of maintenance and repairs is expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in income from operations.

***Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets***

We evaluate the recoverability of property and equipment and amortizable intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. In addition, we test goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. These tests are based on our single operating segment and reporting unit structure. No indications of impairment of goodwill were noted during the years presented.

Acquired amortizable intangible assets, which are included in goodwill and intangible assets, net, are amortized on a straight-line basis over the estimated useful lives of the assets. The estimated remaining useful lives for intangible assets range from less than one year to 16 years.

In addition to the recoverability assessment, we routinely review the remaining estimated useful lives of property and equipment and amortizable intangible assets. If we reduce the estimated useful life assumption for any asset, the remaining unamortized balance would be amortized or depreciated over the revised estimated useful life.

#### *Lease Obligations*

We lease office space, data centers, and equipment under non-cancelable capital and operating leases with various expiration dates through 2027. Certain of the operating lease agreements contain rent holidays, rent escalation provisions, and purchase options. Rent holidays and rent escalation provisions are considered in determining the straight-line rent expense to be recorded over the lease term. The lease term begins on the date of

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease inception.

***Unaudited Pro Forma Balance Sheet Information***

Upon the completion of our initial public offering, all outstanding convertible preferred stock will automatically convert into shares of our Class B common stock. The unaudited pro forma balance sheet information gives effect to the conversion of the convertible preferred stock as of March 31, 2012. Additionally, as described in detail in *Share-based Compensation* below, we grant restricted stock units (RSUs) that generally vest upon the satisfaction of a service condition, and with respect to RSUs granted prior to January 1, 2011 (Pre-2011 RSUs), six months after the completion of our initial public offering. The vesting condition that will be satisfied six months following our initial public offering does not affect the expense attribution period for the RSUs for which the service condition has been met as of the date of our initial public offering. Accordingly, the unaudited pro forma balance sheet information at March 31, 2012, gives effect to share-based compensation expense of approximately \$965 million associated with Pre-2011 RSUs, for which the service condition was met as of March 31, 2012, which we expect to record upon the completion of our initial public offering. This pro forma adjustment related to share-based compensation expense of approximately \$965 million has been reflected as an increase to additional paid-in capital and the associated tax effect of \$325 million has been netted against this charge, resulting in a net reduction of \$640 million to retained earnings. The income tax effects have been reflected as an increase to deferred tax assets included in prepaid expenses and other current assets, to reflect the anticipated future tax benefits upon settlement of the RSUs, as adjusted for any RSUs that will not result in a tax benefit because they are related to foreign employees or foreign operations. Payroll tax expenses and other withholding obligations have not been included in the pro forma adjustment. We estimate that an aggregate of approximately 277 million shares underlying Pre-2011 RSUs will vest and settle on dates that are 151 to 181 days after the pricing of our initial public offering. These shares have not been included in our pro forma balance sheet disclosures of shares outstanding. RSU holders generally will recognize taxable income based upon the value of the shares on the date they are settled and we are required to withhold taxes on such value at applicable minimum statutory rates. We currently expect that the average of these withholding rates will be approximately 45%. We are unable to quantify the obligations as of March 31, 2012 and we will remain unable to quantify this amount until the settlement of the RSUs, as the withholding obligations will be based on the value of the shares approximately six months after the date of our initial public offering.

***Share-based Compensation***

We account for share-based employee compensation plans under the fair value recognition and measurement provisions of GAAP. Those provisions require all share-based payments to employees, including grants of stock options and RSUs, to be measured based on the grant-date fair value of the awards, with the resulting expense generally recognized in our consolidated statements of income over the period during which the employee is required to perform service in exchange for the award.

We estimate the fair value of stock options granted using the Black-Scholes-Merton single option valuation model, which requires inputs such as expected term, expected volatility and risk-free interest rate. Further, the estimated forfeiture rate of awards also affects the amount of aggregate compensation. These inputs are subjective and generally require significant analysis and judgment to develop.

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We estimate the expected term based upon the historical behavior of our employees for employee grants. We estimate expected volatility based on a study of publicly traded industry peer companies. The forfeiture rate is derived primarily from our historical data, and the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues. Our dividend yield is 0%, since we have not paid, and do not expect to pay, dividends.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

The fair values of employee options granted during 2009 and 2010 have been estimated as of the date of grant using the following weighted-average assumptions.

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
Expected term from grant date (in years)	5.04	7.15
Risk-free interest rate	2.01%	1.69%
Expected volatility	0.57	0.46
Dividend yield		

The weighted-average fair value of employee options granted during 2009 and 2010 was \$1.12 and \$5.26 per share, respectively. There were no options granted in 2011 or in the three months ended March 31, 2012.

We have granted RSUs to our employees and members of our board of directors. Pre-2011 RSUs granted under our 2005 Stock Plan vest upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards is satisfied over four years. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the completion of our initial public offering. Under settlement procedures applicable to these awards, we are permitted to deliver the underlying shares within 30 days before or after the date on which the liquidity condition is satisfied. Pre-2011 RSUs for which the service condition has been satisfied are not forfeitable should employment terminate prior to the liquidity condition being met. As of March 31, 2012, no share-based compensation expense had been recognized for Pre-2011 RSUs, because the qualifying events (described above) had not occurred. The vesting condition that will be satisfied six months following our initial public offering does not affect the expense attribution period for the RSUs for which the service condition has been met as of the date of our initial public offering. This six-month period is not a substantive service condition and, accordingly, upon the effectiveness of our initial public offering, we will recognize a significant cumulative share-based compensation expense for the portion of the RSUs that had met the service condition as of that date, following the accelerated attribution method (net of estimated forfeitures). The remaining unrecognized share-based compensation expense related to the Pre-2011 RSUs will be recorded over the remaining requisite service period, using the accelerated attribution method (net of estimated forfeitures). For the Pre-2011 RSUs, if the initial public offering had occurred on March 31, 2012, we would have recognized \$965 million of share-based compensation expense on that date, and would have approximately \$235 million of additional future period expense to be recognized over a weighted-average period of approximately one year.

RSUs granted on or after January 1, 2011 (Post-2011 RSUs) are not subject to a liquidity condition in order to vest, and compensation expense related to these grants is based on the grant date fair value of the RSUs and is recognized on a straight-line basis over the applicable service period. The majority of Post-2011 RSUs are earned over a service period of four to five years. In 2011 and the three months ended March 31, 2012, we recognized \$189 million and \$97 million, respectively, of share-based compensation expense related to the Post-2011 RSUs, and as of March 31, 2012 we anticipate \$1,119 million of future period expense related to such RSUs to be recognized over a weighted-average period of approximately three years. There was no capitalized share-based employee compensation expense as of December 31, 2010 and December 31, 2011.

