AXIALL CORP/DE/
Form 10-Q
August 07, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 2013
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number 1-9753

AXIALL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**58-1563799**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
115 Perimeter Center Place, Suite 460, Atlanta, Georgia	**30346**
(Address of principal executive offices)	(Zip Code)

(770) 395-4500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding as of July 29, 2013**
Common Stock, $0.01 par value	69,875,042

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PART I. FINANCIAL INFORMATION.

Item 1. FINANCIAL STATEMENTS.

AXIALL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share data)		**June 30, 2013**		**December 31, 2012**
Assets:				
Cash and cash equivalents	**$**	**44.3**	$	200.3
Receivables, net of allowance for doubtful accounts of $4.6 million and $4.5 million at June 30, 2013 and December 31, 2012, respectively.		**702.9**		314.9
Inventories		**428.9**		288.4
Prepaid expenses and other		**50.7**		14.7
Deferred income taxes		**9.1**		21.1
Total current assets		**1,235.9**		839.4
Property, plant and equipment, net		**1,644.2**		637.7
Goodwill		**1,657.9**		217.2
Intangible assets, net		**1,227.2**		43.4
Other assets, net		**84.6**		63.6
Total assets	**$**	**5,849.8**	$	1,801.3
Liabilities and Equity:				
Current portion of long-term debt	**$**	**42.3**	$	-
Accounts payable		**351.4**		211.2
Interest payable		**16.8**		18.9
Income taxes payable		**7.9**		15.1
Accrued compensation		**47.7**		44.7
Other accrued current liabilities		**113.6**		61.2
Total current liabilities		**579.7**		351.1
Long-term debt, excluding the current portion of long-term debt		**1,396.5**		448.1
Lease financing obligation		**106.3**		112.3
Deferred income taxes		**771.7**		177.9
Pensions and other postretirement benefits		**329.1**		48.3
Other non-current liabilities		**127.6**		60.1
Total liabilities		**3,310.9**		1,197.8
Commitments and contingencies				
Equity:				
Preferred stock $0.01 par value; 75,000,000 shares authorized; no shares issued		**-**		-
Common stock $0.01 par value; shares authorized: 200,000,000 and 100,000,000 at June 30, 2013 and December 31, 2012, respectively; issued and outstanding: 69,874,568 and 34,546,767 at June 30, 2013 and December 31, 2012, respectively.		**0.7**		0.3
Additional paid-in capital		**2,264.2**		487.1
Retained earnings		**196.1**		138.0
Accumulated other comprehensive loss, net of tax		**(39.7)**		(21.9)

Total Axiall stockholders' equity		**2,421.3**		603.5
Noncontrolling interest		**117.6**		-
Total equity		**2,538.9**		603.5
Total liabilities and equity	**$**	**5,849.8**	$	1,801.3

See accompanying notes to unaudited condensed consolidated financial statements.

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AXIALL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net sales	**$ 1,272.8**	$ 867.7	**$ 2,334.0**	$ 1,727.6
Operating costs and expenses:				
Cost of sales	**1,041.7**	780.9	**1,940.7**	1,537.3
Selling, general and administrative expenses	**97.7**	51.8	**176.0**	99.5
Transaction related costs and other, net	**8.8**	6.6	**21.5**	11.6
Gain on sale of assets, net	**-**	-	**-**	(17.4)
Total operating costs and expenses	**1,148.2**	839.3	**2,138.2**	1,631.0
Operating income	**124.6**	28.4	**195.8**	96.6
Interest expense, net	**(19.4)**	(14.5)	**(37.7)**	(28.9)
Foreign exchange gain (loss)	**0.3**	(0.3)	**0.4**	(0.4)
Loss on redemption and other debt costs	**-**	-	**(78.5)**	-
Gain on acquisition of controlling interest	**-**	-	**23.5**	-
Income before income taxes	**105.5**	13.6	**103.5**	67.3
Provision for income taxes	**31.8**	-	**32.6**	18.4
Consolidated net income	**73.7**	13.6	**70.9**	48.9
Less net income attributable to noncontrolling interest	**0.9**	-	**1.6**	-
Net income attributable to Axiall	**$ 72.8**	$ 13.6	**$ 69.3**	$ 48.9
Earnings per share attributable to Axiall:				
Basic	**$ 1.04**	$ 0.39	**$ 1.07**	$ 1.41
Diluted	**$ 1.03**	$ 0.39	**$ 1.06**	$ 1.40
Weighted average common shares outstanding:				
Basic	**69.9**	34.4	**64.6**	34.3
Diluted	**70.4**	34.6	**65.1**	34.5
Dividends per common share	**$ 0.08**	$ 0.08	**$ 0.16**	$ 0.08

See accompanying notes to unaudited condensed consolidated financial statements.

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AXIALL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)	**Three Months Ended June 30, 2013**	**2012**	**Six Months Ended June 30, 2013**	**2012**
Consolidated net income	**$ 73.7**	$ 13.6	**$ 70.9**	$ 48.9
Less net income attributable to noncontrolling interest	**0.9**	-	**1.6**	-
Net income attributable to Axiall	**72.8**	13.6	**69.3**	48.9
Other comprehensive loss:				
Foreign currency translation loss	**(15.0)**	(8.7)	**(26.6)**	(1.8)
Unrealized gain (loss) on derivatives	**(0.9)**	2.1	**(0.9)**	0.7
Pension liability adjustment	**0.5**	0.4	**1.1**	0.8
Other comprehensive loss, before income taxes	**(15.4)**	(6.2)	**(26.4)**	(0.3)
Benefit from income taxes related to other comprehensive income items	**(5.3)**	(3.3)	**(8.6)**	(0.3)
Other comprehensive loss, net of tax	**(10.1)**	(2.9)	**(17.8)**	-
Comprehensive income, net of income taxes	**63.6**	10.7	**53.1**	48.9
Less comprehensive income attributable to noncontrolling interest	**0.9**	-	**1.6**	-
Comprehensive income attributable to Axiall	**$ 62.7**	$ 10.7	**$ 51.5**	$ 48.9

See accompanying notes to unaudited condensed consolidated financial statements.

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AXIALL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Consolidated net income	**$ 70.9**	$ 48.9
Adjustments to reconcile consolidated net income to net cash used in operating activities:		
Depreciation	**67.8**	41.3
Amortization	**32.5**	3.7
Loss on redemption and other debt costs	**78.5**	-
Gain on acquisition of controlling interest	**(23.5)**	-
Gain on sale of assets	**-**	(17.4)
Other non-cash items	**(0.1)**	5.0
Change in operating assets and liabilities, and other (excluding effects of acquisition)	**(260.9)**	(96.4)
Net cash used in operating activities	**(34.8)**	(14.9)
Cash flows from investing activities:		
Capital expenditures	**(55.6)**	(40.7)
Proceeds from sale of assets	**-**	21.7
Cash acquired in acquisition	**26.7**	-
Net cash used in investing activities	**(28.9)**	(19.0)
Cash flows from financing activities:		
Borrowings on ABL revolver	**402.5**	183.4
Repayments on ABL revolver	**(297.3)**	(183.4)
Issuance of long-term debt	**450.0**	-
Long-term debt payments	**(530.4)**	-
Make-whole and other fees paid related to financing activities	**(95.0)**	-
Dividends paid	**(5.6)**	-
Distribution to noncontrolling interest	**(13.3)**	-
Excess tax benefits from share-based payment arrangements	**0.7**	0.1
Stock compensation plan activity	**(1.3)**	(0.4)
Net cash used in financing activities	**(89.7)**	(0.3)
Effect of exchange rate changes on cash and cash equivalents	**(2.6)**	1.0
Net change in cash and cash equivalents	**(156.0)**	(33.2)
Cash and cash equivalents at beginning of period	**200.3**	88.6
Cash and cash equivalents at end of period	**$ 44.3**	$ 55.4

Significant non-cash transaction

On January 28, 2013 we acquired substantially all of the assets and liabilities of PPG Industries, Inc.'s ("PPG") business relating to the production of chlorine, caustic soda and related chemicals, through a merger between a subsidiary of PPG and a subsidiary of the Company. The purchase price for these transactions was approximately $2.7 billion and consisted of: (i) the issuance of approximately 35.2 million shares of our common stock valued at approximately $1.8 billion; (ii) the assumption of $967.0 million of debt; and (iii) the assumption of certain other liabilities including pension and other postretirement obligations. See Note 2 to the unaudited condensed consolidated financial statements. The final purchase price is subject to a settlement with PPG related to the final working capital of the Merged Business as of the date of acquisition.

See accompanying notes to unaudited condensed consolidated financial statements.

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AXIALL CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all of the adjustments that, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. Such adjustments are of a normal, recurring nature. Our financial condition as of, and our operating results for the three and six month periods ended, June 30, 2013 are not necessarily indicative of the financial condition and results that may be expected for the full year ending December 31, 2013 or any other interim period. Certain prior period amounts have been reclassified to conform to the current period's presentation. These reclassifications did not impact the Company's operating income or consolidated net income.

On January 28, 2013 we acquired substantially all of the assets and liabilities of PPG Industries, Inc.'s ("PPG") business relating to the production of chlorine, caustic soda and related chemicals (the "Merged Business") through a merger between a subsidiary of PPG and a subsidiary of the Company (the "Merger"); we also completed a series of related financings (collectively, the "Transactions"). The purchase price for the Merged Business was approximately $2.7 billion and consisted of: (i) the issuance of approximately 35.2 million shares of our common stock valued at approximately $1.8 billion; (ii) the assumption of $967.0 million of debt; and (iii) the assumption of certain other liabilities including pension and other postretirement obligations. The final purchase price is subject to a settlement with PPG related to the final working capital of the Merged Business as of the date of acquisition. See Note 2 to the unaudited condensed consolidated financial statements.

Through the Merger, we acquired, as part of the Merged Business, the remaining 50 percent interest that we did not previously own of PHH Monomers LLC, a joint venture between us and PPG ("PHH"). Prior to the Merger, we owned 50 percent of PHH and accounted for our ownership interest as an equity method investment. We recognized a gain of $23.5 million as a result of remeasuring the equity interest we held in PHH before the Merger. The fair value of our prior equity interest in PHH before the Merger was $25.2 million. PHH is a manufacturing joint venture that consists of plant and equipment and the fair value was estimated based on the replacement cost of assets in similar condition.

Accounting Standards Codification ("ASC") 810-10, *Noncontrolling Interests in Consolidated Financial Statements,* provides guidance on accounting for the financial presentation of noncontrolling interest in subsidiaries. Beginning in the first quarter of 2013, we incorporated the noncontrolling interests in our majority-owned subsidiaries in our financial statement presentation including our interest in the Taiwan Chlorine Industries, Ltd. ("TCI") joint venture that we acquired in the Transactions. Such presentation requires us to report our noncontrolling interests in our majority-owned subsidiaries as a separate line item in the equity section of our condensed consolidated balance sheets. In addition, our condensed consolidated statements of income, condensed consolidated statements of comprehensive income and condensed consolidated statements of cash flows reflect the prescribed manner in which the net income of the subsidiary is presented on the controlling company's consolidated financial statements. Accordingly, "attributable to Axiall" refers to our operating results exclusive of any noncontrolling interest in subsidiaries including the interest of our minority partner in TCI.

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The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Annual Report"). There has been no material change in the significant accounting policies followed by us during the three and six month periods ended June 30, 2013 from those disclosed in the 2012 Annual Report. Unless the context otherwise requires, references to "Axiall," the "Company," "we," "our" or "us," means Axiall Corporation and its consolidated subsidiaries.

2. MERGER WITH THE PPG CHEMICALS BUSINESS

The Merger created a leading integrated chemicals and building products company with a broad portfolio of downstream products, and greater scale and ability to capitalize on globally advantaged, low cost North American natural gas. The results of the Merged Business are included in our financial statements from January 28, 2013, the closing date of the acquisition of the Merged Business. We issued 35.2 million shares of our common stock, assumed $967.0 million of debt and assumed certain other liabilities including pension liabilities and other postretirement obligations as consideration for the Merged Business. The final purchase price is subject to a settlement with PPG related to the final working capital of the Merged Business as of the date of acquisition. In connection with the Transactions, we have paid approximately $53.6 million in fees and expenses, which included: (i) approximately $30.3 million of debt issuance costs, of which approximately $19.3 million was deferred; and (ii) approximately $23.3 million of related professional and legal fees.

The initial accounting for the Merged Business (including the allocation of the purchase price to acquired assets and liabilities) is preliminary and subject to change, including the working capital settlement between PPG and the Company, as well as changes in the fair value of working capital and other assets, completion of an appraisal of assets acquired and liabilities assumed, and final valuation of intangible assets. Goodwill recognized from the acquisition of the Merged Business is primarily due to the combined companies providing an increase in size and economies of scale, a significant increase in chlorine production flexibility, an increase in natural gas integration and strategic, geographic and product synergies. Approximately $14 million of the goodwill recognized in the Merger is expected to be deductible for tax purposes. The fair value of the noncontrolling interest in TCI was estimated based on the present value of estimated future cash flows from TCI attributable to our minority partner's ownership percentage of TCI. The preliminary allocation of the purchase price to assets

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acquired and liabilities assumed, is set forth in the table below and is subject to change during the measurement period of up to twelve months.

(In millions)		**Revised Preliminary Allocation as of June 30, 2013** [1]
Cash and cash equivalents	$	26.7
Receivables		233.7
Inventories		72.3
Prepaid expenses and other		11.9
Property, plant and equipment		962.8
Goodwill		1,450.2
Intangible assets		1,218.0
Other assets		42.5
Accounts payable		(97.8)
Income taxes payable		(4.7)
Accrued compensation		(20.6)
Other accrued taxes		(10.9)
Other accrued liabilities		(57.1)
Deferred income taxes		(616.0)
Noncurrent pension and other postretirement benefits		(279.8)
Other non-current liabilities		(61.6)
Debt assumed		(967.0)
Noncontrolling interest		(129.3)
Total net assets acquired	$	1,773.3

[1] Measurement period adjustments recorded during the three months ended June 30, 2013 did not have a significant impact on the unaudited condensed consolidated financial statements.

Summary Pro Forma Information. The following unaudited pro forma information reflects our consolidated results of operations as if the Transactions had taken place on January 1, 2012. The pro forma information includes primarily adjustments for depreciation based on the estimated fair value of the property, plant and equipment we acquired, amortization of acquired intangibles and interest expense on the debt we incurred to finance the Transactions. The pro forma information is not necessarily indicative of the results of operations that we would have reported had the Transactions actually closed on January 1, 2012, nor is it necessarily indicative of future results.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions, except per share data)	**2013**	**2012**	**2013**	**2012**
Net sales	**$ 1,272.8**	$ 1,282.1	**$ 2,441.7**	$ 2,553.4
Net income attributable to Axiall	**$ 74.8** [a]	$ 53.4	**$ 64.0** [b]	$ 121.3 [c]
Earnings per share from net income attributable to Axiall:				
Basic	**$ 1.07**	$ 0.76	**$ 0.92**	$ 1.73
Diluted	**$ 1.06**	$ 0.76	**$ 0.91**	$ 1.73

[a] In addition to the normal pro forma adjustments associated with the Transactions, this amount excludes $3.2 million related to the inventory fair value purchase accounting adjustment. This amount is excluded from the pro forma amounts for the three

months ended June 30, 2013 and a comparable amount is included in the pro forma amounts for the six months ended June 30, 2012 to reflect our consolidated results as if the Transactions had taken place on January 1, 2012.

[b] In addition to the normal pro forma adjustments associated with the Transactions, this amount excludes: (i) the $23.5 million gain on acquisition of controlling interest in PHH; (ii) $13.4 million related to the inventory fair value purchase accounting adjustment; and (iii) $11.0 million related to the expensing of financing fees related to a $688.0 million bridge loan used in the Transactions. These amounts are excluded from the pro forma amounts for the six months ended June 30, 2013 and comparable amounts are included in the six months ended June 30, 2012 to reflect our consolidated results as if the Transactions had taken place on January 1, 2012.

[c] In addition to the normal pro forma adjustments associated with the Transactions, this amount includes: (i) the $23.5 million gain on acquisition of controlling interest in PHH; (ii) $13.4 million related to the inventory fair value purchase accounting adjustment; and (iii) $11.0 million related to the expensing of financing fees related to a $688.0 million bridge loan used in the Transactions. These amounts are excluded from the pro forma amounts for the six months ended June 30, 2013 and included in the six months ended June 30, 2012 to reflect our consolidated results as if the Transactions had taken place on January 1, 2012.

Disclosure of revenues and earnings of the Merged Business since January 28, 2013 on a stand-alone basis is not practicable as the Merged Business is not being operated as a stand-alone business.

Increase of Authorized Shares of Common Stock. In connection with the Transactions and effective January 28, 2013, the Company increased the number of authorized shares of Company common stock from 100 million shares to 200 million shares.

3. NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2013-02, an amendment to ASC Topic 220. This amendment requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. Implementation of this standard was required for reporting periods beginning after December 15, 2012. In Note 13, we have disclosed certain amounts reclassified out of AOCI by the respective line items of net income.

In February 2013, the FASB issued ASU 2013-04 Liabilities (Topic 405) Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing GAAP guidance. The guidance in this Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date, as the sum of the following: (i) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The Update will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating the amendments in this Update, but do not expect implementation to have a material impact on our condensed consolidated financial statements.

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In June 2013, the FASB issued ASU 2013-05 Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The guidance in this Update provides that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. However, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance in Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, this Update clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. Implementation of this standard is required for fiscal years beginning on or after December 15, 2013. We are currently evaluating the amendments in this Update, but do not expect implementation to have a material impact on our condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. Topic 815, provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities, is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). In the United States, prior to this Update, only the interest rates on direct Treasury obligations of the U.S. government (the "UST") and, for practical reasons, the London Interbank Offered Rate (the "LIBOR") swap rate were considered benchmark interest rates. The amendments in this Update permit inclusion of the Fed Funds Effective Swap Rate ("OIS") as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the UST and the LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. Including the Fed Funds Effective Swap Rate (OIS) as an acceptable U.S. benchmark interest rate in addition to UST and LIBOR will provide risk managers with a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate risk component under the hedge accounting guidance in Topic 815. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We are currently evaluating the amendments in this Update, but do not expect implementation to have a material impact on our condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Prior to this Update, GAAP did not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward existed. The Update provides that a liability related to an unrecognized tax benefit would be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain

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tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with deferred tax assets. The amendments in this Update do not require new recurring disclosures. The Update is effective for fiscal years beginning after December 15, 2013. We are currently evaluating the amendments in this Update and its application to our Company.

4. INVENTORIES

As of June 30, 2013 and December 31, 2012, the major classes of inventories were as follows:

(In millions)	**June 30, 2013**	**December 31, 2012**
Raw materials	**$ 180.0**	$ 115.3
Work-in-progress	**7.0**	7.1
Finished goods	**241.9**	166.0
Inventories	**$ 428.9**	$ 288.4

5. PROPERTY, PLANT AND EQUIPMENT, NET

As of June 30, 2013 and December 31, 2012, property, plant and equipment consisted of the following:

(In millions)	**June 30, 2013**	**December 31, 2012**
Machinery and equipment	**$ 2,287.7**	$ 1,492.6
Buildings	**226.4**	203.7
Depletable land and land improvements	**288.0**	90.4
Construction-in-progress	**80.7**	33.6
Property, plant and equipment, at cost	**2,882.8**	1,820.3
Less: accumulated depreciation	**1,238.6**	1,182.6
Property, plant and equipment, net	**$ 1,644.2**	$ 637.7

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. We periodically monitor actual experience to determine whether events and circumstances have occurred that may warrant revision of the estimated useful lives of property, plant and equipment. Effective January 1, 2013, we changed the useful lives of certain property, plant and equipment as a result of our historical experience which demonstrated longer useful lives for certain classes of assets. The change was accounted for as a change in estimate and applied prospectively. For the three months ended June 30, 2013, the effect of the change decreased depreciation expense by $5.5 million, increased net income attributable to Axiall by approximately $3.4 million and increased diluted earnings per share by $0.04. For the six months ended June 30, 2013, the effect of the change decreased depreciation expense by $10.7 million, increased net income attributable to Axiall by approximately $6.6 million and increased diluted earnings per share by $0.10.

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The estimated useful lives of our property, plant and equipment are as follows:

Buildings	27-39 years
Depletable land and land improvements	15-25 years
Machinery, plant and equipment	2-25 years
Dies and moulds	3-10 years
Office furniture and equipment	2-10 years
Computer equipment and software	3-10 years

6. GOODWILL AND OTHER INTANGIBLE ASSETS

In the acquisition of the Merged Business we acquired substantial intangible assets including $1.5 billion in goodwill and other intangible assets consisting of $1.2 billion in customer relationships, $14.9 million in technology and $6.0 million in product trade names. These amounts are preliminary and are based on the preliminary purchase price allocation of the fair values of the acquired assets and liabilities assumed as of the closing date of the Merger, as further described below.

Goodwill. During the six months ended June 30, 2013, we preliminarily allocated the fair values of assets acquired and liabilities of the Merged Business assumed in the Transactions, which are subject to change. The following table provides the detail of the changes made to goodwill during the six months ended June 30, 2013.

(In millions)	**Chlorovinyls**	**Building Products**	**Total**
Gross goodwill at January 1, 2013	$ 245.4	$ 159.5	$ 404.9
Accumulated impairment losses	(55.5)	(132.2)	(187.7)
Net goodwill at January 1, 2013	$ 189.9	$ 27.3	$ 217.2
Gross goodwill at January 1, 2013	$ **245.4**	**$ 159.5**	**$ 404.9**
Preliminary addition from the Transactions	**1,450.2**	**-**	**1,450.2**
Foreign currency translation adjustment	**(9.5)**	**-**	**(9.5)**
Gross goodwill at June 30, 2013	**1,686.1**	**159.5**	**1,845.6**
Accumulated impairment losses	**(55.5)**	**(132.2)**	**(187.7)**
Net goodwill at June 30, 2013	**$ 1,630.6**	**$ 27.3**	**$ 1,657.9**

Indefinite-lived intangible assets. Our indefinite-lived intangible assets consisted only of trade names with a carrying value of $9.0 million and $9.1 million at June 30, 2013 and December 31, 2012, respectively. The variance between period end dates is due to fluctuations in the Canadian dollar exchange rate.

Definite-lived intangible assets. At June 30, 2013 and December 31, 2012, we had definite-lived intangible assets in our building products segment that related to customer relationships and technology. In the acquisition of the Merged Business, we acquired definite-lived intangible assets in our chlorovinyls segments. The preliminary values of these assets acquired are $1.2 billion for customer relationships, $14.9 million for technology and $6.0 million for trade names. There were no definite-lived intangible assets in our chlorovinyls segment as of December 31, 2012. At June 30, 2013 and December 31, 2012 there were no definite-lived intangible assets in our aromatics segment. The

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following table provides the definite-lived intangible assets, by reportable segment, as of June 30, 2013 and December 31, 2012.

	Chlorovinyls	Building Products		Total	
(In millions)	June 30, 2013	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Gross carrying amounts					
Customer relationships	**$ 1,197.1**	**$ 35.2**	$ 35.2	**$ 1,232.3**	$ 35.2
Trade names	**6.0**	**-**	-	**6.0**	-
Technology	**14.9**	**17.4**	17.4	**32.3**	17.4
Total	**1,218.0**	**52.6**	52.6	**1,270.6**	52.6
Accumulated amortization:					
Customer relationships	**(27.7)**	**(9.6)**	(8.7)	**(37.3)**	(8.7)
Trade names	**(0.1)**	**-**	-	**(0.1)**	-
Technology	**(0.3)**	**(10.4)**	(9.6)	**(10.7)**	(9.6)
Total	**(28.1)**	**(20.0)**	(18.3)	**(48.1)**	(18.3)
Foreign currency translation adjustment:					
Customer relationships	**(4.3)**	**-**	-	**(4.3)**	-
Total	**(4.3)**	**-**	-	**(4.3)**	-
Net carrying amounts					
Customer relationships	**1,165.1**	**25.6**	26.5	**1,190.7**	26.5
Trade names	**5.9**	**-**	-	**5.9**	-
Technology	**14.6**	**7.0**	7.8	**21.6**	7.8
Total	**$ 1,185.6**	**$ 32.6**	$ 34.3	**$ 1,218.2**	$ 34.3

The weighted average estimated useful life remaining for customer relationships, definite-lived trade names and technology is approximately 18 years, 17 years, and 16 years, respectively. Amortization expense for the definite-lived intangible assets was $18.2 million and $0.8 million for the three months ended June 30, 2013 and 2012, respectively and $29.8 million and $1.7 million for the six month periods ended June 30, 2013 and 2012, respectively. Total definite-lived intangible assets estimated annual amortization expense for the next five fiscal years is approximately $70.9 million per year.

7. OTHER ASSETS, NET

As of June 30, 2013 and December 31, 2012, other assets, net of accumulated amortization, consisted of the following:

(In millions)	June 30, 2013	December 31, 2012
Advances for long-term purchase contracts, net	**$ 14.3**	$ 19.4
Advances to and investments in joint ventures	**21.2**	6.1
Deferred financing costs, net	**30.8**	16.3
Long-term assets held for sale	**11.1**	13.8
Other	**7.2**	8.0
Total other assets, net	**$ 84.6**	$ 63.6

The decrease in advances for long-term purchase contracts is the result of amortizing the prepayments over the terms of the related contracts. The increase in advances to and investments in joint ventures is primarily the result of our investment in RS Cogen as described in Note 15 to the unaudited condensed consolidated financial statements. The increase in deferred financing costs, net, was the result of fees

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incurred in relation to the issuance and assumption of debt in connection with the Transactions as well as the 4.875 Notes and the New ABL Revolver less the write-off of deferred financing fees associated with the termination of the 9 percent notes as defined below and described in Note 8 to the unaudited condensed consolidated financial statements.

8. LONG-TERM DEBT AND LEASE FINANCING OBLIGATION

As of June 30, 2013 and December 31, 2012, our long-term debt consisted of the following:

(In millions)	Maturity Date		Outstanding Balance at June 30, 2013		Outstanding Balance at December 31, 2012
4.625 Notes	February 15, 2021	**$**	**688.0**	$	-
4.875 Notes	May 15, 2023		**450.0**		-
Term loan (net of $2.8 million debt issuance costs)	January 28, 2017		**195.8**		-
ABL revolver	January 28, 2018		**105.0**		-
9 percent notes	January 15, 2017		**-**		448.1
Total debt		**$**	**1,438.8**	$	448.1
Less current portion of long-term debt			**(42.3)**		-
Long-term debt, net		**$**	**1,396.5**	$	448.1

Transactions Financing

In connection with the Transactions, we assumed certain debt obligations and entered into certain new debt arrangements as follows:

4.625 Notes

The Company and certain of its subsidiaries guaranteed $688 million aggregate principal amount of senior notes due 2021 bearing interest at a rate of 4.625 percent per annum (the "4.625 Notes") that were initially issued by a PPG subsidiary in connection with the Transactions. Interest on the 4.625 Notes is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013. The 4.625 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company and by the Company's existing and future domestic subsidiaries, other than certain excluded subsidiaries. The proceeds from the 4.625 Notes retired a $688.0 million bridge loan for which we incurred $11.0 million related to financing fees that are included in "Loss on redemption and other debt costs" in our unaudited condensed consolidated statements of income for the six months ended June 30, 2013.

Term Loan

The Company also guaranteed a $279 million term loan due 2017 originally made to the PPG subsidiary with which we merged in the Transactions (the "Term Loan").

The Term Loan bears interest at a rate equal to (at the Company's election): (i) the Base Rate (as defined in the Term Loan agreement and subject to a 2 percent floor) plus 1.50 percent per annum; or (ii) the reserve adjusted Eurodollar Rate (as defined in the Term Loan and subject to a 1 percent floor) plus 2.50 percent per annum. At June 30, 2013, outstanding borrowings under the Term Loan had a stated interest rate of 3.50 percent per annum.

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Obligations under the Term Loan are fully and unconditionally guaranteed, on a senior secured basis, by the Company and its existing and future domestic subsidiaries, other than certain excluded subsidiaries and are secured by all the assets of the Company and the subsidiary guarantors.

During the six month period ended June 30, 2013, we repaid approximately $80.4 million of the outstanding balance of the Term Loan. In connection with the repayment, we expensed approximately $1.4 million of deferred financing fees, which is included in "Loss on redemption and other debt costs" in our unaudited condensed consolidated statements of income.