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During the years ended December 31, 2009, 2010, and 2011 and the three months ended March 31, 2011 and 2012, we realized tax benefits from share-based award activity of \$50 million, \$115 million, \$433 million, \$69 million, and \$54 million, respectively. These amounts reflect the extent that the total reduction to our income tax liability from share-based award activity was greater than the amount of the deferred tax assets that we had previously recorded in anticipation of these benefits. These amounts are the aggregate of the individual transactions in which the reduction to our income tax liability was greater than the deferred tax assets that we recorded, reduced by any individual transactions in which the reduction to our income tax liability was less than

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

the deferred tax assets that were recorded. These net amounts were recorded as an adjustment to stockholders' equity in each period, as an increase to cash flows from operating activities, and were not recognized in our consolidated statements of income.

In addition, we reported excess tax benefits that decreased our cash flows from operating activities and increased our cash flows from financing activities for the years ended December 31, 2009, 2010, and 2011 and the three months ended March 31, 2011 and 2012, by \$51 million, \$115 million, \$433 million, \$69 million and \$54 million, respectively. The amounts of these excess tax benefits reflect the total of the individual transactions in which the reduction to our income tax liability was greater than the deferred tax assets that were recorded, but were not reduced by any of the individual transactions in which the reduction to our income tax liability was less than the deferred tax assets that were recorded.

As of December 31, 2011, there was \$2,463 million of unrecognized share-based compensation expense, of which \$2,396 million is related to RSUs, and \$67 million is related to restricted shares and stock options. As of March 31, 2012, there was \$2,381 million of unrecognized share-based compensation expense, of which \$2,319 million is related to RSUs, and \$62 million is related to restricted shares and stock options. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately two years.

***Income Taxes***

We recognize income taxes under the asset and liability method. We recognize deferred income tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. These differences are measured using the enacted statutory tax rates that are expected to apply to taxable income for the years in which differences are expected to reverse. We recognize the effect on deferred income taxes of a change in tax rates in income in the period that includes the enactment date.

We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

***Revenue Recognition***

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We generate substantially all of our revenue from advertising and payment processing fees. We recognize revenue once all of the following criteria have been met:

persuasive evidence of an arrangement exists;

delivery of Facebook's obligations to our customer has occurred;

the price is fixed or determinable; and

collectability of the related receivable is reasonably assured.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

Revenue for the years ended December 31, 2009, 2010, and 2011 and the three months ended March 31, 2011 and 2012 consists of the following (in millions):

	2009	Year Ended December 31, 2010	2011	Three Months Ended March 31, 2011 (unaudited)	2012 (unaudited)
<b>Revenue</b>					
Advertising	\$ 764	\$ 1,868	\$ 3,154	\$ 637	\$ 872
Payments and other fees	13	106	557	94	186
 Total revenue	 \$ 777	 \$ 1,974	 \$ 3,711	 \$ 731	 \$ 1,058

*Advertising*

Advertising revenue is generated from the display of advertisements on our website. The arrangements are evidenced by either online acceptance of terms and conditions or contracts that stipulate the types of advertising to be delivered, the timing and the pricing. The typical term of an advertising arrangement is approximately 30 days with billing generally occurring after the delivery of the advertisement.

We recognize revenue from the display of impression-based advertisements on our website in the contracted period when the impressions are delivered. Impressions are considered delivered when an advertisement appears in pages delivered to users.

We also recognize revenue from the delivery of click-based advertisements on our website. Revenue associated with these advertisements is recognized in the period that a user clicks on an advertisement.

*Payments and Other Fees*

We enable Payments between our users and developers on the Facebook Platform. Our users can purchase virtual or digital goods on the Facebook Platform by using credit cards or other payment methods available on our website. The primary method for users to transact with the developers on the Facebook Platform is via the purchase of our virtual currency, which enables our users to purchase virtual and digital goods in games and apps. Upon the initial sale of our virtual currency, we record consideration received from a user as a deposit.

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When a user engages in a payment transaction utilizing our virtual currency for the purchase of a virtual or digital good from a Platform developer, we reduce the user's virtual currency balance by the price of the purchase, which is a price that is solely determined by the Platform developer. We remit to the Platform developer an amount that is based on the total amount of virtual currency redeemed less the processing fee that we charge the Platform developer for the transaction. Our revenue is the net amount of the transaction, representing our processing fee for the service performed. We record revenue on a net basis as we do not consider ourselves to be the principal in the sale of the virtual or digital good to the user.

Other fees have not been material in all periods presented in our financial statements.

All revenue is recognized net of applicable sales and other taxes, where appropriate.

### *Cost of Revenue*

Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers such as facility and server

**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

equipment depreciation, facility and server equipment rent expense, energy and bandwidth costs, support and maintenance costs, and salaries, benefits and share-based compensation for certain personnel on our operations teams. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions.

***Deferred Revenue and Deposits***

Deferred revenue consists of billings in advance of revenue recognition. Deposits relate to unused virtual currency held by our users. Once this virtual currency is utilized by a user, approximately 70% of this amount would then be payable to the Platform developer and the balance would be recognized as revenue.

Deferred revenue and deposits consists of the following (in millions):

	<b>December 31, 2010</b>	<b>December 31, 2011</b>	<b>March 31, 2012 (unaudited)</b>
Deferred revenue	\$ 35	\$ 75	\$ 77
Deposits	7	15	16
<b>Total deferred revenue and deposits</b>	<b>\$ 42</b>	<b>\$ 90</b>	<b>\$ 93</b>

***Credit Risk and Concentration***

Financial instruments owned by the company that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents, restricted cash, marketable securities, and accounts receivable. Cash equivalents consist of short-term money market funds and U.S. government and agency securities, which are deposited with reputable financial institutions. Marketable securities consist of investments in U.S. government and government agency securities. Our cash management and investment policy limits investment instruments to investment-grade securities with the objective to preserve capital and to maintain liquidity until the funds can be used in business operations. Bank accounts in the United States are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Our operating accounts significantly exceed the FDIC limits.

Accounts receivable are typically unsecured and are derived from revenue earned from customers across different industries and countries. We generated 67%, 62%, and 56% of our revenue for the years ended December 31, 2009, 2010, and 2011, respectively, from advertisers and Platform developers based in the United States, with the majority of revenue outside of the United States coming from customers located in

western Europe, Canada, and Australia.

We perform ongoing credit evaluations of our customers, and generally do not require collateral. An allowance for doubtful accounts is determined using the specific-identification method for doubtful accounts and an aging of receivables analysis based on invoice due dates. Uncollectible receivables are written off against the allowance for doubtful accounts when all efforts to collect them have been exhausted, and recoveries are recognized as an increase to the allowance when they are received. During the years ended December 31, 2009, 2010, and 2011, our bad debt expenses were \$1 million, \$9 million, and \$8 million, respectively. In the event that accounts receivable collection cycles deteriorate, our operating results and financial position could be adversely affected.

Revenue from one customer, Zynga, represented 12%, 13%, and 11% of total revenue for the year ended December 31, 2011 and the three months ended March 31, 2011 and 2012, respectively. Additionally, Zynga s

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

apps generate pages on which we display ads and earn revenue from other advertisers. No customer represented 10% or more of total revenue during the years ended December 31, 2009 or 2010.

***Advertising Expense***

We expense our costs of advertising in the period in which they are incurred. Advertising expense, which is included in marketing and sales expenses, totaled \$5 million, \$8 million, and \$28 million for the years ended December 31, 2009, 2010, and 2011, respectively.