New ABL Revolver

The Company refinanced its asset-based revolving credit facility (the "New ABL Revolver") increasing the revolver commitment from $300.0 million to $500.0 million. At the Company's election, with respect to U.S. borrowings under the New ABL Revolver, the New ABL Revolver will bear interest at a rate equal to either: (i) the higher of certain U.S. index rates; or (ii) three-month London Interbank Offered Rate ("LIBOR"), in each case, plus an applicable margin based on the Company's utilization under the New ABL Revolver. At the election of the Company, with respect to Canadian borrowings under the New ABL Revolver, the New ABL Revolver will bear interest at a rate equal to either: (i) the higher of certain Canadian index rates; or (ii) three-month LIBOR, in each case, plus an applicable margin based on the Company's utilization under the New ABL Revolver. At June 30, 2013, the weighted average interest rate on our outstanding New ABL Revolver balance was 2.2 percent and our availability was approximately $383.8 million, net of $105.0 million outstanding balance and letters of credit of $11.2 million.

The New ABL Revolver is fully and unconditionally guaranteed, on a senior secured basis, by each of the Company's existing and subsequently acquired or organized direct or indirect domestic subsidiaries (other than certain excluded subsidiaries). Canadian borrowing obligations under the New ABL Revolver are unconditionally guaranteed by each of the Company's existing and subsequently acquired or organized direct or indirect domestic and Canadian subsidiaries (other than certain excluded subsidiaries). All obligations under the New ABL Revolver, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the Company's assets and the assets of the subsidiary guarantors.

The 4.625 Notes indenture, the Term Loan credit agreement and the New ABL Revolver credit agreement each contain customary covenants, including certain restrictions on the Company and its subsidiaries ability to pay dividends. These covenants are subject to a number of important exceptions and qualifications. In connection with the issuance of the 4.625 Notes, we entered into a registration rights agreement, pursuant to which we and the guarantors agreed to use our commercially reasonable efforts to file an exchange offer registration statement registering exchange notes and to use commercially reasonable efforts to complete the exchange offer within 560 calendar days following the closing of the 4.625 Notes offering.

9 Percent Notes Retirement and 4.875 Notes Issuance

In February 2013 we retired our then outstanding 9 percent notes with the proceeds of a new debt issuance. Additional information about those transactions is as follows:

4.875 Notes Issuance

On February 1, 2013, we issued $450.0 million in aggregate principal amount of senior unsecured notes due 2023 (the "4.875 Notes") which bear interest at a rate of 4.875 percent per annum. Interest on the 4.875 Notes is payable semi-annually in arrears on May 15 and November 15 of each year, commencing

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on May 15, 2013. The 4.875 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our existing and future domestic subsidiaries, other than certain excluded subsidiaries.

9 Percent Notes Tender Offer and Redemption

We used the net proceeds from the offering of the 4.875 Notes, together with cash on hand, to fund the repurchase of our 9 percent senior secured notes due 2017 (the "9 percent notes") in a tender offer and related consent solicitation (the "Tender Offer") for an aggregate tender price of $502.3 million including a make whole payment of $55.4 million. We accounted for the repurchase of the 9 percent notes as an extinguishment. In addition, we expensed approximately $8.5 million of deferred financing fees and incurred charges of $2.2 million associated with the Tender Offer. These costs are included in "Loss on redemption and other debt costs" in our unaudited condensed consolidated statements of income.

Lease Financing Obligation

As of June 30, 2013 and December 31, 2012, we had a lease financing obligation of $106.3 million and $112.3 million, respectively. The change from the December 31, 2012 balance is due to the change in the Canadian dollar exchange rate for the period ended June 30, 2013. The lease financing obligation is the result of the sale and concurrent leaseback of certain land and buildings in Canada in 2007 for a term of ten years. In connection with this transaction, a collateralized letter of credit was issued in favor of the buyer-lessor resulting in the transaction being recorded as a financing transaction rather than a sale for GAAP purposes. As a result, the land, building and related accounts continue to be recognized in the unaudited condensed consolidated balance sheets. The amount of the collateralized letter of credit was $3.8 million and $5.9 million as of June 30, 2013 and December 31, 2012, respectively. We are not obligated to repay the lease financing obligation amount of $106.3 million. Our obligation is for the future minimum lease payments under the terms of the related lease agreements. The future minimum lease payments under the terms of the related lease agreements as of June 30, 2013 are $3.7 million in 2013, $7.4 million in 2014, $7.7 million in 2015, $7.7 million in 2016 and $1.9 million in 2017, the final year of the lease agreements. The change in the future minimum lease payments from such amounts disclosed as of December 31, 2012 is due to current period payments and the change in the Canadian dollar exchange rate as of June 30, 2013.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and long-term debt. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value because of the nature of such instruments. The fair values of our outstanding notes, as shown in the table below, are based on quoted market values. Our ABL Revolver is fair valued using comparable recent third party transactions.

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The FASB ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs to valuation techniques used to measure fair value. These levels, in order of highest to lowest priority are described below:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 Prices that are unobservable for the asset or liability and are developed based on the best information available under the circumstances, which might include the Company's own data.

The following is a summary of the carrying amounts and estimated fair values of our long-term debt and our commodity purchase contract as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1				
Long-term debt:				
4.625 Notes	$ 688.0	$ 661.8	$ -	$ -
4.875 Notes	450.0	430.3	-	-
Term loan (net of $2.8 million debt issuance costs)	195.8	200.6	-	-
9.0 percent Notes	-	-	448.1	501.8
Level 2				
Long-term debt:				
ABL Revolver	105.0	105.0	-	-

10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings. We are involved in a number of contingencies incidental to the normal conduct of our business including lawsuits, claims and environmental contingencies. The outcome of these contingencies is inherently unpredictable. We believe that, in the aggregate, the outcome of all known contingencies including lawsuits, claims and environmental contingencies will not have a material adverse effect on our financial statements; however, specific outcomes with respect to such contingencies may be material to the financial statements of any particular period in which costs, if any, are recognized. Our assessment of the potential impact of the environmental contingencies is subject to uncertainty due to the complex, ongoing and evolving process of investigation and remediation of such environmental contingencies, and the potential for technological and regulatory developments. In addition, the impact of evolving programs, such as natural resource damage claims, industrial site reuse initiatives and state remediation programs, creates further uncertainty of the ultimate resolution of these environmental contingencies. We anticipate that the resolution of many contingencies, and in particular environmental contingencies, will occur over an extended period of time.

Environmental Matters. It is our policy to accrue expenses for environmental contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Reserves for environmental liabilities do not include any potential offsets related to claims against third parties. As of June 30, 2013 and December 31, 2012 we had reserves for environmental contingencies totaling $49.9 million and $7.2 million, respectively of which $1.9 million and nil, respectively, were classified as current liabilities.

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Our reserve at June 30, 2013 included: approximately $15 million for environmental contingencies related to onsite remediation at the Lake Charles, Louisiana facility that we acquired as part of the Merged Business (the "Lake Charles South Facility"); approximately $14.0 million for environmental contingencies related to remediation activities at our Natrium, West Virginia facility (the "Natrium Facility"); and approximately $12 million for environmental contingencies associated with the Calcasieu River Estuary located near our Lake Charles, Louisiana facilities. Our reserve at December 31, 2012 included approximately $7.2 million associated with four plant site locations. Management expects cash outlays for environmental remediation to range from $10 million to $20 million per year, through 2015 and $3 million to $5 million per year from 2016 through 2017, due to management's expectation that most of the remediation costs associated with the Calcasieu River Estuary will be incurred during the period of 2013 through 2015.

At our Lake Charles South Facility, we are engaged in ongoing remediation of groundwater and soil in connection with our corrective action permit issued pursuant to the Hazardous and Solid Waste Amendments ("HSWA") of the Resource Conservation and Recovery Act ("RCRA"). These remedial activities consists primarily of the operation of a series of well water treatment systems across the Lake Charles South Facility. In addition, remediation of possible soil contamination will be conducted in certain areas. These remedial activities are expected to continue for an extended period of time. As of June 30, 2013, we had an accrual of approximately $15 million established in connection with these ongoing remediation activities.

At our Natrium Facility, we have implemented remedial actions to address specific National Pollutant Discharge Elimination System ("NPDES") permit requirements related to hexachlorocyclohexane, which is commonly referred to as BHC. We expect that these remedial actions will be in place for an extended period of time. In addition, as a result of a variance issued by the Ohio River Sanitation Commission, related to mercury concentrations in wastewater discharges, we will be required to conduct sampling in and around the Ohio River adjacent to the Natrium Facility for several years. As of June 30, 2013, we had an accrual of approximately $14 million in the aggregate for these matters.

In Lake Charles, Louisiana we and various governmental agencies including the Louisiana Department of Environmental Quality ("LDEQ") have been evaluating elevated levels of risk in the Calcasieu River Estuary for more than a decade. Principal contaminants of concern, which may require remediation, include various metals, dioxins, furans and polychlorinated biphenyls. The LDEQ has issued a final decision document for the Bayou d'Inde area of the Calcasieu River Estuary, which includes the LDEQ's selection of remedial alternatives. LDEQ has also proposed entering into a Cooperative Agreement with the Company and certain other parties covering the implementation of the remediation. We are currently discussing the Cooperative Agreement with the LDEQ and the other parties and we expect to resolve the Cooperative Agreement with LDEQ and the other parties in the near term. Remedy implementation could begin in 2013 and would continue for a number of years thereafter with a period of monitoring for remedy effectiveness to follow remediation. The estimated costs to the Company associated with the Cooperative Agreement are consistent with the amounts currently reserved for this project. However, multiple future events, such as remedy design and implementation and the final allocation of responsibility among the various parties will be required, and considerable uncertainty exists regarding the timing of future events. As of June 30, 2013, we had an accrual of approximately $12 million in the aggregate for this matter.

There are several environmental issues at the Lake Charles, Louisiana facility that we operated prior to the Transactions (the "Lake Charles North Facility"), which we acquired from CONDEA Vista Company ("CONDEA Vista," which is now known as Sasol North America, Inc.) in 1999, and substantial investigation of the groundwater at the site has been conducted. Groundwater contamination was first identified in 1981, and the principal contaminants include ethylene dichloride and vinyl chloride monomer. The site currently contains an extensive network of monitoring wells and

recovery wells. While CONDEA Vista has agreed to retain responsibility for substantially all environmental liabilities and remediation activity relating to the vinyl business we acquired from it, including our Lake Charles North Facility, we are responsible for a portion of such expenses, and had a $2.9 million accrual in other non-current liabilities as of June 30, 2013 for certain remediation costs.

Environmental Remediation: Reasonably Possible Matters. In addition to the amounts currently reserved for environmental remediation, we may be subject to loss contingencies related to environmental matters that at this time are not estimable. Such unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. This reasonably possible unreserved loss relates to environmental matters at several sites. The loss contingencies related to these sites include unresolved issues such as the nature and extent of contamination at these sites and the methods that may have to be employed to remediate them. Initial remedial actions are occurring with respect to these matters at two plant sites: the Lake Charles South Facility and the Natrium Facility. At the Lake Charles South Facility, we have completed a Facility Investigation and Corrective Measure Study ("CMS") under the U.S. Environmental Protection Agency's ("USEPA") RCRA Corrective Action Program under the oversight of the LDEQ. The LDEQ has accepted the proposed remedial alternatives. We received notice of the LDEQ's issuance of the final Hazardous Waste Post-Closure/HSWA Permit on June 28, 2010. The permit was issued in final form on September 23, 2010. Planning for implementation of these proposed alternatives is in progress.

At the Natrium Facility, investigation has been completed and initial interim remedial measures have been implemented to mitigate soil impacts. There is additional investigation of groundwater contamination ongoing which may indicate the need for further remedial actions to address specific areas of the facility. Installation of a groundwater treatment system has been completed.

As part of the ongoing RCRA Corrective Action investigation for groundwater, the West Virginia Department of Environmental Protection ("WVDEP") and the USEPA Agency Region III requested that PPG perform, and PPG agreed to perform, sampling of sediment pore-water in the Ohio River adjacent to the Natrium Facility to assess the potential for offsite migration of contaminated groundwater. Sampling was performed in August 2012 and the results were submitted to the WVDEP and the USEPA Agency Region III on December 31, 2012. Under the terms of the Separation Agreement, PPG retained all liabilities relating to, arising out of or resulting from contamination in the Ohio River which was the subject of or related to, directly or indirectly, sediment sampling conducted or to be conducted by or on behalf of PPG (along with any associated follow-up sampling or testing).

11. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plans

The Company sponsors and/or contributes to pension and postretirement medical, insurance and other benefit plans covering many of our U.S. employees, in whole or in part, based on meeting certain eligibility criteria. In addition, our Company and its subsidiaries have various pension plans and other forms of postretirement arrangements outside the United States, namely in Canada and Taiwan. As part of the Merger, we assumed certain liabilities related to pensions ("Assumed Pension Plans") and other postretirement benefit plans ("Assumed Postretirement Plans"). Refer to Note 2 for additional information related to the Merger. We did not have any other postretirement benefit obligations prior to the Transactions.

Pension and Postretirement Welfare Plans

Certain employees in the United States who were hired before January 1, 2009 are covered by a defined benefit pension plan. That plan was frozen to future benefit accruals in 2009.

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The Assumed Postretirement Plans provide ongoing benefit accruals to certain employees and are closed to new hires. The Assumed Postretirement Plans are unfunded and provide medical and life insurance benefits for certain employees of the Merged Business and their dependents. In connection with the Merger, we also acquired an Employee Group Waiver Plan ("EGWP") for certain Medicare-eligible retirees of the Merged Business and their dependents. The EGWP includes a fully-insured Medicare Part D prescription drug plan. The postretirement medical and life insurance programs require retiree contributions based on retiree- selected coverage levels for certain retirees and their dependents and provide for sharing of future benefit cost increases between Axiall and participants.

The preliminary estimated fair value of pension investment assets related to the Assumed Pension Plans was $479.2 million as of January 28, 2013. As of the same date, our estimated preliminary projected benefit obligation with respect to these assets was $576.1 million. The unfunded status of pension obligations assumed by us and calculated on a projected benefit obligation basis as of January 28, 2013, was approximately $96.9 million. The aggregate amount of the unfunded other postretirement benefit obligations of the Assumed Postretirement Plans as of January 28, 2013, was approximately $182.9 million.

Net periodic benefit cost (income) for the three months ended June 30, 2013 and 2012 includes the following:

(In millions)	**Pensions Three Months Ended June 30, 2013**	**2012**	**Other Postretirement Benefits Three Months Ended June 30, 2013**
Components of net periodic benefit cost (income):			
Interest cost	**$ 7.5**	$ 1.8	**$ 2.0**
Service cost	**1.7**	-	**0.6**
Expected return on assets	**(9.8)**	(2.2)	**-**
Amortization of actuarial loss	**0.5**	0.4	**-**
Total net periodic benefit cost (income)	**$ (0.1)**	$ -	**$ 2.6**

Net periodic benefit cost (income) for the six months ended June 30, 2013 and 2012 includes the following:

(In millions)	**Pensions Six Months Ended June 30, 2013**	**2012**	**Other Postretirement Benefits Six Months Ended June 30, 2013**
Components of net periodic benefit cost:			
Interest cost	**$ 13.0**	$ 3.6	**$ 3.3**
Service cost	**2.8**	-	**1.1**
Expected return on assets	**(17.2)**	(4.3)	**-**
Amortization of actuarial loss	**1.1**	0.8	**-**
Total net periodic benefit cost	**$ (0.3)**	$ 0.1	**$ 4.4**

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Assumptions

The following weighted average assumptions were used to determine the benefit obligation for the defined benefit pension and other postretirement welfare plans. The rate of compensation increase was not applicable in 2012 as all future benefits with respect to compensation increases were frozen.

	Pensions		Other Postretirement Benefits
	2013	**2012**	**2013**
Discount rate	**4.09%**	5.00%	**4.35%**
Expected return on assets	**6.81%**	8.25%	**Not Applicable**
Rate of compensation increase	**3.15%**	Not Applicable	**3.11%**

The weighted-average healthcare cost trend rate (inflation) used for 2013 is 6.64 percent declining to 4.50 percent in eleven years. In selecting the rates for our current and long-term health care cost assumptions, we take into consideration a number of factors including our actual health care cost increases, the design of our benefit programs, the demographics of our active and retiree populations and external expectations of future medical cost inflation rates.

Contributions

There were no significant contributions to the pension plan trusts during the three and six months ended June 30, 2013 and 2012. We estimate that we will make payments of approximately $2.1 million and $6.8 million, respectively, for benefit payments related to unfunded pension and postretirement welfare plans for the year ending December 31, 2013. Pursuant to the Merger Agreement related to the Transactions, additional payments may be required to PPG or by PPG to Axiall depending on the final funded status of the Assumed Plans.

Defined Contribution Plans

Most pre-Merger employees are covered by defined contribution plans under which we make contributions to individual employee accounts. Our expense related to our defined contribution plans was approximately $7.3 million and $3.5 million for the six months ended June 30, 2013 and 2012, respectively.

12. STOCK-BASED COMPENSATION

On May 17, 2011, our shareholders approved the Axiall Corporation 2011 Equity and Performance Incentive Plan (the "2011 Plan"). In January 2013, our shareholders approved an amendment to the 2011 Plan to increase the number of shares available under the plan by 1.8 million shares. Under the 2011 Plan as it existed at June 30, 2013, we were authorized to grant various stock-based compensation awards for up to 3.6 million shares of our common stock to officers, employees and non-employee directors, among others. We have granted various types of share-based payment awards to participants, including restricted stock unit awards and stock option grants. Our policy is to issue new shares upon the exercise of stock options and the vesting of restricted stock units. As of June 30, 2013, there were approximately 2.6 million shares available for future grant to participants under our 2011 Plan. In connection with our adoption and shareholder approval of the 2011 Plan, we agreed to not grant additional stock-based compensation awards under our previously existing equity compensation plans.

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Total after-tax share-based compensation cost by type of program was as follows:

(In millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Restricted stock units expense	**$ 2.2**	$ 5.0	**$ 3.8**	$ 6.1
Stock options expense	**0.4**	-	**0.7**	-
Before-tax share-based compensation expense	**2.6**	5.0	**4.5**	6.1
Income tax benefit	**(0.9)**	(1.7)	**(1.5)**	(2.0)
After-tax share-based compensation expense	**$ 1.7**	$ 3.3	**$ 3.0**	$ 4.1

The amount of share-based compensation cost capitalized in the periods presented was not material during both the three and six months ended June 30, 2013 and 2012.

As of June 30, 2013 and 2012, we had approximately $26.6 million and $11.5 million, respectively, of total unrecognized compensation costs related to nonvested share-based compensation, which we will record in our condensed consolidated statements of income over a weighted average recognition period of approximately two years. The total fair value of shares vested during the six months ended June 30, 2013 and 2012 was approximately $2.8 million and $2.0 million, respectively.

Stock Options. A summary of stock option activity under all plans as of and for the six months ended June 30, 2013 is as follows:

	Shares	Weighted Average Remaining Contractual Terms (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value *(In millions)*
Outstanding on January 1, 2013	**125,564**		**$ 292.76**	
Granted	**188,330**		**33.72**	
Exercised	**(3,304)**		**21.25**	
Expired	**(6,188)**		**533.04**	
Outstanding on June 30, 2013	**304,402**	**6.7 years**	**$ 130.56**	**$ 2.6**
Exercisable as of June 30, 2013	**116,072**	**4.4 years**	**$ 287.68**	**$ 0.9**
Vested or expected to vest as of June 30, 2013	**178,373**	**8.2 years**	**$ 33.72**	**$ 1.6**

During the six months ended June 30, 2013, we granted options to purchase shares primarily to replace unvested awards of former employees of the Merged Business who became Axiall employees, in connection with the Merger (the "Replacement Options"). In 2012, we granted no options to purchase shares. The fair value of stock options when granted has been estimated as of the date of grant using the Black-Scholes option pricing model. With the exception of the Replacement Options, option exercise prices are equal to the closing price of our common stock on the date of grant. The exercise price utilized for the Replacement Options resulted in the Replacement Options having a spread value equal to that of the PPG Options being replaced, as measured at the closing date of the Merger. Options generally vest over a three year period from the date of grant and expire no more than ten years after the date of grant. The intrinsic value is calculated as the difference between the market value at period end and the exercise price of the shares. There were no significant options exercised during the six months ended June 30, 2012.

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Restricted Stock Units. A summary of restricted stock unit activity under all plans as of and for the six months ended June 30, 2013 is as follows:

	Shares	Weighted Average Remaining Contractual Terms (Years)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (In millions)
Outstanding on January 1, 2013	**716,907**		**$ 27.86**	
Granted	**424,378**		**46.03**	
Vested and released	**(103,850)**		**27.04**	
Forfeited	**(8,825)**		**28.41**	
Outstanding on June 30, 2013	**1,028,610**	**1.5 Years**	**$ 35.43**	**$ 43.8**
Vested or expected to vest as of June 30, 2013	**978,092**	**1.5 Years**	**$ 35.72**	**$ 41.6**

Our restricted stock units granted during the six months ended June 30, 2013, include grants to replace unvested awards of former employees of the Merged Business who became Axiall employees, in connection with the Merger and grants in May 2013 to certain of our officers, employees and directors. The restricted stock units normally vest over a one- or three-year period. The weighted average grant date fair value per share of restricted stock units is based on the stock price as of the date of grant or, in the case of certain performance restricted stock units ("PRSUs"), the fair value was estimated using a Monte Carlo simulation model. The total intrinsic value of restricted stock units that vested during the six months ended June 30, 2013 and 2012 was $5.1 million and $1.7 million, respectively.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS AND OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature, unrealized gains and losses on derivative financial instruments designated as cash flow hedges and adjustments to pension liabilities. Amounts recorded in accumulated other comprehensive loss, net of tax, as of June 30, 2013 and December 31, 2012, and changes within the period are as follows:

(In millions)	Foreign Currency Items	Derivative Cash Flow Hedges	Accrued Pension Benefit Liability	Accumulated Other Comprehensive Loss
Balance at December 31, 2012	$ 26.7	$ -	$ (48.6)	$ (21.9)
Other comprehensive income (loss) before reclassifications	(17.7)	(0.9)	1.2	(17.4)
<u>Less:</u> amounts reclassified from accumulated other comprehensive income into net income	-	-	0.4	0.4
Net current period other comprehensive income (loss)	(17.7)	(0.9)	0.8	(17.8)
Balance at June 30, 2013	$ 9.0	$ (0.9)	$ (47.8)	$ (39.7)

Other comprehensive loss is derived from adjustments to reflect the unrealized loss on derivatives, change in pension liability adjustment and change in foreign currency translation adjustment. The

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components of other comprehensive loss for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		
(In millions)	**2013**	**2012**	**2013**	**2012**	**Affected Line Items on the Condensed Consolidated Statements of Income**
Change in foreign currency translation adjustment:					
Currency translation adjustments	**$ (15.0)**	$ (8.7)	**$ (26.6)**	$ (1.8)	
Tax benefit	**(5.5)**	(4.3)	**$ (8.9)**	(0.8)	Provision for income taxes
Change in foreign currency translation adjustment, net of tax	**$ (9.5)**	$ (4.4)	**$ (17.7)**	$ (1.0)	
Unrealized gain on derivatives:					
Commodity hedge contracts	**$ -**	$ 2.1	**$ -**	$ 0.7	Cost of sales
Interest rate swaps	**(0.9)**	-	**$ (0.9)**	-	
Pre-tax amount	**$ (0.9)**	$ 2.1	**$ (0.9)**	$ 0.7	
Tax expense	**-**	0.8	**$ -**	0.3	Provision for income taxes
Change in unrealized gain (loss) on derivatives,	**$ (0.9)**	$ 1.3	**$ (0.9)**	$ 0.4	
Change in pension liability adjustment:					
Adjustments to pension liabilities	**$ 0.5**	$ 0.4	**$ 1.1**	$ 0.8	Cost of sales/selling, general and administrative expenses
Tax expense	**0.2**	0.2	**$ 0.3**	0.2	Provision for income taxes
Pension liability adjustment, net of tax	**$ 0.3**	$ 0.2	**$ 0.8**	$ 0.6	
Other comprehensive loss, before income taxes	**$ (15.4)**	$ (6.2)	**$ (26.4)**	$ (0.3)	
Total tax benefit for the period	**(5.3)**	(3.3)	**$ (8.6)**	(0.3)	Provision for income taxes
Other comprehensive loss, net of tax	**$ (10.1)**	$ (2.9)	**$ (17.8)**	$ -	

14. INCOME TAXES

Our effective income tax rate for the three and six months ended June 30, 2013 was a provision of 30.2 percent and 31.5 percent, respectively, compared to a benefit of 0.1 percent and a provision of 27.3 percent, respectively, for the three and six months ended June 30, 2012. The effective income tax rates were determined using the estimated annual effective tax rate for each period, after considering discrete items for each respective period. The effective tax rates for the three and six months ended June 30, 2013 were lower than the U.S. statutory federal income tax rate primarily due to various permanent differences including deductions for manufacturing activities.

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The effective tax rates for the three and six months ended June 30, 2012 were lower than the U.S. statutory federal income tax rate primarily due to provisions for state tax and various permanent differences including deductions for manufacturing activities and the favorable impact of changes in uncertain tax positions ($3.3 million and $6.4 million for the three and six months ended June 30, 2012, respectively).

15. INVESTMENTS

We own a 50 percent interest in several manufacturing joint ventures in both our building products and chlorovinyls segments. In addition, and in connection with the Merger, we acquired a 50 percent ownership interest in RS Cogen, LLC ("RS Cogen"), which toll produces electricity and steam that are primarily sold to Axiall and its joint venture partner under take-or-pay contracts with terms that extend to 2022. The joint venture was formed with a wholly-owned subsidiary of Entergy Corporation ("Entergy") in 2000 for the construction and operation of a $300 million 425 megawatt combined cycle, natural gas-fired cogeneration facility in Lake Charles, Louisiana, the majority of which was financed by loans having terms that extend to 2022 from a syndicate of banks. The joint venture also maintains revolving credit arrangements that are drawn upon to manage short-term cash flow requirements. These arrangements are subordinate to RS Cogen's senior credit facilities. The cogeneration facility serves as collateral under RS Cogen's senior credit facility. The Company has not provided guarantees to any of the lenders to RS Cogen.

Axiall's future commitment to purchase electricity and steam from the joint venture approximates $23 million per year subject to contractually defined inflation adjustments for the next 10 years. The purchases from the closing date of the Transactions through March 31, 2013 and June 30, 2013 approximated $4.1 million and $10.4 million, respectively.

RS Cogen is a variable interest entity under U.S. accounting guidance. The daily operations of the cogeneration facility are the activities of RS Cogen that most significantly impact its economic performance. These activities are directed by a management team with oversight by a management committee that has equal representation from Axiall and Entergy. By the terms of the joint venture agreement, all decisions of the management committee require approval by a majority of its members. Accordingly, the power to direct the activities of RS Cogen is equally shared between RS Cogen's two owners and, thus, Axiall does not consider itself to be the joint venture's primary beneficiary. Accordingly, Axiall accounts for its investment in RS Cogen under the equity method of accounting. We have recorded our investment in RS Cogen in other assets in the accompanying unaudited condensed consolidated balance sheets and the earnings in cost of goods sold in the unaudited condensed consolidated statements of income.

The following table summarizes our maximum exposure to loss associated with RS Cogen.

(In millions)		
Investment in and advances to RS Cogen	$	18.5
Take-or-pay obligation under power tolling arrangement through 2022		221.5
Maximum exposure to loss as of June 30, 2013	$	240.0

16. EARNINGS PER SHARE

We calculate earnings per share using the two-class method. The two-class method requires that share-based awards with non-forfeitable dividends be classified as participating securities. In calculating basic earnings per share, this method requires net income to be reduced by the amount of dividends declared in the period for each participating security and by the contractual amount of dividends or other

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participation payments that are paid or accumulated for the period. Undistributed earnings for the period are allocated to participating securities based on the contractual participation rights of the security to share in those current earnings assuming all earnings for the period are distributed. Recipients of certain of our restricted stock unit awards have contractual participation rights that are equivalent to those of common stockholders. Therefore, we allocate undistributed earnings to these restricted stock unit participating securities and common stock based on their respective participation percentage.