***Segments***

Our chief operating decision-maker is our Chief Executive Officer who reviews financial information presented on a consolidated basis. There are no segment managers who are held accountable by the chief operating decision-maker, or anyone else, for operations, operating results, and planning for levels or components below the consolidated unit level. Accordingly, we have determined that we have a single reporting segment and operating unit structure.

***Recent Accounting Pronouncement***

In May 2011, the Financial Accounting Standards Board issued guidance that changed the requirement for presenting Comprehensive Income in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We adopted this new guidance on January 1, 2012.

**Note 2. Earnings per Share**

We compute earnings per share (EPS) of Class A and Class B common stock using the two-class method required for participating securities. Our participating securities include all series of our convertible preferred stock and restricted stock awards. Undistributed earnings allocated to these participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding, adjusted for outstanding shares that are subject to repurchase.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, including awards under our equity compensation plans. In addition, the computation of the diluted EPS of Class A common stock assumes the conversion from Class B common stock, while the diluted EPS of Class B common stock does not assume the conversion of those shares. Diluted EPS attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

Dilutive securities in our diluted EPS calculation do not include Pre-2011 RSUs. Vesting of these RSUs is dependent upon the satisfaction of both a service condition and a liquidity condition. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the completion of our initial public offering. As of March 31, 2012, such a qualifying event had not occurred and until it occurs, the holders of these RSUs have no rights in our undistributed earnings. Therefore, they are excluded from the effect of dilutive securities. Post-2011 RSUs are not subject to a liquidity condition in



**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

order to vest, and are thus included in the calculation of diluted EPS. We excluded 4 million and 2 million shares issuable upon exercise of employee stock options for the years ended December 31, 2009 and 2010, respectively, and 3 million and 3 million Post-2011 RSUs for the year ended December 31, 2011 and the three months ended March 31, 2011, respectively, because the impact would be antidilutive. No shares were excluded from the calculation for the three months ended March 31, 2012.

Basic and diluted EPS are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in millions, except per share amounts):

	2009		Year Ended December 31, 2010		2011		Three Months Ended March 31, 2011		2012	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A (unaudited)	Class B (unaudited)	Class A (unaudited)	Class B (unaudited)
<b>Basic EPS:</b>										
<b>Numerator:</b>										
Net income	\$	\$ 229	\$ 18	\$ 588	\$ 85	\$ 915	\$ 18	\$ 215	\$ 18	\$ 187
Less: Net income attributable to participating securities		107	7	227	28	304	6	74	6	62
Net income attributable to common stockholders	\$	\$ 122	\$ 11	\$ 361	\$ 57	\$ 611	\$ 12	\$ 141	\$ 12	\$ 125
<b>Denominator:</b>										
Weighted average shares outstanding		1,026	32	1,081	110	1,189	98	1,147	117	1,233
Less: Shares subject to repurchase		6		6		5		5		3
Number of shares used for basic EPS computation		1,020	32	1,075	110	1,184	98	1,142	117	1,230
Basic EPS	\$	\$ 0.12	\$ 0.34	\$ 0.34	\$ 0.52	\$ 0.52	\$ 0.12	\$ 0.12	\$ 0.10	\$ 0.10

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(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

	Year Ended December 31,				2011		Three Months Ended March 31,			
	2009		2010		2011		2011		2012	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
<b>Diluted EPS:</b>										
Numerator:										
Net income attributable to common stockholders	\$	\$ 122	\$ 11	\$ 361	\$ 57	\$ 611	\$ 12	\$ 141	\$ 12	\$ 125
Reallocation of net income attributable to participating securities	12		30		31		9		5	
Reallocation of net income as a result of conversion of Class B to Class A common stock	122		361		611		141		125	
Reallocation of net income to Class B common stock		12		32		37		10		6
Net income attributable to common stockholders for diluted EPS	\$ 134	\$ 134	\$ 402	\$ 393	\$ 699	\$ 648	\$ 162	\$ 151	\$ 142	\$ 131
Denominator:										
Number of shares used for basic EPS computation		1,020	32	1,075	110	1,184	98	1,142	117	1,230
Conversion of Class B to Class A common stock	1,020		1,075		1,184		1,142		1,230	
Weighted average effect of dilutive securities:										
Employee stock options	334	334	295	295	204	204	240	240	169	169
RSUs					5	5			9	9
Shares subject to repurchase	5	5	4	4	3	3	4	4	2	2
Warrants	7	7	8	8	2	2	4	4		
Number of shares used for diluted EPS computation	1,366	1,366	1,414	1,382	1,508	1,398	1,488	1,390	1,526	1,410
Diluted EPS	\$ 0.10	\$ 0.10	\$ 0.28	\$ 0.28	\$ 0.46	\$ 0.46	\$ 0.11	\$ 0.11	\$ 0.09	\$ 0.09

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*Pro Forma EPS (unaudited)*

The following unaudited calculation of the numerators and denominators of basic and diluted EPS gives effect to the automatic conversion of all outstanding shares of our convertible preferred stock (using the as if-converted method) into Class B common stock as though the conversion had occurred as of the beginning of the period or the original date of issuance, if later. In addition, the pro forma share amounts give effect to Pre-2011 RSUs that have satisfied the service condition as of December 31, 2011 and March 31, 2012. These RSUs will vest and settle upon the satisfaction of a qualifying event, as previously defined. Share-based compensation expense associated with these Pre-2011 RSUs is excluded from this pro forma presentation. If the qualifying event had occurred on March 31, 2012, we would have recorded \$965 million of share-based compensation expense on that date related to these RSUs, net of associated tax effect of \$325 million, resulting in a net reduction of \$640 million to net income.

	Year Ended December 31, 2011		Three Months Ended March 31, 2012	
	Class A	Class B	Class A	Class B
<b>Pro Forma Basic EPS:</b>				
Numerator:				
Net income as reported	\$ 85	\$ 915	\$ 18	\$ 187
Reallocation of net income due to pro forma adjustments	(31)	31	(6)	6
Net income attributable to participating securities		(2)		
Net income attributable to common stockholders for pro forma basic EPS computation	\$ 54	\$ 944	\$ 12	\$ 193
<b>Denominator:</b>				
Weighted average shares used for basic EPS computation	110	1,184	117	1,230
Pro forma adjustment to reflect assumed conversion of preferred stock to Class B common stock		548		546
Pro forma adjustment to reflect assumed vesting of Pre-2011 RSUs		188		233
Number of shares used for pro forma basic EPS computation	110	1,920	117	2,009
Pro forma basic EPS	\$ 0.49	\$ 0.49	\$ 0.10	\$ 0.10
<b>Pro Forma Diluted EPS:</b>				
Numerator:				
Net income attributable to common stockholders for pro forma basic EPS computation	\$ 54	\$ 944	\$ 12	\$ 193
Reallocation of net income attributable to participating securities	2			
Reallocation of net income as a result of conversion of Class B to Class A common stock	944		193	
Reallocation of net income to Class B common stock		9		1
Net income attributable to common stockholders for pro forma diluted EPS computation	\$ 1,000	\$ 953	\$ 205	\$ 194