The two-class method also requires the denominator to include the weighted average number of shares of restricted stock units participating securities when calculating basic earnings per share. Basic and diluted earnings per share for the three and six months ended June 30, 2013, include the weighted average share impact of the 35.2 million shares issued in connection with the Merger from January 28, 2013, the date of issuance. For both the three and six months ended June 30, 2013 there were 0.1 million weighted average restricted stock unit participating securities that were included in the denominator and for both the three and six months ended June 30, 2012 there were 0.5 million weighted average restricted stock unit participating securities. Diluted earnings per share also include the additional share equivalents from the assumed conversion of stock based awards including options and certain restricted stock units. Conversion of stock options and certain restricted stock units are calculated using the treasury stock method, subject to anti-dilution provisions.

In computing diluted earnings per share for both the three and six months ended June 30, 2013, common stock equivalents of 0.1 million shares were not included due to their anti-dilutive effect. For both the three and six months ended June 30, 2012, common stock equivalents of 0.3 million shares were not included due to their anti-dilutive effect. Computations of basic and diluted earnings per share for the three and six month periods ended June 30, 2013 and 2012 are presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	**2013**	**2012**	**2013**	**2012**
Numerator				
Net income attributable to Axiall	**$ 72.8**	$ 13.6	**$ 69.3**	$ 48.9
Less: Net income attributable to participating securities	**-**	0.1	**0.1**	0.6
Net income attributable to common stockholders	**$ 72.8**	$ 13.5	**$ 69.2**	$ 48.3
Denominator				
Weighted average common shares outstanding Basic	**69.9**	34.4	**64.6**	34.3
Plus: Dilutive effect of stock options and awards	**0.5**	0.2	**0.5**	0.2
Weighted average common shares outstanding Diluted	**70.4**	34.6	**65.1**	34.5
Earnings per common share from net income attributable to Axiall's common stockholders:				
Basic	**$ 1.04**	$ 0.39	**$ 1.07**	$ 1.41
Diluted	**$ 1.03**	$ 0.39	**$ 1.06**	$ 1.40

17. SEGMENT INFORMATION

We have three reportable segments through which we manage our operating activities: (i) chlorovinyls; (ii) building products; and (iii) aromatics. These three segments reflect the organization used by our management for internal reporting purposes. Our chlorovinyls segment produces a highly integrated

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chain of products, including chlor-alkali and derivative products (chlorine, caustic soda, vinyl chloride monomer ("VCM"), vinyl resins, ethylene dichloride, chlorinated solvents, calcium hypochlorite, muriatic acid and phosgene derivatives) and compound products (vinyl compounds, compound additives and plasticizers). The financial results of the Merged Business are included with the chlorovinyls segment from January 28, 2013, the closing date of the Merger. Our building products segment consists of two primary product groups: (i) window and door profiles and mouldings products, which include extruded vinyl window and door profiles and interior and exterior moulding products; and (ii) vinyl-based home improvement and building products. Our aromatics segment is highly integrated and manufactures cumene products and phenol and acetone products (co-products made from cumene).

Earnings of our segments exclude interest income and expense, unallocated corporate expenses and general plant services and provision for income taxes. Transactions between operating segments are valued at market based prices. The revenues generated by these transfers for the three and six month periods ended June 30, 2013 and 2012 are provided in the tables below.

(In millions)	Chlorovinyls	Building Products	Aromatics	Eliminations, Unallocated and Other	Total
Three Months Ended June 30, 2013					
Net sales	$ 801.8	$ 244.5	$ 226.5	$ -	$ 1,272.8
Intersegment revenues	$ 64.2	-	-	(64.2)	$ -
Total net sales	$ 866.0	244.5	226.5	(64.2)	$ 1,272.8
Transaction related costs and other, net	$ 1.9	0.1	-	6.8	$ 8.8
Operating income	$ 118.2	19.6	4.3	(17.5)	$ 124.6
Depreciation and amortization	$ 47.5	8.6	0.3	1.6	$ 58.0
Capital expenditures	$ 27.6	9.0	0.8	1.8	$ 39.2
Three Months Ended June 30, 2012					
Net sales	$ 339.8	$ 252.4	$ 275.5	$ -	$ 867.7
Intersegment revenues	$ 73.2	0.1	-	(73.3)	$ -
Total net sales	$ 413.0	252.5	275.5	(73.3)	$ 867.7
Transaction related costs and other, net	$ -	(0.5)	-	7.1	$ 6.6
Operating income	$ 34.5	15.4	(2.4)	(19.1)	$ 28.4
Depreciation and amortization	$ 11.4	9.5	0.4	1.1	$ 22.4
Capital expenditures	$ 18.3	4.5	0.7	3.6	$ 27.1

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(In millions)	Chlorovinyls	Building Products	Aromatics	Eliminations, Unallocated and Other	Total
Six Months Ended June 30, 2013					
Net sales	$ 1,416.3	$ 406.7	$ 511.0	$ -	$ 2,334.0
Intersegment revenues	$ 122.9	-	-	(122.9)	$ -
Total net sales	$ 1,539.2	406.7	511.0	(122.9)	$ 2,334.0
Transaction related costs and other, net	$ 3.2	2.4	-	15.9	$ 21.5
Operating income	$ 209.4	5.8	17.3	(36.7)	$ 195.8
Depreciation and amortization	$ 79.0	17.4	0.6	3.3	$ 100.3
Capital expenditures	$ 39.0	13.1	0.9	2.6	$ 55.6
Six Months Ended June 30, 2012					
Net sales	$ 669.3	$ 439.6	$ 618.7	$ -	$ 1,727.6
Intersegment revenues	$ 139.0	0.3	-	(139.3)	$ -
Total net sales	$ 808.3	439.9	618.7	(139.3)	$ 1,727.6
Transaction related costs and other, net	$ -	(0.7)	-	12.3	$ 11.6
Gain on sale of assets	$ (17.4)	-	-	-	$ (17.4)
Operating income	$ 86.4	9.0	35.2	(34.0)	$ 96.6
Depreciation and amortization	$ 22.5	19.5	0.8	2.2	$ 45.0
Capital expenditures	$ 24.2	10.4	1.0	5.1	$ 40.7

Sales by Product Line

The table below summarizes sales by product line:

(In millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Chlorovinyls				
Chlor-alkali and derivative products	**$ 679.4**	$ 217.3	**$ 1,171.7**	$ 424.8
Compound products	**122.4**	122.5	**244.6**	244.5
Total	**801.8**	339.8	**1,416.3**	669.3
Building Products				
Window and door profiles and moulding products	**86.3**	91.0	**149.3**	157.8
Outdoor building products	**158.2**	161.4	**257.4**	281.8
Total	**244.5**	252.4	**406.7**	439.6
Aromatics				
Cumene products	**129.5**	181.7	**332.3**	433.5
Phenol and acetone products	**97.0**	93.8	**178.7**	185.2
Total	**226.5**	275.5	**511.0**	618.7
Net Sales	**$ 1,272.8**	$ 867.7	**$ 2,334.0**	$ 1,727.6

18. SUPPLEMENTAL GUARANTOR INFORMATION

Axiall Corporation is effectively a holding company for all of its wholly-and majority-owned subsidiaries. Our payment obligations under the indentures for the 4.625 Notes and the 4.875 Notes and the Term Loan Credit Agreement, as described in Note 8, are guaranteed by Axiall, LLC, Axiall Lake Charles, LLC, Royal Mouldings Limited, Royal Window and Door Profiles Plant 13 Inc., Royal Window and Door Profiles Plant 14 Inc., Exterior Portfolio, LLC, Plastic Trends, Inc., Royal Group Sales (USA) Limited, Rome Delaware Corporation, Royal Plastics

Group (U.S.A.) Limited, PHH Monomers, L.L.C., Eagle Holdco 3 LLC, Eagle US 2 LLC, Axiall Ohio, Inc. (formerly known as Eagle Controlled 2 Ohio Spinco, Inc.), Eagle Natrium LLC, and Eagle Pipeline, Inc., all of which are wholly-owned subsidiaries (together with Splitco the "Guarantor Subsidiaries") of Axiall Corporation effective

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January 28, 2013. Our wholly owned subsidiary Splitco is the issuer of the 4.625 Notes and the borrower under the Term Loan (as to each of which obligations Axiall is also a guarantor) and a subsidiary guarantor of the 4.875 Notes. Splitco is included in the Guarantor columns of the supplemental condensed consolidating balance sheet, and supplemental statement of operations and comprehensive income as of, and for the three and six months ended June 30, 2013. Splitco is included in the Guarantor column of supplemental condensed consolidating statement of cash flows for the six months ended June 30, 2013.

Our payment obligations under the indenture for the prior 9 percent notes were guaranteed by Georgia Gulf Lake Charles, LLC, Axiall, LLC, Royal Mouldings Limited, Royal Plastics Group (USA) Limited, Rome Delaware Corporation, Plastic Trends, Inc., Royal Group Sales (USA) Limited, Royal Outdoor Products, Inc., Royal Window and Door Profiles Plant 13 Inc., Royal Window and Door Profiles Plant 14 Inc. and Exterior Portfolio LLC, all of which are wholly-owned subsidiaries (the "Prior Guarantor Subsidiaries") of Axiall Corporation. Many of the covenants under this indenture were terminated in connection with the redemption of the 9 percent notes in February 2013. Information regarding the Prior Guarantor Subsidiaries of the 9 percent notes is included in the supplemental condensed consolidating balance sheet as of December 31, 2012, and supplemental statement of operations and comprehensive income as of and for the three and six months ended June 30, 2012. Information regarding the Prior Guarantor Subsidiaries of the 9 percent notes is included in the Guarantor column of supplemental condensed consolidating statement of cash flows for the six months ended June 30, 2012.

The guarantees are full, unconditional and joint and several. Investments in subsidiaries in the supplemental guarantor financial statements reflect investments in wholly-owned entities within Axiall. The Guarantor Subsidiaries and Non-Guarantor Subsidiaries are not consistent with the Company's business groups or geographic operations; accordingly this basis of presentation is not included to present the Company's financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

The following supplemental condensed consolidating balance sheets, statements of operations and comprehensive income and statements of cash flows present the combined financial statements of the parent company and the combined financial statements of our Guarantor Subsidiaries (or Prior Guarantor Subsidiaries, as appropriate) and our remaining subsidiaries (the "Non-Guarantor Subsidiaries"). Separate financial statements of the Guarantor Subsidiaries and Prior Guarantor Subsidiaries are not presented because we have determined that they would not be material to investors.

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Axiall Corporation
Supplemental Condensed Consolidating Balance Sheet
June 30, 2013
(Unaudited)

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ -	$ 26.2	$ 18.1	$ -	$ 44.3
Receivables, net of allowance for doubtful accounts	0.8	1,395.2	127.3	(820.4)	702.9
Inventories	-	321.9	107.0	-	428.9
Prepaid expenses and other	0.2	46.9	3.6	-	50.7
Deferred income taxes	7.9	1.1	0.1	-	9.1
Total current assets	8.9	1,791.3	256.1	(820.4)	1,235.9
Property, plant and equipment, net	1.8	1,313.1	329.3	-	1,644.2
Long-term receivables affiliates	434.1	-	-	(434.1)	-
Goodwill	-	1,393.2	264.7	-	1,657.9
Intangibles, net	-	1,046.7	180.5	-	1,227.2
Other assets, net	13.1	59.4	12.1	-	84.6
Investment in subsidiaries	3,437.5	301.3	-	(3,738.8)	-
Total assets	$ 3,895.4	$ 5,905.0	$ 1,042.7	$ (4,993.3)	$ 5,849.8
Liabilities and Equity					
Current portion of long-term debt	$ 39.5	$ 2.8	$ -	$ -	$ 42.3
Accounts payable	816.4	304.7	50.7	(820.4)	351.4
Interest payable	3.3	13.5	-	-	16.8
Income taxes payable	-	6.1	1.8	-	7.9
Accrued compensation	-	36.8	10.9	-	47.7
Other accrued current liabilities	0.5	81.8	31.3	-	113.6
Total current liabilities	859.7	445.7	94.7	(820.4)	579.7
Long-term debt excluding current portion of long-term debt	511.7	881.0	3.8	-	1,396.5
Long-term payables affiliates	-	-	434.1	(434.1)	-
Lease financing obligation	-	-	106.3	-	106.3
Deferred income taxes	8.1	717.1	46.5	-	771.7
Pension and other post retirement benefits	-	317.6	11.5	-	329.1
Other non-current liabilities	94.6	106.1	20.0	(93.1)	127.6
Total liabilities	1,474.1	2,467.5	716.9	(1,347.6)	3,310.9
Equity					
Total Axiall stockholders' equity	2,421.3	3,437.5	208.2	(3,645.7)	2,421.3
Noncontrolling interest	-	-	117.6	-	117.6
Total equity	2,421.3	3,437.5	325.8	(3,645.7)	2,538.9
Total liabilities and equity	$ 3,895.4	$ 5,905.0	$ 1,042.7	$ (4,993.3)	$ 5,849.8

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Axiall Corporation
Supplemental Condensed Consolidating Balance Sheet
December 31, 2012
(Unaudited)

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ -	$ 131.0	$ 69.3	$ -	$ 200.3
Receivables, net of allowance	2.2	989.1	55.3	(731.7)	314.9
Inventories	-	201.6	86.8	-	288.4
Prepaid expenses and other	-	11.9	2.8	-	14.7
Deferred income taxes	7.9	13.0	0.2	-	21.1
Total current assets	10.1	1,346.6	214.4	(731.7)	839.4
Property, plant and equipment, net	1.5	422.0	214.2	-	637.7
Long-term receivables affiliates	458.0	9.4	-	(467.4)	-
Goodwill	-	105.0	112.2	-	217.2
Intangible assets, net	-	40.9	2.5	-	43.4
Other assets, net	14.0	38.8	10.8	-	63.6
Investment in subsidiaries	1,446.5	-	-	(1,446.5)	-
Total assets	$ 1,930.1	$ 1,962.7	$ 554.1	$ (2,645.6)	$ 1,801.3
Liabilities and Equity					
Accounts payable	$ 745.1	$ 176.3	$ 21.5	$ (731.7)	$ 211.2
Interest payable	18.9	-	-	-	18.9
Income taxes payable	-	13.9	1.2	-	15.1
Accrued compensation	-	29.4	15.3	-	44.7
Other accrued liabilities	1.0	38.5	21.7	-	61.2
Total current liabilities	765.0	258.1	59.7	(731.7)	351.1
Long-term debt excluding current portion of long-term debt	448.1	-	-	-	448.1
Lease financing obligation	-	-	112.3	-	112.3
Long-term payables affiliates	-	-	467.4	(467.4)	-
Deferred income taxes	16.9	161.0	-	-	177.9
Pension and other post retirement benefits	-	48.3	-	-	48.3
Other non-current liabilities	96.6	48.7	19.6	(104.8)	60.1
Total liabilities	1,326.6	516.1	659.0	(1,303.9)	1,197.8
Equity					
Total Axiall stockholders' equity	603.5	1,446.6	(104.9)	(1,341.7)	603.5
Total equity	603.5	1,446.6	(104.9)	(1,341.7)	603.5
Total liabilities and equity	$ 1,930.1	$ 1,962.7	$ 554.1	$ (2,645.6)	$ 1,801.3