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(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

	Year Ended December 31, 2011		Three Months Ended March 31, 2012	
	Class A	Class B	Class A	Class B
Denominator:				
Number of shares used for pro forma basic EPS computation	110	1,920	117	2,009
Conversion of Class B to Class A common stock	1,920		2,009	
Weighted average effect of dilutive securities:				
Employee stock options	204	204	169	169
RSUs	93	93	64	64
Shares subject to repurchase	3	3	2	2
Warrants	2	2		
Number of shares used for pro forma diluted EPS computation	2,332	2,222	2,361	2,244
Pro forma diluted EPS	\$ 0.43	\$ 0.43	\$ 0.09	\$ 0.09

**Note 3. Property and Equipment**

Property and equipment consists of the following (in millions):

	December 31, 2010	December 31, 2011	March 31, 2012 (unaudited)
Network equipment	\$ 478	\$ 1,016	\$ 1,382
Land	29	34	34
Buildings		355	373
Leasehold improvements	58	120	148
Computer software, office equipment and other	61	73	76
Construction in progress	194	327	379
Total	820	1,925	2,392
Less accumulated depreciation and amortization	(246)	(450)	(537)
Property and equipment, net	\$ 574	\$ 1,475	\$ 1,855

Property and equipment at December 31, 2010 and 2011 and March 31, 2012 includes \$298 million, \$881 million, and \$979 million, respectively, acquired under capital lease agreements. Accumulated amortization under capital leases totaled \$85 million, \$210 million, and \$280 million at December 31, 2010 and 2011, and March 31, 2012, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

Construction in progress includes costs primarily related to the construction and network equipment of data centers in Oregon and North Carolina in the United States and in Sweden, and our new corporate headquarters in Menlo Park, California. Interest capitalized during the years presented was not material.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)****Note 4. Goodwill and Intangible Assets**

Goodwill and intangible assets consist of the following (in millions):

	December 31, 2010	December 31, 2011	March 31, 2012 (unaudited)
Acquired patents	\$ 33	\$ 51	\$ 83
Acquired non-compete agreements	11	18	18
Acquired technology and other	27	43	43
Accumulated amortization	(12)	(32)	(37)
Net acquired intangible assets	59	80	107
Goodwill	37	82	82
Goodwill and intangible assets	\$ 96	\$ 162	\$ 189

Acquired patents have estimated useful lives ranging from four to 18 years at acquisition. The average term of acquired non-compete agreements is generally two years. Acquired technology and other have estimated useful lives of two to ten years. Amortization expense of intangible assets for the years ended December 31, 2009, 2010, and 2011 was \$2 million, \$9 million, and \$20 million, respectively.

During the year ended December 31, 2011, we completed business acquisitions for total consideration of \$68 million. These acquisitions were not material to our consolidated financial statements individually or in the aggregate. Our acquisitions prior to 2011 were also not material individually or in the aggregate. There were no business combinations completed during the three months ended March 31, 2012.

The following table presents the aggregated estimated fair value of the assets acquired for all acquisitions completed during the year ended December 31, 2011 (in millions):

Acquired technology and other	\$ 16
Acquired non-compete agreements	7
Net assets acquired	4
Deferred income tax liabilities	(7)
Goodwill	48

Total	\$ 68
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Pro forma results of operations related to our 2011 acquisitions have not been presented because they are not material to our consolidated statements of income, either individually or in the aggregate. For all acquisitions completed during the year ended December 31, 2011, acquired technology and other had a weighted-average useful life of three years and the term of the non-compete agreements is generally two years.

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The changes in carrying amount of goodwill for the years ended December 31, 2010 and 2011 are as follows (in millions):

Balance as of December 31, 2009	\$ 11
Goodwill acquired	26
Balance as of December 31, 2010	37
Goodwill acquired	48
Effect of currency translation adjustment	(3)
Balance as of December 31, 2011	\$ 82

As of December 31, 2011, expected amortization expense for the unamortized acquired intangible assets for the next five years and thereafter is as follows (in millions):

2012	\$ 21
2013	11
2014	7
2015	7
2016	6
Thereafter	28
Total	\$ 80

**Note 5. Long-term Debt**

In March 2010, we entered into a senior unsecured term loan facility with certain lenders. This facility allowed for the drawdown of up to \$250 million in unsecured senior loans with a maturity of five years. In April 2010 we drew down the full amount available under the facility at an interest rate of 4.5%, payable quarterly. The loan could be repaid by us at any time without penalty. Debt issuance costs of approximately \$1 million were recorded in other non-current assets and were being amortized to interest expense over the contractual term of the loan. On March 2, 2011, we repaid in full the long-term debt balance of \$250 million, and expensed the remaining unamortized debt issuance costs.

In 2011, we entered into an agreement for an unsecured five-year revolving credit facility that allowed us to borrow up to \$2,500 million, with interest payable on borrowed amounts set at the London Interbank Offered Rate (LIBOR) plus 1.0%. No amounts were drawn down under this agreement as of December 31, 2011. In February 2012, we terminated this credit facility and entered into a new agreement for an unsecured five-year revolving credit facility that allows us to borrow up to \$5,000 million for general corporate purposes, with interest payable on the

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borrowed amounts set at LIBOR plus 1.0%. Prior to our initial public offering, we can borrow up to \$2,500 million under this facility. Origination fees are amortized over the term of the credit facility. Under the terms of the new agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance.

Concurrent with our entering into the new revolving credit facility, we also entered into a bridge credit facility that allows us to borrow up to \$3,000 million to fund tax withholding and remittance obligations related to the settlement of RSUs in connection with our initial public offering, with interest payable on the borrowed amounts set at LIBOR plus 1.0%, and an additional 0.25% payable on drawn balances outstanding from and after the 180th day of borrowing. We may make a single borrowing under this bridge facility beginning on the closing

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

date of our initial public offering and ending on the date that is 240 days after that date. Any amounts outstanding under this facility will be due one year after the date we draw on the facility but no later than June 30, 2014. During the term of this bridge facility, the lenders' commitments are subject to reduction and amounts borrowed thereunder are subject to repayment in the event we raise capital through certain asset sales, debt issuances, or equity issuances. Origination fees are amortized over the term of the facility, and we are obligated to pay an additional upfront fee of 0.20% of the aggregate amount of the borrowings requested on any applicable funding date. Under the terms of the agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance from and after the 90th day following the date we entered into the bridge facility.

**Note 6. Fair Value Measurements**

Assets measured at fair value on a recurring basis are summarized below (in millions):

Description	March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurement at Reporting Date Using	
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(unaudited)	
Cash equivalents:				
Money market funds	\$ 333	\$ 333	\$	\$
U.S. government securities	120	120		
U.S. government agency securities	100	100		
Total cash equivalents	553	553		
Marketable securities:				
U.S. government securities	1,570	1,570		
U.S. government agency securities	1,058	1,058		
Total cash equivalents and marketable securities	\$ 3,181	\$ 3,181	\$	\$

Description	December 31, 2011	Quoted Prices in Active Markets for	Fair Value Measurement at Reporting Date Using	
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

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		Identical Assets (Level 1)		
Cash equivalents:				
Money market funds	\$ 892	\$ 892	\$	\$
U.S. government securities	60	60		
U.S. government agency securities	50	50		
Total cash equivalents	1,002	1,002		
Marketable securities:				
U.S. government securities	1,415	1,415		
U.S. government agency securities	981	981		
Total cash equivalents and marketable securities	\$ 3,398	\$ 3,398	\$	\$

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

Description	December 31, 2010	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$ 1,450	\$ 1,450	\$	\$
Total cash equivalents	\$ 1,450	\$ 1,450	\$	\$

Gross unrealized gains or losses for cash equivalent and marketable securities as of December 31, 2010 and 2011 and March 31, 2012 were not material.

The following table classifies our marketable securities by contractual maturities as of December 31, 2011 and March 31, 2012 (in millions):

	December 31, 2011	March 31, 2012 (unaudited)
Due in one year	\$ 1,964	\$ 1,818
Due in one to five years	432	810
Total	\$ 2,396	\$ 2,628

**Note 7. Commitments and Contingencies*****Leases***

We entered into various capital lease arrangements to obtain property and equipment for our operations. Additionally, on occasion we have purchased property and equipment for which we have subsequently obtained capital financing under sale-leaseback transactions. These

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agreements are typically for three years except for building leases which are for 15 years, with interest rates ranging from 2% to 13%. The leases are secured by the underlying leased buildings, leasehold improvements, and equipment. We have also entered into various non-cancelable operating lease agreements for certain of our offices, equipment, land and data centers with original lease periods expiring between 2012 and 2027. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. Certain of these arrangements have free rent periods or escalating rent payment provisions, and we recognize rent expense under such arrangements on a straight-line basis.

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The following is a schedule, by years, of the future minimum lease payments required under non-cancelable capital and operating leases as of December 31, 2011 (in millions):

	<b>Capital Leases</b>	<b>Operating Leases</b>
2012	\$ 322	\$ 180
2013	228	130
2014	109	113
2015	17	102
2016	11	95
Thereafter	130	325
<b>Total minimum lease payments</b>	<b>817</b>	<b>\$ 945</b>
Less amount representing interest and taxes	(140)	
Less current portion of the present value of minimum lease payments	(279)	
<b>Capital lease obligations, net of current portion</b>	<b>\$ 398</b>	

Operating lease expense totaled \$69 million, \$178 million, and \$219 million for the years ended December 31, 2009, 2010, and 2011, respectively. We also have \$500 million of non-cancelable contractual commitments as of December 31, 2011, primarily related to equipment and supplies for our data center operations, and to a lesser extent, construction of our data center sites. The majority of these commitments are due in 2012.

***Contingencies******Legal Matters***

On March 12, 2012, Yahoo filed a lawsuit against us in the U.S. District Court for the Northern District of California, claiming that we infringe ten of Yahoo's patents that Yahoo claims relate to advertising, social networking, privacy, customization, and messaging, and on April 27, 2012, Yahoo added two patents to the lawsuit that Yahoo claims relate to advertising. Yahoo is seeking unspecified damages, a damage multiplier for alleged willful infringement, and an injunction. We intend to vigorously defend this lawsuit, and on April 3, 2012, we filed our answer with respect to this complaint and asserted counterclaims that Yahoo's products infringe ten of our patents. This litigation is still in its early stages and the final outcome, including our liability, if any, with respect to Yahoo's claims, is uncertain. At present, we are unable to estimate a reasonably possible range of loss, if any, that may result from this matter. If an unfavorable outcome were to occur in this litigation, the impact could be material to our business, financial condition, or results of operations.

We are also party to various legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, as of December 31, 2011 and March 31, 2012, there was not at least a reasonable possibility that we had incurred a material loss, or a material loss in excess of a recorded accrual, with respect to such loss contingencies.

#### *Indemnifications*

In the normal course of business, to facilitate transactions of services and products, we have agreed to indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made by third parties. In addition, we have also agreed to indemnify certain investors with respect to



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representations made by us in connection with the issuance and sale of preferred stock. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers, directors, and certain employees, and our certificate of incorporation and bylaws contain similar indemnification obligations.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our consolidated financial position, results of operations or cash flows. In our opinion, as of December 31, 2011, there was not at least a reasonable possibility we had incurred a material loss with respect to indemnification of such parties. We have not recorded any liability for costs related to indemnification through December 31, 2011.

**Note 8. Stockholders Equity*****Convertible Preferred Stock***

Our certificate of incorporation, as amended and restated, authorizes the issuance of 569,001,400 shares of \$0.000006 par value convertible preferred stock. The following table summarizes the convertible preferred stock outstanding as of December 31, 2011, and the rights and preferences of the respective series:

	<b>Shares</b>		<b>Aggregate</b>	<b>Dividend</b>	<b>Conversion</b>
	<b>Authorized</b>	<b>Issued and</b>	<b>Liquidation</b>	<b>Per Share</b>	<b>Ratio</b>
	<b>(in thousands)</b>	<b>Outstanding</b>	<b>Preference</b>	<b>Per Annum</b>	<b>Per Share</b>
		<b>(in thousands)</b>	<b>(in millions)</b>		
Series A	134,747	133,055	\$ 1	\$ 0.00036875	1.000000
Series B	226,032	224,273	13	0.00456	1.004910
Series C	95,768	91,410	26	0.02297335	1.004909
Series D	67,454	50,590	375	0.593	1.012561
Series E	45,000	44,038	200	0.3633264	1.000000
Total	569,001	543,366	\$ 615		

As of December 31, 2011, the rights, preferences, and privileges of the preferred stockholders were as follows:

***Dividends***

The holders of shares of Series A, Series B, Series C, Series D, and Series E convertible preferred stock are entitled to receive non-cumulative dividends, out of any assets legally available for such purpose, prior and in preference to any declaration or payment of any dividend on the Class A common stock or Class B common stock, payable quarterly when, as and if, declared by our board of directors. After payment of such dividend to the preferred stockholders, outstanding shares of preferred stock shall participate with shares of Class A common stock and Class B common stock on an as-converted to Class B common stock basis as to any additional dividends. As of December 31, 2011, we had not declared any dividends.

#### *Conversion*

Each share of Series A, Series B, Series C, Series D, and Series E preferred stock is convertible, at the option of the holder thereof, at any time after the date of issuance of such share, into such number of fully paid

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

and non-assessable shares of Class B common stock as is determined by dividing the applicable original issue price by the conversion price applicable to such share in effect on the date of conversion.

The conversion price of each series of preferred stock may be subject to adjustment from time to time under certain circumstances. The convertible preferred stock issued to date was sold at prices ranging from \$0.004605 to \$7.412454 per share, which, in all cases, exceeded the then most recent reassessed fair value of our Class B common stock. Accordingly, there was no intrinsic value associated with the issuance of the convertible preferred stock through December 31, 2011, and there were no other separate instruments issued with the convertible preferred stock, such as warrants. Therefore, we have concluded that there was no beneficial conversion option associated with the convertible preferred stock issuances.