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Axiall Corporation
Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income
Three Months Ended June 30, 2013
(Unaudited)

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ -	$ 1,114.8	$ 213.4	$ (55.4)	$ 1,272.8
Operating costs and expenses:					
Cost of sales	-	930.2	166.9	(55.4)	1,041.7
Selling, general and administrative expenses	9.5	66.6	21.6	-	97.7
Transaction related costs and other, net	6.5	2.2	0.1	-	8.8
Total operating costs and expenses	16.0	999.0	188.6	(55.4)	1,148.2
Operating income (loss)	(16.0)	115.8	24.8	-	124.6
Other income (expense):					
Interest expense, net	(12.1)	(1.5)	(5.8)	-	(19.4)
Foreign exchange gain	-	-	0.3	-	0.3
Equity in income of subsidiaries	153.8	6.7	-	(160.5)	-
Income before income taxes	125.7	121.0	19.3	(160.5)	105.5
Provision for (benefit from) income taxes	52.9	(26.2)	5.1	-	31.8
Consolidated net income	72.8	147.2	14.2	(160.5)	73.7
Less net income attributable to noncontrolling interest	-	-	0.9	-	0.9
Net income attributable to Axiall	$ 72.8	$ 147.2	$ 13.3	$ (160.5)	$ 72.8
Comprehensive income attributable to Axiall	$ 62.7	$ 143.5	$ 12.7	$ (156.2)	$ 62.7

Axiall Corporation
Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income
Three Months Ended June 30, 2012
(Unaudited)

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ -	$ 739.6	$ 176.6	$ (48.5)	$ 867.7
Operating costs and expenses:					
Cost of sales	-	684.8	144.6	(48.5)	780.9
Selling, general and administrative expenses	10.3	23.3	18.2	-	51.8
Transaction related costs and other, net	7.1	(0.5)	-	-	6.6
Total operating costs and expenses	17.4	707.6	162.8	(48.5)	839.3
Operating income (loss)	(17.4)	32.0	13.8	-	28.4

Other income (expense):					
Interest expense, net	(21.7)	13.0	(5.8)	-	(14.5)
Foreign exchange loss	-	-	(0.3)	-	(0.3)
Equity in income of subsidiaries	44.4	1.1	-	(45.5)	-
Income before income taxes	5.3	46.1	7.7	(45.5)	13.6
Provision for (benefit from) income taxes	(8.3)	11.6	(3.3)	-	-
Consolidated net income	13.6	34.5	11.0	(45.5)	13.6
Net income attributable to Axiall	$ 13.6	$ 34.5	$ 11.0	$ (45.5)	$ 13.6
Comprehensive income attributable to Axiall	$ 10.7	$ 36.4	$ 13.6	$ (50.0)	$ 10.7

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Axiall Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income
Six Months Ended June 30, 2013
(Unaudited)

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ -	$ 2,086.4	$ 349.1	$ (101.5)	$ 2,334.0
Operating costs and expenses:					
Cost of sales	-	1,755.7	286.5	(101.5)	1,940.7
Selling, general and administrative expenses	17.8	117.6	40.6	-	176.0
Transaction related costs and other, net	15.5	5.6	0.4	-	21.5
Total operating costs and expenses	33.3	1,878.9	327.5	(101.5)	2,138.2
Operating income (loss)	(33.3)	207.5	21.6	-	195.8
Other income (expense):					
Interest income (expense), net	(28.7)	2.3	(11.3)	-	(37.7)
Foreign exchange gain	-	-	0.4	-	0.4
Loss on redemption and other debt costs	(66.1)	(12.4)	-	-	(78.5)
Gain on acquisition of controlling interest	-	23.5	-	-	23.5
Equity in income of subsidiaries	237.8	9.0	-	(246.8)	-
Income before income taxes	109.7	229.9	10.7	(246.8)	103.5
Provision for (benefit from) income taxes	40.4	(10.3)	2.5	-	32.6

(b) Purchases include paid-in-kind interest and securities received from restructure.

(c) Sales include principal redemptions.

The valuation techniques used by the Adviser to measure fair value as of October 31, 2013 maximized the use of observable inputs and minimized the use of unobservable inputs. The valuation techniques and significant amounts of unobservable inputs used in the valuation of the Fund's Level 3 securities are outlined in the table below.

Fair Value ($)	Valuation Technique	Unobservable Inputs	Range

Assets				
Investments in securities				
Floating Rate Term Loans	1,243,750	Broker quotes and/or 3rd party pricing services	N/A	N/A
Corporate Bonds	2,500,000	Recent transactions	N/A	N/A
				N/A
	1,531,250	Broker quotes and/or 3rd party pricing services	N/A	
	4,031,250			
Collateralized Loan Obligation/ Collateralized Debt Obligation	684,793	Broker quotes and/or 3rd party pricing services	N/A	N/A
Total Level 3 Investments	5,959,793			

There were no transfers between level 1 and 2 during the period. It is the Funds' policy to recognize transfers into and out of all levels at the end of the reporting period.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Notes to Financial Statements *(continued)*

October 31, 2013

(4) Common Stock

Common share transactions were as follows:

Ares Dynamic Credit Allocation Fund, Inc.

	Period Ended October 31, 2013[a]	
	Shares	**Amount ($)**
Common shares outstanding beginning of period	5,236	100,000
Proceeds from sale of shares	17,150,000	327,565,000
Common shares issued as reinvestment of dividends	10,776	210,457
Offering costs		(686,000)
Common shares outstanding end of period	17,166,012	327,189,457

Ares Multi-Strategy Credit Fund, Inc.

	Period Ended October 31, 2013[b]	
	Shares	**Amount ($)**
Common shares outstanding beginning of period		
Proceeds from sale of shares	5,204,200	124,250,296
Offering costs		(260,000)
Common shares outstanding end of period	5,204,200	123,990,296

(a) For the period from November 27, 2012 (commencement of operations) to October 31, 2013.

(b) For the period from October 28, 2013 (commencement of operations) to October 31, 2013.

(5) Credit Facility

On January 3, 2013, ARDC entered into a credit agreement with State Street Bank and Trust (the "Lender") in which the Lender agreed to make loans up to $150 million to the Fund under a revolving credit facility (the "Credit Facility") secured by certain assets of the Fund. Loans under the facility generally bear interest at the applicable LIBOR rate plus 1.15%. Unused portions of the credit facility will accrue a commitment fee equal to an annual rate of 0.15%. Upfront fees including related legal expenses incurred by the Fund in connection with the credit facility were deferred

and are amortized on an effective yield method over a two-year period. These amounts are included in the Statements of Operations as Amortization of debt issuance cost. The Fund entered into this credit agreement to have the ability, if necessary, to purchase investments.

The weighted average outstanding daily balance of all loans during the period from January 3, 2013 to October 31, 2013 was approximately $116,447,545 with a weighted average

borrowing cost of 1.38%. At October 31, 2013, the amounts outstanding under this Credit Facility were $136,728,156.

(6) Investment Advisory and Other Agreements

The Adviser is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Adviser is an affiliate of Ares and leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals.

The Adviser provides certain investment advisory and administrative services to the Funds pursuant to separate investment advisory and management agreements with the Funds (each an "Investment Advisory Agreement"). Pursuant to its Investment Advisory Agreement, each Fund has agreed to pay the Adviser a management fee at an annual rate of 1.00% of the average daily value of the Funds' Managed Assets. For ARDC, "Managed Assets" means the total assets of the Fund (including any assets attributable to any preferred shares that may be issued or to indebtedness) minus the Fund's liabilities other than liabilities relating to indebtedness. For ARMF, "Managed Assets" means the total assets of the Fund (including any assets attributable to any shares of preferred stock that may be issued by the Fund or to money borrowed, including as a result of notes or other debt securities that may be issued by the Fund) minus the sum of (i) accrued liabilities of the Fund (other than liabilities for money borrowed and principal on notes and other debt securities issued by the Fund), (ii) any accrued and unpaid interest on money borrowed and (iii) accumulated dividends on any outstanding shares of common stock and preferred stock issued by the Fund. The liquidation preference of any preferred stock issued by ARMF is not considered a liability for this calculation. In addition to Fund's advisory services, the Adviser or any of its affiliates provides certain administrative services, including accounting, legal, compliance, clerical or administrative services, to the Funds at the request of the Funds. For ARDC, the Adviser has the right to be reimbursed for such costs, provided that no such reimbursement shall be payable by the Funds in respect of costs of the Adviser or its affiliates incurred prior to November 1, 2014. For ARMF, the Adviser has contractually agreed until October 31, 2015 to not seek reimbursement from ARMF for costs of the Adviser and its affiliates for providing certain non-advisory services to ARMF. The contractual agreement may be terminated by the Adviser at any time upon 30 days' notice to ARMF. The total expenses incurred for the periods ended October 31, 2013 was $3,987,161 and $3,404 for ARDC and ARMF, respectively.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Notes to Financial Statements *(continued)*

October 31, 2013

The Funds have engaged State Street Bank and Trust Company ("State Street") to serve as the Funds' administrator, custodian and transfer agent. Under the service agreements between State Street and the Funds, State Street will provide certain administrative services necessary for the operation of the Funds, including maintaining certain Fund books and records, providing accounting and tax services and preparing certain regulatory filings. State Street will also perform custodial, fund accounting and portfolio accounting services, as well as transfer agency and dividend paying services with respect to the common shares. The Funds will pay State Street for these services. The total expenses incurred for the periods ended October 31, 2013 was $317,650 and $459 for ARDC and ARMF, respectively.

The Funds have retained Destra Capital Investments LLC ("Destra") to provide investor support services in connection with the on-going operation of the Funds. Such services include providing ongoing contact with respect to the Funds and their performance with financial advisors that are representatives of broker-dealers and other financial intermediaries, communicating with the NYSE specialist for the Funds' common shares, and with the closed-end Fund analyst community regarding the Funds on a regular basis, and developing and maintaining a website for the Funds. The Funds will pay Destra 0.12% of Managed Assets for the first year of operation and 0.10% thereafter. The terms of this agreement shall be in effect for an initial period of two years and shall thereafter continue for successive one year periods. The total expenses incurred for the periods ended October 31, 2013 was $478,459 and $408 for ARDC and ARMF, respectively.

(7) Investment Transactions

For the periods ended October 31, 2013, the cost of purchases and proceeds from sales of securities, excluding short obligations, were as follows:

	Cost of Investments Purchased $	Proceeds from Investments Sold $
Ares Dynamic Credit Allocation Fund, Inc.	1,258,229,213	781,663,892
Ares Multi-Strategy Credit Fund, Inc.	39,149,825	114,784

(8) New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." The ASU requires disclosure of both gross and net balances for certain investments and transactions

entered into under master netting agreements, better aligning U.S. GAAP requirements with International Financial Reporting Standards. The ASU is effective for interim and annual periods beginning on or after January 1, 2013. Management believes the ASU will not have a material impact on the financial statements and related disclosures.

(9) Subsequent Events

Ares Dynamic Credit Allocation Fund, Inc.

The following common share distributions were declared on October 11, 2013:

Ex-Date: November 20, 2013
Record Date: November 22, 2013
Payable Date: November 29, 2013
Per Share Amount: $0.117

Ex-Date: December 19, 2013
Record Date: December 23, 2013
Payable Date: December 31, 2013
Per Share Amount: $0.117

Ares Multi-Strategy Credit Fund, Inc.

The following common share distributions were declared on November 25, 2013:

Ex-Date: January 21, 2014
Record Date: January 23, 2014
Payable Date: January 31, 2014
Per Share Amount: $0.1525

Ex-Date: February 18, 2014
Record Date: February 20, 2014
Payable Date: February 28, 2014
Per Share Amount: $0.1525

Ex-Date: March 18, 2014
Record Date: March 20, 2014
Payable Date: March 31, 2014
Per Share Amount: $0.1525

ARMF entered into a credit facility agreement on December 2, 2013 in the amount of up to $62 million.

The Adviser has evaluated the possibility of subsequent events existing in the Funds' financial statements through the date when financial statements are available for issuance, and has determined that there are no material events that would require disclosure in the Funds' financial statements through this date.

Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders of
Ares Dynamic Credit Allocation Fund, Inc.**

We have audited the accompanying statement of assets and liabilities of Ares Dynamic Credit Allocation Fund, Inc., (the Company), including the schedule of investments, as of October 31, 2013, and the related statements of operations, changes in net assets, and cash flows for the period from November 27, 2012 (commencement of operations) to October 31, 2013, and the financial highlights for the period from November 27, 2012 (commencement of operations) to October 31, 2013. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 financial statements and financial highlights 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 and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included verification by examination of securities held by the custodian as of October 31, 2013, and confirmation of securities not held by the custodian by correspondence with others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Ares Dynamic Credit Allocation Fund, Inc. at October 31, 2013, the results of its operations, changes in its net assets, and its cash flows for the for the period from November 27, 2012 (commencement of operations) to October 31, 2013, and the financial highlights for the period from November 27, 2012 (commencement of operations) to October 31, 2013, in conformity with U.S. generally accepted accounting principles.

December 23, 2013

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Ares Multi-Strategy Credit Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Ares Multi-Strategy Credit Fund, Inc., (the Company), including the schedule of investments, as of October 31, 2013, and the related statements of operations, changes in its net assets, and cash flows for the period from October 28, 2013 (commencement of operations) to October 31, 2013, and the financial highlights for the period from October 28, 2013 (commencement of operations) to October 31, 2013. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 financial statements and financial highlights 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 and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included verification by examination of securities held by the custodian as of October 31, 2013, and confirmation of securities not held by the custodian by correspondence with others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Ares Multi-Strategy Credit Fund, Inc. at October 31, 2013, the results of its operations, changes in its net assets, and its cash flows for the period from October 28, 2013 (commencement of operations) to October 31, 2013, and the financial highlights for the period from October 28, 2013 (commencement of operations) to October 31, 2013, in conformity with U.S. generally accepted accounting principles.