Each share of Series A, Series B, Series C, Series D, and Series E convertible preferred stock shall automatically be converted into fully paid, non-assessable shares of Class B common stock immediately upon the earlier of: (i) the sale by us of our Class A common stock or Class B common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended (Securities Act), the public offering price of which results in aggregate cash proceeds to us of not less than \$100 million (net of underwriting discounts and commissions), or (ii) the date specified by written consent or agreement of the holders of a majority of the then-outstanding shares of preferred stock, voting together as a single class on an as-converted basis, provided, however, that if (a) the holders of a majority of the then-outstanding shares of Series D convertible preferred stock do not consent or agree or (b) the holders of a majority of the then-outstanding shares of Series E convertible preferred stock do not consent or agree, then in either such case the conversion shall not be effective as to any shares of preferred stock until 180 days after the date of the written consent of the majority of the then-outstanding shares of preferred stock.

***Liquidation Preferences***

In the event we liquidate, dissolve, or wind up our business, either voluntarily or involuntarily, the holders of our Series A, Series B, Series C, Series D, and Series E convertible preferred stock shall be entitled to receive, prior and in preference to any distribution of any of our assets to the holders of Class A common stock or Class B common stock, an amount per share equal to \$0.004605, \$0.0570025, \$0.2871668, \$7.412454, and \$4.54158 per share (as adjusted for stock splits, stock dividends, reclassifications, and the like), respectively, plus any declared but unpaid dividends.

If, upon the occurrence of any of these events, the assets and funds distributed among the holders of the Series A, Series B, Series C, Series D, and Series E convertible preferred stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then our entire assets and funds legally available for distribution shall be distributed ratably among the holders of the Series A, Series B, Series C, Series D, and Series E convertible preferred stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

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If there are any remaining assets upon the completion of the liquidating distribution to the Series A, Series B, Series C, Series D, and Series E convertible preferred stockholders, the holders of our Class A common stock and Class B common stock will receive all our remaining assets. The merger or consolidation of us into another entity in which our stockholders own less than 50% of the voting stock of the surviving company, or the sale, transfer, or lease of substantially all our assets, shall be deemed a liquidation, dissolution, or winding up of us. As the redemption events are within our control for all periods presented, all shares of preferred stock have been presented as part of permanent equity.

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

***Voting Rights***

The holder of each share of Series A, Series B, Series C, Series D, and Series E convertible preferred stock shall have the same voting rights as the holders of Class B common stock, is entitled to notice of any stockholders' meeting in accordance with our bylaws, and together with the holders of Class A common stock and Class B common stock, the Series A, Series B, Series C, Series D, and Series E convertible preferred stock will vote together as a single class on all matters which holders of Class A common stock and Class B common stock have the right to vote, unless otherwise stated. Each holder of Class A common stock is entitled to one vote for each share of Class A common stock held; each holder of Class B common stock is entitled to ten votes for each share of Class B common stock held; and each holder of Series A, Series B, Series C, Series D, and Series E convertible preferred stock is entitled to ten votes for each share of Class B common stock into which such convertible preferred stock could be converted.

***Common Stock***

Our certificate of incorporation authorizes the issuance of Class A common stock and Class B common stock. We are authorized to issue 4,141,000,000 shares of Class A common stock and 4,141,000,000 shares of Class B common stock, each with a par value of \$0.000006 per share. Holders of our Class A common stock and Class B common stock are entitled to dividends when, as and if, declared by our board of directors, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. As of December 31, 2011, we had not declared any dividends. The holder of each share of Class A common stock is entitled to one vote, while the holder of each share of Class B common stock is entitled to ten votes. After our initial public offering, a transfer of shares of Class B common stock will generally result in those shares converting to Class A common stock. Class A common stock and Class B common stock are referred to as common stock throughout the notes to these financial statements, unless otherwise noted.

***Share-based Compensation Plans***

We maintain two share-based employee compensation plans. In January 2005, our board of directors and stockholders adopted and approved the 2005 Stock Plan, as amended, which provides for the issuance of incentive and nonstatutory stock options and RSUs to qualified employees, directors, and consultants. In November 2005, our board of directors adopted and approved the 2005 Officers' Stock Plan (together with the 2005 Stock Plan, the Stock Plans), which provides for the issuance of incentive and nonstatutory stock options to certain employees or officers.

The term of stock options issued under the 2005 Stock Plan may not exceed ten years from the date of grant. Under the 2005 Stock Plan, incentive stock options and nonstatutory stock options are granted at an exercise price that is not to be less than 100% of the fair market value of our Class B common stock on the date of grant, as determined by our compensation committee. Stock options become vested and exercisable at such times and under such conditions as determined by our compensation committee on the date of grant.

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

The 2005 Officers' Stock Plan provides for the issuance of up to 120,000,000 shares of incentive and nonstatutory stock options to certain of our employees or officers. The 2005 Officers' Stock Plan will terminate ten years after its adoption unless terminated earlier by our compensation committee. Stock options become vested and exercisable at such times and under such conditions as determined by our compensation committee on the date of grant. In November 2005, we issued a nonstatutory stock option to our CEO to purchase 120,000,000 shares of our Class B common stock under the 2005 Officers' Stock Plan. At December 31, 2011, the option was outstanding and fully vested, and no options were available for future issuance under the 2005 Officers' Stock Plan.

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## FACEBOOK, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

The following table summarizes the stock option and RSU award activity under the Stock Plans between January 1, 2009 and March 31, 2012:

	Shares Subject to Options Outstanding				Outstanding RSUs		
	Shares Available for Grant <sup>(1)</sup> (in thousands)	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value <sup>(2)</sup> (in millions)	Outstanding RSUs (in thousands)	Weighted Average Grant Date Fair Value
Balance as of December 31, 2008	15,257	479,811	\$ 0.17		\$	136,833	\$ 1.72
Increase in shares authorized	251,969						
RSUs granted	(159,167)					159,167	2.35
Stock options granted	(13,885)	13,885	2.54				
Stock options exercised		(57,459)	0.15				
Stock options forfeited/cancelled	5,996	(5,996)	0.80				
RSUs forfeited and cancelled	10,511					(10,511)	1.81
Balance as of December 31, 2009	110,681	430,241	0.25	6.39	1,780	285,489	2.07
Increase in shares authorized	25,000						
RSUs granted	(68,058)					68,058	10.56
Stock options granted	(4,706)	4,706	11.57				
Stock options exercised		(69,910)	0.09				
Stock options forfeited/cancelled	2,066	(2,066)	0.22				
RSUs forfeited and cancelled	11,399					(11,399)	13.12
Balance as of December 31, 2010	76,382	362,971	0.42	5.37	7,415	342,148	3.39
Increase in shares authorized	10,000						
RSUs granted	(55,126)					55,126	26.32
Stock options exercised		(101,872)	0.27				
Stock options forfeited/cancelled	2,560	(2,560)	1.60				
RSUs forfeited and cancelled	18,502					(18,502)	7.97
Balance as of December 31, 2011	52,318	258,539	0.47	4.38	7,360	378,772	6.83
RSUs granted (unaudited)	(1,947)					1,947	30.46
Stock options exercised (unaudited)		(21,783)	0.22				
RSUs forfeited and cancelled (unaudited)	2,290					(2,290)	13.54
Balance as of March 31, 2012 (unaudited)	52,661	236,756	\$ 0.49	4.15	\$ 7,194	378,429	6.88
Stock options vested and expected to vest as of December 31, 2011		258,468	\$ 0.47	4.38	\$ 7,359		
Stock options exercisable as of December 31, 2011		244,849	\$ 0.19	4.19	\$ 7,040		

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

Stock options vested and expected to vest as of March 31, 2012 (unaudited)	236,653	\$	0.49	4.15	\$	7,191
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Stock options exercisable as of March 31, 2012 (unaudited)	224,185	\$	0.19	3.97	\$	6,879
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- (1) After excluding 195 thousand restricted stock awards not included in the table above, 52,123 and 52,466 thousand shares are available for grant under the Stock Plans as of December 31, 2011 and March 31, 2012, respectively.
- (2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the assessed fair value of our common stock as of December 31, 2009, 2010, and 2011 and March 31, 2012.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

The following table summarizes additional information regarding outstanding and exercisable options under the Stock Plans at December 31, 2011:

Exercise Price (Range)	Number of Shares (in thousands)	Options Outstanding Weighted- Average Remaining Life (in years)	Weighted- Average Exercise Price	Options Exercisable Number of Shares (in thousands)	Weighted- Average Exercise Price
\$0.00 - 0.04	27,694	3.14	\$ 0.01	27,694	\$ 0.01
0.06	135,863	3.85	0.06	135,863	0.06
0.10 - 0.18	34,186	4.38	0.13	34,186	0.13
0.29 - 0.33	37,665	5.30	0.31	37,665	0.31
1.78	5,328	6.58	1.78	2,637	1.78
1.85	5,715	7.03	1.85	3,423	1.85
2.95	2,888	7.63	2.95	1,356	2.95
3.23	4,500	7.82	3.23	2,025	3.23
10.39	3,500	8.56	10.39		
15.00	1,200	8.80	15.00		
	258,539	4.38	\$ 0.47	244,849	\$ 0.19

The aggregate intrinsic value of the options exercised in the years ended December 31, 2009, 2010, and 2011 and the three months ended March 31, 2012, was \$149 million, \$492 million, \$2,380 million, and \$629 million, respectively. The total grant date fair value of stock options vested during the years ended December 31, 2009, 2010, and 2011 and the three months ended March 31, 2012 was \$16 million, \$16 million, \$6 million, and \$1 million, respectively. The total number of unvested shares subject to options and RSUs outstanding as of December 31, 2009, 2010, and 2011 and March 31, 2012 was 395 million, 374 million, 392 million, and 386 million respectively.

***Shares Reserved for Future Issuance***

We have the following shares of Class B common stock reserved for future issuance as of December 31, 2011 and March 31, 2012 (in thousands):

	December 31, 2011	March 31, 2012 (unaudited)
2005 Stock Plan:		
Shares subject to options outstanding	138,539	116,756

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Restricted stock units outstanding	378,772	378,429
Shares available for future grants	52,123	52,466
2005 Officers' Stock Plan shares subject to options outstanding	120,000	120,000
Convertible preferred stock, all series	545,551	545,401
	1,234,985	1,213,052

In addition, we have reserved shares of Class A common stock for future issuance pursuant to the conversion of any shares of Class B common stock that are currently outstanding or that may be issued in the future.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)

**Note 9. Income Taxes**

The components of income before provision for income taxes for the years ended December 31, 2009, 2010, and 2011 are as follows (in millions):

	Year Ended December 31,		
	2009	2010	2011
Domestic	\$ 260	\$ 1,027	\$ 1,819
Foreign	(6)	(19)	(124)
Total income before provision for income taxes	\$ 254	\$ 1,008	\$ 1,695

The provision for income taxes consisted of the following (in millions):

	Year Ended December 31,		
	2009	2010	2011
Current:			
Federal	\$ 83	\$ 325	\$ 664
State	14	57	60
Foreign	1	1	8
Total current tax expense	98	383	732
Deferred:			
Federal	(60)	13	(34)
State	(13)	6	(3)
Total deferred tax expense (benefit)	(73)	19	(37)
Provision for income taxes	\$ 25	\$ 402	\$ 695

A reconciliation of the U.S. federal statutory income tax rate of 35% to our effective tax rate is as follows (in percentages):

	Year Ended December 31,		
	2009	2010	2011
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

State income taxes, net of federal benefit	0.2	4.0	1.9
Research tax credits	(1.2)	(0.8)	(1.0)
Share-based compensation	0.8	0.3	1.5
Foreign losses not benefited	1.1	0.8	3.3
Change in valuation allowance	(25.6)		0.3
Other	(0.3)	0.6	
Effective tax rate	10.0%	39.9%	41.0%

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

Excess tax benefits associated with stock option exercises and other equity awards are credited to stockholders' equity. The income tax benefits resulting from stock awards that were credited to stockholders' equity were \$50 million, \$107 million, and \$433 million for the years ended December 31, 2009, 2010, and 2011.

Our deferred tax assets (liabilities) are as follows (in millions):

	<b>December 31,</b>	
	<b>2010</b>	<b>2011</b>
Deferred tax assets:		
Net operating loss carryforward	\$ 2	\$ 3
Tax credit carryforward		9
Share-based compensation	28	79
Accrued expenses and other liabilities	38	58
Total deferred tax assets	68	149
Less: valuation allowance		(9)
Deferred tax assets, net of valuation allowance	68	140
Deferred tax liabilities:		
Depreciation and amortization	(21)	(69)
Purchased intangible assets	(8)	(10)
Deferred foreign taxes		(1)
Total deferred tax liabilities	(29)	(80)
Net deferred tax assets	\$ 39	\$ 60

The valuation allowance was approximately \$9 million as of December 31, 2011, related to state tax credits that we do not believe will ultimately be realized. There was no change to the valuation allowance for the year ended December 31, 2010. The valuation allowance decreased by approximately \$76 million for the year ended December 31, 2009.

As of December 31, 2011, we had U.S. federal and California net operating loss carryforwards of \$7 million and \$17 million, which will expire in 2027 and 2021, respectively, if not utilized. We also have state tax credit carryforwards of \$9 million, which carry forward indefinitely.

Utilization of our net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to,

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

a cumulative stock ownership change of greater than 50% over a three-year period.