December 23, 2013

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information

October 31, 2013 (unaudited)

Proxy Information

The policies and procedures used to determine how to vote proxies relating to securities held by the Funds are available (1) without charge, upon request, by calling 1-877-855-3434, or (2) on the SEC's website at http://www.sec.gov. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 will be available on Form N-PX by August 31 of each year (1) without charge, upon request, by calling 1-877-855-3434, or (2) on the SEC's website at http://www.sec.gov.

Portfolio Information

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission (the "SEC") for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q will be available (1) on the Funds' website located at http://www.aresdc.com; (2) on the SEC's website at http://www.sec.gov; or (3) for review and copying at the SEC's Public Reference Room (the "PRR") in Washington, DC. Information regarding the operation of the PRR may be obtained by calling 1-800-SEC-0330.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

Dividend Reinvestment Plan

Unless a shareholder specifically elects to receive distributions in cash, distributions will automatically be reinvested in additional common shares of the Funds. A shareholder may elect to have the cash portion of dividends and distributions distributed in cash. To exercise this option, such shareholder must notify State Street, the plan administrator and the Funds' transfer agent and registrar, in writing or by telephone so that such notice is received by the plan administrator not less than 10 days prior to the record date fixed by the Board of Directors for the dividend or distribution involved. Participants who hold their common shares through a broker or other nominee and who wish to elect to receive any dividends and other distributions in cash must contact their broker or nominee. The plan administrator will set up an account for shares acquired pursuant to the plan for each shareholder that does not elect to receive distributions in cash (each a "Participant"). The plan administrator may hold each Participant's common shares, together with the other Participant's common shares, in non-certificated form in the plan administrator's name or that of its nominee. The shares are acquired by the plan administrator for a Participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Funds ("Newly Issued Shares") or (ii) by purchase of outstanding common shares on the open market ("Open-Market Purchases") on the NYSE or elsewhere. If, on the dividend payment date, the net asset value per share of the common shares is equal to or less than the market price per common share on the NYSE plus estimated brokerage commissions (such condition being referred to as "market premium"), the plan administrator will invest the dividend amount in Newly Issued Shares on behalf of the Participant. The number of Newly Issued Shares to be credited to the Participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share of the common shares on the date the shares are issued, unless the net asset value of the common shares is less than 95% of the then current market price per share on the NYSE, in which case the dollar amount of the dividend will be divided by 95% of the then current market price per common share on the NYSE. If on the dividend payment date the net asset value per share of the common shares is greater than the market price per common share on the NYSE (such condition being referred to as "market discount"), the plan administrator will invest the dividend amount in common shares acquired on behalf of the Participant in Open-Market Purchases.

The plan administrator's service fee, if any, and expenses for administering the plan will be paid for by the Funds. There will be no brokerage charges to shareholders with respect to common shares issued directly by the Funds as a result of dividends or distributions payable either in common shares or in cash. However, each Participant will pay a pro-rata share of brokerage commissions incurred with respect to the plan administrator's Open-Market Purchases in connection with the reinvestment of dividends and distributions.

Shareholders who elect to receive their distributions in cash are subject to the same federal, state and local tax consequences as shareholders who reinvest their distributions in additional common shares. A shareholder's basis for determining gain or loss upon the sale of shares acquired due to reinvestment of a distribution will generally be equal to the total dollar amount of the dividend payable to the shareholders. Any shares received due to reinvestment of a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. shareholder's account.

Participants may terminate their accounts under the dividend reinvestment plan by writing to the plan administrator at State Street Bank and Trust Company, located at 200 Clarendon Street, 16th Floor, Boston, Massachusetts, 02116 or by calling the plan administrator's hotline at (877) 272-8164. Such termination will be effective immediately if the

Participant's notice is received by the plan administrator at least 10 days prior to any dividend or distribution record date for the payment of any dividend or distribution by the Fund; otherwise, such termination will be effective only with respect to any subsequent dividend or distribution. Participants who hold their common shares through a broker or other nominee and who wish to terminate their account under the plan may do so by notifying their broker or nominee. The dividend reinvestment plan may be terminated by the Funds upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend or distribution by the Funds. Additional information about the dividend reinvestment plan may be obtained by contacting the plan administrator by mail at 200 Clarendon Street, 16th Floor, Boston, Massachusetts 02116 or by telephone at (877) 272-8164.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

Ares Multi-Strategy Credit Fund, Inc.
Approval of Investment Advisory Agreements

The Board of Directors of the Ares Multi-Strategy Credit Fund, Inc. (the "Fund"), a majority of whom are not "interested persons" (as defined in the Investment Company Act) of the Fund (the "Independent Directors"), approved the Investment Advisory Agreement at meetings held on June 5, 2013 and September 18, 2013.

The Board of Directors of the Fund has the responsibility under the Investment Company Act to consider for approval the Fund's proposed Investment Advisory Agreement for its initial two-year term and for any renewal thereafter at meetings of the Board called for the purpose of voting on such approvals or renewals. In addition, the Fund's Board of Directors generally receives, reviews and evaluates information concerning the services and personnel of the Adviser and its affiliates at quarterly meetings of the Board. While particular emphasis might be placed on information concerning investment performance, comparability of fees, total expenses and profitability at any future meeting at which a renewal of the Investment Advisory Agreement is considered, the process of evaluating the Adviser and the Fund's investment advisory and administrative arrangements is an ongoing one. In this regard, the Board's consideration of the nature, extent and quality of the services to be provided by the Adviser under the Investment Advisory Agreement will include deliberations at future meetings.

At Board meetings held on June 5, 2013 and September 18, 2013, all of the Directors present at the meeting, including all of the Independent Directors, approved the Investment Advisory Agreement for an initial two-year term. In considering whether to approve the Investment Advisory Agreement, the Fund's Board of Directors reviewed certain information provided to the Board, which included: (1) information concerning the services that will be rendered to the Fund by the Adviser, and the fees that will be paid by the Fund to the Adviser; (2) comparative information, comparing the Fund's advisory fees and expenses to those of its relevant peer group; (3) the Adviser's Form ADV; (4) a memorandum outlining the legal duties of the Board under the Investment Company Act; and (5) other reports of and presentations by representatives of the Adviser.

In determining whether to approve the Investment Advisory Agreements, the Board considered the following:

(a) *The nature, extent and quality of services to be provided by the Adviser* With respect to the nature, extent and quality of services to be provided by the Adviser, the Board reviewed the information regarding the types of services to be provided under the Investment Advisory Agreement and information describing the Adviser's organization and business, including the quality of the investment research capabilities of the Adviser and the other resources that would be dedicated to performing services for the Fund. The Board also noted the professional experience and qualifications of the Fund's portfolio management team and other senior personnel of the Adviser that would be involved with the Fund. The quality of administrative and other services, including the Adviser's role in coordinating the activities of the Fund's other service providers, were also considered.

(b) *Investment performance of the Fund and the Adviser* With respect to investment performance, it was noted that because the Fund had not commenced operations, it did not have its own performance history. Instead, the Board reviewed and considered the Adviser's past performance record with other accounts with strategies similar to that of the Fund.

(c) *Cost of the services to be provided and profits to be realized by the Adviser from the relationship with the Fund*
The Board noted that, because the Fund had not yet commenced operations, the Board was unable to consider historical information about the profitability of the Fund to the Adviser. However, the Board considered the anticipated costs of services to be provided by the Adviser. It was also noted that the Adviser had agreed to provide the Board with profitability information in connection with future proposed continuances of the Advisory Agreement.

(d) *Economies of scale and whether fee levels reflect these economies of scale* The Board recognized that, because the Fund had not yet begun operations, economies of scale were difficult to measure and identify at this stage. In addition, the directors noted that the Fund's size was uncertain and that once the Fund commenced operations, as a closed-end fund it was unlikely to grow significantly absent a special corporate action such as a material acquisition or an offering of additional shares.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

(e) *Comparison of services to be rendered and fees to be paid to those under other investment advisory contracts, such as contracts of the same and other investment advisers or other clients* In evaluating the proposed management fees and expenses, the Board considered the Fund's management fees and the Fund's expected expense ratios in absolute terms and as compared with the fees and expenses of comparable peer groups of unaffiliated funds provided by Lipper, an independent third party, and by the Adviser. It was noted that the proposed fees were within the range of those of comparable funds in the Fund's Lipper peer group. The Board also noted that the Fund is a multi-asset fund and that this impacted its expense ratio. It further noted that the Fund would be unable to realize certain economies of scale since it, unlike many of the competitor funds, would not be part of a large fund family. It recognized that the ultimate size of the Fund would depend on the success of its initial public offering. The Board also considered that the Investment Advisory Agreement provides that, the Fund may reimburse the Adviser for the cost to it of providing certain accounting, legal, compliance, clerical or administrative services provided at the Fund's request by employees of the Adviser or its affiliates, and that such reimbursements, to the extent requested and paid, would result in a higher rate of total compensation from the Fund to the Adviser than the fee rate stated in the Advisory Agreement. The Board also noted the reputation and track record of the Adviser's organization as a leading manager of credit assets.

(f) *Benefits derived or to be derived by the Adviser from its relationship with the Funds* The Board also considered the extent to which benefits other than the fees and reimbursement amounts pursuant to the Investment Advisory Agreement might accrue to the Adviser and its affiliates from their proposed relationships with the Fund. The Board noted in this regard that neither the Adviser nor its affiliates would trade with the Fund, or execute portfolio transactions on its behalf, and that the Adviser had confirmed that the Fund would not invest in securities issued by affiliates of the Adviser including CLOs sponsored by the Adviser. However, they recognized that the Adviser might derive reputational and other benefits from its association with the Fund.

Conclusion

No single factor was identified as being determinative to the Board decision. Based on the foregoing and such other matters as were deemed relevant, the Board, including a majority of the Independent Directors, concluded that the nature, extent and quality of the services to be provided by the adviser are adequate and appropriate, that the fees to be paid to the Adviser are reasonable in light of the services expected to be provided to the Fund, expenses to be incurred and such other matters as the directors considered relevant in the exercise of their business judgment, and approved the Investment Advisory Agreement.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

Investment Adviser

Ares Capital Management II LLC
2000 Avenue of the Stars, 12th Floor
Los Angeles CA 90067

Administrator Custodian and Transfer Agent

State Street Bank and Trust Company
200 Clarendon Street, 16th Floor
Boston, MA 02116

DRIP Administrator

State Street Bank and Trust Company
200 Clarendon Street, 16th Floor
Boston, MA 02116

Investor Support Services

Destra Capital Investments LLC
901 Warrenville Road, Suite 15
Lisle, Illinois 60532

Independent Registered Public Accounting Firm

Ernst & Young LLP
725 South Figueroa Street
Los Angeles, CA 90017

Fund Counsel

Willkie Farr & Gallagher LLP
787 7th Avenue
New York, NY 10019

Shareholder Mailing Requests

Laurel Hill Advisory Group, LLC
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Annual Report 2013
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Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

Privacy Notice

We are committed to maintaining the privacy of our shareholders and to safeguarding their nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we will not receive any non-public personal information about shareholders of the common stock of the Funds, although certain of our shareholders' non-public information may become available to us. The non-public personal information that we may receive falls into the following categories:

- Information we receive from shareholders, whether we receive it orally, in writing or electronically. This includes shareholders' communications to us concerning their investment;

- Information about shareholders' transactions and history with us; or

- Other general information that we may obtain about shareholders, such as demographic and contact information such as address.

We do not disclose any non-public personal information about shareholders, except:

- to our affiliates (such as our investment adviser) and their employees that have a legitimate business need for the information;

- to our service providers (such as our administrator, accountants, attorneys, custodians, transfer agent, underwriter and proxy solicitors) and their employees as is necessary to service shareholder accounts or otherwise provide the applicable service;

- to comply with court orders, subpoenas, lawful discovery requests, or other legal or regulatory requirements; or

- as allowed or required by applicable law or regulation.

When the Funds share non-public shareholder personal information referred to above, the information is made available for limited business purposes and under controlled circumstances designed to protect our shareholders ' privacy. The Funds do not permit use of shareholder information for any non-business or marketing purpose, nor do the Funds permit third parties to rent, sell, trade or otherwise release or disclose information to any other party.

The Funds' service providers, such as their adviser, administrator, and transfer agent, are required to maintain physical, electronic, and procedural safeguards to protect shareholder nonpublic personal information; to prevent unauthorized access or use; and to dispose of such information when it is no longer required.

Personnel of affiliates may access shareholder information only for business purposes. The degree of access is based on the sensitivity of the information and on personnel need for the information to service a shareholder's account or comply with legal requirements.

If a shareholder ceases to be a shareholder, we will adhere to the privacy policies and practices as described above. We may choose to modify our privacy policies at any time. Before we do so, we will notify shareholders and provide a description of our privacy policy.

In the event of a corporate change in control resulting from, for example, a sale to, or merger with, another entity, or in the event of a sale of assets, we reserve the right to transfer your non-public personal information to the new party in control or the party acquiring assets.

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

Additional Information *(continued)*

October 31, 2013 (unaudited)

Officers

Name	Title	Address
Seth J. Brufsky	President & Chief Executive Officer	Ares Management LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Daniel F. Nguyen	Chief Financial Officer	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Anthony S. Dell	Chief Compliance Officer and Anti-Money Laundering Officer	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Sunny Parmar	Treasurer	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Daniel J. Hall	General Counsel, Chief Legal Officer & Secretary	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Michael Weiner	Vice President & Assistant Secretary	Ares Management LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Keith Ashton	Vice President	Ares Management LLC 245 Park Avenue, 44th Floor New York, NY 10167
Ann Kono	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Americo Cascella	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor

		Los Angeles, CA 90067
John Eanes	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
John A. Leupp	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Jeff M. Moore	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067
Darryl L. Schall	Vice President	Ares Capital Management II LLC 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067

Directors

Name	
David A. Sachs (Chairman)	
Seth J. Brufsky	
Michael H. Diamond (Independent Director)	Lead Independent
Philip R. Erlanger (Independent)	
John J. Shaw (Independent)	

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Item 2. Code of Ethics.

(a) The Ares Dynamic Credit Allocation Fund, Inc. (the Fund) has adopted a Code of Ethics that applies to the Fund s principal executive officer and principal financial officer (the Code of Ethics).