Our net foreign pretax losses include jurisdictions with both pretax earnings and pretax losses. Our consolidated financial statements provide taxes for all related tax liabilities that would arise upon repatriation of earnings in the foreign jurisdictions where we do not intend to indefinitely reinvest those earnings outside the United States, and the amount of taxes provided for has been insignificant.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

The following table reflects changes in the gross unrecognized tax benefits (in millions):

	Year Ended December 31,		
	2009	2010	2011
Gross unrecognized tax benefits beginning of period	\$ 3	\$ 9	\$ 18
Increase related to prior year tax positions	6	1	5
Decreases related to prior year tax positions		(2)	(2)
Increases related to current year tax positions		10	42
Gross unrecognized tax benefits end of period	\$ 9	\$ 18	\$ 63

During all years presented, we recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of income. For the year ended December 31, 2011, we recognized interest of \$1 million and penalties of \$3 million. The amount of interest and penalties accrued as of December 31, 2010 and 2011 was \$1 million and \$6 million, respectively.

If the remaining balance of gross unrecognized tax benefits of \$63 million as of December 31, 2011 was realized in a future period, this would result in a tax benefit of \$51 million within our provision of income taxes at such time.

We are subject to taxation in the United States and various other state and foreign jurisdictions. The material jurisdictions in which we are subject to potential examination by taxing authorities include the United States and Ireland. In 2011, the Internal Revenue Service (IRS) commenced its examinations of our 2008 and 2009 tax years. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations and we do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. Our 2010 and 2011 tax years remain subject to examination by the IRS and all tax years starting in 2008 remain subject to examination in Ireland. We remain subject to possible examinations or are undergoing audits in various other jurisdictions that are not material to our financial statements.

Although the timing of the resolution, settlement, and closure of any audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, given the number of years remaining that are subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

*Three Months Ended March 31, 2011 and 2012*

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Our effective tax rate for the three months ended March 31, 2012 increased compared to the same period in 2011 primarily due to the impact of non-deductible share-based compensation expense, losses arising outside the United States in jurisdictions where we do not receive a tax benefit, and the expiration of the federal tax credit for research and development activities at the end of 2011.

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**Table of Contents****FACEBOOK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)****Note 10. Geographical Information**

Revenue by geography is based on the billing address of the advertiser or Platform developer. The following table sets forth revenue and long-lived assets by geographic area (in millions):

	2009	Year Ended December 31, 2010	2011	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012 (unaudited)
Revenue:					
United States	\$ 518	\$ 1,223	\$ 2,067	\$ 427	\$ 536
Rest of the world <sup>(1)</sup>	259	751	1,644	304	522
Total revenue	\$ 777	\$ 1,974	\$ 3,711	\$ 731	\$ 1,058

(1) No individual country exceeded 10% of our total revenue for any period presented.

	December 31, 2010	December 31, 2011	March 31, 2012 (unaudited)
Long-lived assets:			
United States	\$ 567	\$ 1,444	\$ 1,781
Rest of the world	7	31	74
Total long-lived assets	\$ 574	\$ 1,475	\$ 1,855

**Note 11. Related Party Transactions**

During 2009, our board of directors authorized us to award two million shares of Class B common stock to a family member of our CEO. This award was made in satisfaction of funds provided for our initial working capital and potential related claims. We recorded share-based compensation expense of \$9 million related to this stock award for the year ended December 31, 2009.

**Note 12. Subsequent Events**

## Edgar Filing: United States 12 Month Natural Gas Fund, LP - Form 424B3

For our consolidated financial statements as of December 31, 2010 and 2011, and for each of the three years in the period ended December 31, 2011, we evaluated subsequent events through February 1, 2012, which is the date the financial statements were available to be issued.

In January 2012, our board of directors adopted our 2012 Equity Incentive Plan, subject to stockholder approval, which plan will become effective on the effective date of our initial public offering. The 2012 Equity Incentive Plan will succeed our 2005 Stock Plan and we will cease granting awards under the 2005 Stock Plan. We have reserved 25 million shares of Class A common stock for issuance under our 2005 Stock Plan, plus an additional number of shares of Class A common stock equal to any shares reserved but not issued or subject to outstanding awards under our 2005 Stock Plan on the effective date of our initial public offering, plus, (i) shares that are subject to outstanding awards under the 2005 Stock Plan which cease to be subject to such awards, (ii) shares issued under the 2005 Stock Plan which are forfeited or repurchased at their original issue price, and (iii) shares subject to awards under the 2005 Stock Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award. The 2012 Equity Incentive Plan provides for automatic increases in the number of shares reserved for issuance on January 1 of each year.

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**FACEBOOK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(Information as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 is unaudited)**

**Note 13. Subsequent Events (unaudited)**

For our interim consolidated financial statements as of March 31, 2012, and for the three months then ended, we have evaluated subsequent events through May 17, 2012, which is the date the financial statements were available to be issued.

In April 2012, we entered into an agreement to acquire Instagram, Inc., which has built a mobile phone-based photo-sharing service, for approximately 23 million shares of our common stock and \$300 million in cash. Following the closing of this acquisition, we plan to maintain Instagram's products as independent mobile applications to enhance our photos product offerings and to enable users to increase their levels of mobile engagement and photo sharing. This acquisition is subject to customary closing conditions, including the expiration or early termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (HSR), and is expected to close in 2012. We have agreed to pay Instagram a \$200 million termination fee if governmental authorities permanently enjoin or otherwise prevent the completion of the merger or if either party terminates the agreement after December 10, 2012. The value of the equity component of the final purchase price will be determined for accounting purposes based on the fair value of our common stock on the closing date of the acquisition. As of that date, the excess of the fair value of purchase consideration over the fair value of the identifiable assets and liabilities of Instagram will be recorded as goodwill. We currently anticipate that goodwill will significantly exceed the fair value of any identifiable assets. However, as we have not yet established the fair values of assets acquired and liabilities assumed, the financial effects of this planned acquisition have not been determined.

Also, in April 2012, we entered into an agreement with Microsoft Corporation pursuant to which we will be assigned Microsoft's rights to acquire approximately 615 U.S. patents and patent applications and their foreign counterparts, consisting of approximately 170 foreign patents and patent applications, that are subject to the agreement between AOL Inc. and Microsoft entered into on April 5, 2012, in exchange for a total cash payment of approximately \$550 million. As part of this transaction, we will obtain a license to the other AOL patents and patent applications being purchased by Microsoft and will grant Microsoft a license to the AOL patents and patent applications that we are acquiring. In addition, we will be assigned Microsoft's rights to acquire the outstanding shares of a wholly-owned, non-operating subsidiary of AOL that holds a portion of the aforementioned patent and patent applications. The transaction is subject to the closing of Microsoft's transaction with AOL as well as customary closing conditions, including the expiration or early termination of all applicable waiting periods under HSR. The majority of the acquisition price is expected to be recorded as acquired intangible assets, which will be amortized over the remaining useful lives of the patent rights. As we have not yet completed a detailed analysis of the acquired patent rights, we cannot currently estimate the weighted average period of amortization.

On May 3, 2012, we granted an aggregate of 25,257,815 RSUs. We will determine the fair value of these grants during the second quarter. If the fair value of our Class A common stock was \$38.00, the per share price to the public for our initial public offering, the aggregate grant date fair value would be approximately \$960 million.

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