(c) During the reporting period for this Form N-CSR, the Fund s Code of Ethics was amended to add Ares Multi-Strategy Credit Fund, Inc. to Appendix A.

(d) There have been no waivers , including any implicit waivers, granted by the Fund to individuals covered by the Fund s Code of Ethics during the reporting period for this Form N-CSR.

(f) A copy of the Fund s Code of Ethics is attached hereto as exhibit 12(a)(1).

Item 3. Audit Committee Financial Expert.

a) (1) The Board of Directors of the Fund has determined that the Fund has one member serving on the Fund s Audit Committee that possesses the attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as audit committee financial expert.

(2) The name of the audit committee financial expert is Mr. John Shaw. Mr. Shaw has been deemed to be independent for purposes of this Item because he is not an interested person of the Fund as that term is defined in in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940Act).

Item 4. Principal Accountant Fees and Services.

(a) Audit Fees

For the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, Ernst & Young LLP (EY), the Fund s independent registered public accounting firm, billed the Fund aggregate fees of US$85,000 for professional services rendered for the audit of the Fund s annual financial statements and review of financial statements included in the Fund s annual report to shareholders.

(b) Audit-Related Fees

For fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, EY did not bill the Fund any fees for assurances and related services that are reasonably related to the performance of the audit or review of the Fund s financial statements and are not reported under the section Audit Fees above.

(c) Tax Fees

For the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, EY billed the Fund aggregate fees of US$7,500 for professional services rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the Tax Fees was the review of the Fund s income tax returns and tax distribution requirements.

(d) All Other Fees

For the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, EY did not bill the Fund for other fees.

(e) The Fund s Audit Committee Charter requires that the Audit Committee pre-approve all audit and non audit services to be provided to the Fund by the Fund s independent registered public accounting firm; provided, however, that the preapproval requirement with respect to the provision of non auditing services to the Fund by the Fund s independent accountants may be waived by the Audit Committee under the circumstances described in the Securities Exchange Act of 1934, as amended (the 1934 Act).

All of the audit and tax services described above for which EY billed the Fund fees for the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, were pre-approved by the Audit Committee.

For the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013 the Fund s Audit Committee did not waive the pre-approval requirement of any non-audit services to be provided to the Fund by EY.

(f) Not applicable.

(g) For the fiscal period from November 27, 2012 (commencement of operations) to October 31, 2013, EY billed the Fund US$7,500 for non-audit fees.

(h) EY notified the Fund s Audit Committee of all non-audit services that were rendered by EY to the Fund s Investment Adviser and any entity controlling, controlled by, or under common control with the Investment Adviser that provides ongoing services to the Fund that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X, allowing the Fund s Audit Committee to consider whether such services were compatible with maintaining EY s independence.

Item 5. Audit Committee of Listed Registrants.

(a) The Fund has a separately-designated audit committee established in accordance with Section 3(a)(58)(A) of the 1934 Act. The members of the Fund s audit committee are Mr. John Shaw, Mr. Michael Diamond and Mr. Phil Erlanger.

Item 6. Schedule of Investments.

a. Schedule of Investments is included as part of Item 1 of this Form N-CSR.

b. Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Investment Companies.

Attached to this Form N-CSR as exhibit 12(a)(4) are copies of the proxy voting policies and procedures of the Fund and its Investment Adviser.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a)(1) As of October 31, 2013, the portfolio managers of the registrant are as follows:

Seth J. Brufsky

Portfolio Manager

Investment Experience:

Mr. Brufsky is a Portfolio Manager in the Ares Capital Markets Group and a founding member of Ares. Mr. Brufsky is a Senior Partner of Ares, serves on Ares Management Committee and is an Investment Committee member on all Ares Capital Markets Group Funds. Mr. Brufsky joined Ares in 1998 from the Corporate Strategy and Research Group of Merrill Lynch & Co., where he specialized in analyzing and marketing non-investment grade securities and was acknowledged by Institutional Investor as a member of the top-ranked credit analyst team each year of his tenure. Prior to joining Merrill Lynch, Mr. Brufsky was a member of the Institutional Sales and Trading Group of the Global Fixed Income Division at Union Bank of Switzerland. Mr. Brufsky serves on the Board of Directors of the Luminescence Foundation, a charitable giving organization. Mr. Brufsky graduated from Cornell University with a BS in Applied Economics and Business Management and received his MBA in Finance with honors from the University of Southern California s Marshall School of Business, where he was awarded the Glassick Scholarship for academic achievement.

Keith Ashton

Portfolio Manager

Investment Experience:

Mr. Ashton is a Portfolio Manager in the Ares Capital Markets Group. Prior to joining Ares, Mr. Ashton was a Partner and Managing Director of Global Structured Credit at Indicus Advisors, and managed its New York office until its acquisition by Ares Management in November 2011. Prior to joining Indicus in 2007, Mr. Ashton was Head of Structured Credit at TIAA-CREF where he managed TIAA-CREF s structured credit and asset-backed securities portfolios. Mr. Ashton has significant experience investing in and managing structured credit securities, particularly subordinate tranches, across the breadth of structured credit and ABS sectors. He received his B.A. in Economics from Brigham Young University, and earned his MBA in Finance and Corporate Accounting from the University of Rochester.

(a)(2) As of October 31, 2013, the Portfolio Managers were primarily responsible for the day-to-day portfolio management of the following accounts:

Name of Portfolio Manager	Type of Accounts	Total # of Accounts Managed		Total Assets	# of Accounts Managed for which Advisory Fee is Based on Performance		Total Assets for which Advisory Fee is Based on Performance
Seth J. Brufsky	Registered investment companies	7	$	2,005,105,499	0	$	0
	Other pooled investment vehicles	2	$	2,892,230,755	2	$	2,892,230,755
	Other accounts	7	$	1,855,481,143	5	$	1,546,872,275
Keith Ashton	Registered investment companies	2	$	594,255,097	0	$	0
	Other pooled investment vehicles	2	$	517,894,064	2	$	517,894,064
	Other accounts	4	$	822,592,429	3	$	748,373,535

Material Conflicts of Interest

Actual or apparent conflicts of interest may arise when a Portfolio Manager has day-to-day management responsibilities with respect to more than one fund or other account.

Certain inherent conflicts of interest arise from the fact that the Portfolio Managers, the Adviser and its affiliates provide investment advisory and administration services both to the Fund and the other Ares-advised funds, including other funds, as well as client accounts, proprietary accounts and any other investment vehicles that the Adviser and its affiliates may establish from time to time, managed by the Adviser and its affiliates in which the Fund will not have an interest. The investment program of the Fund and the other Ares-advised funds may or may not be substantially similar. The Portfolio Managers, the Adviser and its affiliates may give advice and recommend securities to the other Ares-advised funds that may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar to those of the Fund.

The Adviser will seek to manage potential conflicts of interest in good faith; nonetheless, the portfolio strategies employed by the Portfolio Managers, the Adviser and its affiliates in managing the other Ares-advised funds could conflict with the transactions and strategies employed by the Portfolio Managers in managing the Fund and may affect the prices and availability of the securities and instruments in which the Fund invests. Conversely, participation in specific investment opportunities may be appropriate, at times, for both the Fund and the other Ares-advised funds. The Adviser has adopted allocation procedures

that are intended to provide that all investment opportunities will be allocated among the Adviser s or its related parties clients on a basis that over a period of time is fair and equitable to each client relative to other clients consistent with any fiduciary duties owed to clients and in an effort to avoid favoring one client over another, taking into account all relevant facts and circumstances, including (without limitation): (i) differences with respect to available capital, size of client, and remaining life of a client; (ii) differences with respect to investment objectives or current investment strategies, such as objectives or strategies regarding: (a) current and total return requirements, (b) emphasizing or limiting exposure to the security or type of security in question, (c) diversification, including industry or company exposure, currency and jurisdiction, or (d) rating agency ratings; (iii) differences in risk profile at the time an opportunity becomes available; (iv) the potential transaction and other costs of allocating an opportunity among various clients; (v) potential conflicts of interest, including whether a client has an existing investment in the security in question or the issuer of such security; (vi) the nature of the security or the transaction, including minimum investment amounts and the source of the opportunity; (vii) current and anticipated market and general economic conditions; (viii) existing positions in a borrower/loan/security; and (ix) prior positions in a borrower/loan/security.

In general, this policy will result in such opportunities being allocated pro rata (taking into account, among other factors, available cash and the relative capital of the respective funds) among the Fund and the other Ares-advised funds. Nevertheless, investment and/or opportunities may be allocated other than on a pro rata basis, to the extent it is done in good faith and does not, or is not reasonably expected to, result in an improper disadvantage or advantage to one participating Ares-advised fund as compared to another participating Ares-advised fund.

In the event investment opportunities are allocated among the Fund and the other Ares-advised funds, the Fund may not be able to structure its investment portfolio in the manner desired. Although the Adviser endeavors to allocate investment opportunities in a manner that, over a period of time, is fair and equitable, it is possible that the Fund may not be given the opportunity to participate in certain investments made by the other Ares-advised funds or portfolio managers affiliated with the Adviser. Furthermore, the Fund and the other Ares-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by the Fund and the other Ares-advised funds. When this occurs, the various prices may be averaged, and the Fund will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of the Fund. In addition, under certain circumstances, the Fund may not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

It is likely that other Ares-advised funds may make investments in the same or similar securities at different times and on different terms than the Fund. The Fund and the other Ares-advised funds may make investments at different levels of a borrower s capital structure or otherwise in different classes of a borrower s securities. Such investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding the Fund may benefit the other Ares-advised funds. For example, the sale of a long position or establishment of a short position by the Fund may impair the price of the same security sold short by (and therefore benefit) one or more Ares-advised funds, and the purchase of a security or covering of a short position in a security by the Fund may increase the price of the same security held by (and therefore benefit) one or more Ares-advised funds.

While these conflicts cannot be eliminated, the Adviser, when practicable, will cause the Fund and the other Ares-advised funds to hold investments in the same levels of an issuer s capital structure in the same proportion at each level; provided, however, that neither the Fund nor any other Ares-advised fund will be required to hold an investment if holding such investment would result in a violation of the provisions of

the organizational documents of the Fund or the other Ares-advised fund, as applicable, or constitute a breach of, or default or debt repayment event with respect to, any credit facility or other debt instrument or obligation.

Although the professional staff of the Adviser will devote as much time to the management of the Fund as the Adviser deems appropriate to perform its obligations, the professional staff of the Adviser may have conflicts in allocating its time and services among the Fund and the Adviser s other investment vehicles and accounts. The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of the Adviser and its professional staff. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Adviser and their officers and employees will not be devoted exclusively to the business of the Fund but will be allocated between the business of the Fund and the management of the monies of other clients of the Adviser.

(a)(3) Compensation Structure of Portfolio Manager(s) or Management Team Members

The Adviser s financial arrangements with the Portfolio Managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The Portfolio Managers may receive all or some combination of salary, an annual bonus and interests in the carried interest in certain of Ares funds.

Base Compensation.

Generally, when the Portfolio Managers receive base compensation it is based on their individual seniority and their position within the firm.

Discretionary Compensation.

In addition to base compensation, the Portfolio Managers may receive discretionary compensation. Discretionary compensation may be based on individual seniority and contribution, and, if applicable, may include distributions on equity interests of the Adviser s ultimate parent company held by each Portfolio Manager, if any.

(a)(4) Ownership of Securities

The following table sets forth, for each Portfolio Manager, the aggregate dollar range of the registrant s equity securities beneficially owned as of October 31, 2013.

Portfolio Manager	Dollar Range of Fund Shares Beneficially Owned
Seth J. Brufsky	$100,001-$500,000
Keith Ashton	None

(b) There have been no changes to the registrant s portfolio managers.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
November 27, 2012 November 30, 2012	5,236	19.10		
December 1, 2012 December 31, 2012	N/A			
January 1, 2013 January 31, 2013	N/A			
February 1, 2013 February 28, 2013	N/A			
March 1, 2013 March 31, 2012	N/A			
April 1, 2013 April 30, 2013	N/A			
May 1, 2013 May 31, 2013	N/A			
June 1, 2013 June 30, 2013	N/A			
July 1, 2013 July 31, 2013	N/A			
August 1, 2013 August 31, 2013	N/A			
September 1, 2013 September 30, 2013	27,250	18.44	27,250	4,497,387
October 1, 2013 October 31, 2013	108,868	18.07	108,868	2,529,838
Total	141,354	18.18	136,118	2,529,838

* On September 4, 2013, Ares Investments Holdings LLC (AIH), an affiliate of the Adviser, announced its intention to purchase the Fund s shares in the open market from time-to-time, subject to market and economic considerations. AIH has authorized, subject to those considerations, the purchase of up to $5 million of the Fund s currently outstanding common shares in open-market transactions if the common shares are trading at a discount to net asset value.

The shares of common stock of the Fund reported in the table above are held directly by AIH. AIH is controlled by Ares Investments LLC, which, in turn, is controlled by Ares Partners Management Company LLC (APMC). APMC is the ultimate parent company of the Adviser.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant s Board of Directors during the period covered by this Form N-CSR filing.

Item 11. Controls and Procedures.

(a) The registrant s principal executive and principal financial officers have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the 1940 Act (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this Form N-CSR based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the 1934 Act (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant s second fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Code of Ethics is attached hereto in response to Item 2(f).

(a)(2) The certifications required by Rule 30a-2(a) of the 1940 Act (17 CFR 270.30a-2(a)) are attached hereto.

(a)(3) Not applicable for this filing.

(a)(4) Proxy voting policies and procedures of the Fund and its investment adviser are attached hereto in response to Item 7.

(b) The certifications required by Rule 30a-2(b) of the 1940 Act (17 CFR 270.30a-2(b)) and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARES DYNAMIC CREDIT ALLOCATION FUND, INC.

By: /s/ Seth J.Brufsky
Seth J. Brufsky
President and Chief Executive Officer of Ares Dynamic Credit Allocation Fund, Inc.

Date: January 8, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Seth J.Brufsky
Seth J. Brufsky
President and Chief Executive Officer of Ares Dynamic Credit Allocation Fund, Inc.

Date: January 8, 2014

By: /s/ Daniel F. Nguyen
Daniel F. Nguyen
Chief Financial Officer of Ares Dynamic Credit Allocation Fund, Inc.

Date: January 8, 2014