Skyline Champion Corp
Form 424B4
November 27, 2018
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion Dated November 27, 2018

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated July 30, 2018)

4,500,000 Shares

Skyline Champion Corporation

Common Stock

This prospectus supplement relates to the sale of 4,500,000 shares of common stock of Skyline Champion Corporation by the selling shareholders identified in this prospectus supplement under the heading Selling Shareholders.

The selling shareholders will receive all of the proceeds from the sale of their shares. We will not receive any of the proceeds from the sale of the shares sold by the selling shareholders.

You should carefully read this prospectus supplement, together with the accompanying prospectus and the documents we incorporate by reference, before you invest in our common stock.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol SKY. On November 26, 2018, the last reported sale price of our common stock was $23.59 per share.

The underwriter has agreed to purchase shares of our common stock from the selling stockholders at a price of $ per share, which will result in approximately $ of proceeds to the selling stockholders before expenses. The underwriter proposes to offer the shares of common stock from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by it and subject to its right to reject any order in whole or in part.

We refer you to Underwriting beginning on page S-18 of this prospectus supplement for additional information regarding underwriting compensation.

The selling shareholders have granted the underwriter an option for a period of up to 30 days to purchase up to an additional 675,000 shares of common stock at the public offering price less the underwriting discount. The selling shareholders will receive all of the proceeds from the sale of any such additional shares to the underwriter.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-4 of this prospectus supplement and those documents incorporated by reference to read about factors you should consider before making a decision to invest in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriter expects to deliver the shares against payment on or about , 2018.

Morgan Stanley

Prospectus supplement dated , 2018

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Prospectus Supplement

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters relating to us, our business, and our prospects. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described below under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference.

If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the shares of common stock being offered and other information you should know before investing in these securities.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus or in any free-writing prospectus we may authorize to be delivered or made available to you. None of us, the selling shareholders nor the underwriter (nor any of our or their respective affiliates) have authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. None of us, the selling shareholders nor the underwriter (or any of our or their respective affiliates) take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The selling shareholders and the underwriter (or any of their respective affiliates) are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where

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offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is only accurate as of the date on the front cover page of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus supplement and the accompanying prospectus are an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The distribution of this prospectus supplement, the accompanying prospectus and any free writing prospectus that we have authorized for use in connection with this offering and the offering of our common stock in certain jurisdictions may be restricted by law. If you possess this prospectus supplement, the accompanying prospectus or any free writing prospectus that we have authorized for use in connection with this offering, you should find out about and observe these restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the common stock. Neither we, the selling shareholders nor the underwriter are making any representation to you regarding the legality of an investment in the common stock by you under applicable investment or similar laws.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement to Skyline Champion, the Company, we, us and our refer to Skyline Champion Corporation following the contribu the Contributed Shares (as defined below) by Champion Holdings to Skyline, and the Shares Issuance (as defined below) by Skyline to the members of Champion Holdings (such transactions are collectively referred to herein as the Exchange) and Champion Holdings prior to the Exchange. All references in this prospectus supplement to Champion Holdings and Skyline refer to Champion Enterprises Holdings, LLC and Skyline Corporation, respectively, in each case prior to the Exchange. See Prospectus Supplement Summary Our Principal Shareholders.

MARKET, RANKING AND OTHER INDUSTRY DATA

The market, ranking and other industry data included or incorporated by reference in this prospectus supplement, including the size of certain markets and our position and the position of our competitors within these markets, are based on published industry sources, our own research and estimates based on our management s knowledge and experience in the markets in which we operate. Our estimates have been based on information obtained from trade and business organizations and other contacts in the markets in which we operate. We note that our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors contained and incorporated by reference herein.

TRADEMARKS

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our business. In addition, our name, logo and website name and address are our service marks or trademarks. Some of the more important trademarks and service marks that we use include Champion Homes®, Skyline Homes®, Athens Park Model RVs®, Dutch Housing, Excel Homes®, Homes of Merit®, New Era®, Redman Homes®, Shore Park®, Silvercrest®, Titan Homes®, Moduline® and SRI Homes®. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to or incorporated by reference in this prospectus supplement may be listed without the ©, ® and symbols, but we will assert, to the fullest extent under applicable law, our rights to these trademarks, service marks, trade names and copyrights. This prospectus supplement may also include trademarks, service marks or trade names of other companies. Each trademark, trade name or service mark by any other company appearing in this prospectus supplement, including those documents incorporated by reference belongs to its holder.

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PROSPECTUS SUPPLEMENT SUMMARY

The following is a summary of selected information about us contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that you should consider before buying our securities. You should read this entire prospectus supplement and accompanying prospectus carefully, as well as the documents incorporated by reference herein and therein and any free writing prospectus we provide to you, including the information referred to under the heading Risk Factors in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein. See Cautionary Note Regarding Forward-Looking Statements included in this prospectus supplement and Forward-Looking Statements included in the accompanying prospectus. References in this prospectus supplement to fiscal 2018 refer to the fiscal year ended March 31, 2018. All information in this prospectus supplement assumes no exercise of the underwriter s option to purchase additional shares, unless otherwise noted.

THE COMPANY

We are the largest independent publicly traded factory-built housing company in the United States and western Canada with pro forma net sales in fiscal 2018 of $1.3 billion. We have more than 65 years of homebuilding experience, 6,800 employees and 36 manufacturing facilities throughout the United States and western Canada, and offer a leading portfolio of manufactured and modular homes, park model RVs and modular buildings for the multi-family, hospitality, senior and workforce housing sectors.

In addition to our core home building business, we operate a factory-direct retail business, Titan Factory Direct, with 21 retail locations spanning the southern United States, and Star Fleet Trucking, providing transportation services to the manufactured housing and other industries from ten dispatch locations across the United States.

We build homes under some of the most well know brand names in the factory-built housing industry including Skyline Homes, Champion Homes, Athens Park Model RVs, Dutch Housing, Excel Homes, Homes of Merit, New Era, Redman Homes, Shore Park, Silvercrest, Titan Homes in the United States and Moduline and SRI Homes in western Canada.

Our Principal Shareholders

On June 1, 2018, Skyline Champion Corporation was formed by Skyline and Champion Holdings combining their operations pursuant to the Share Contribution & Exchange Agreement (the Exchange Agreement), dated as of January 5, 2018, by and between Skyline and Champion Holdings. Pursuant to the Exchange Agreement, Champion Holdings contributed to Skyline Corporation all of the issued and outstanding shares of capital stock of Champion Holdings wholly-owned operating subsidiaries, Champion Home Builders, Inc. (CHB), and CHB International B.V. (CIBV) (the shares of stock of CHB and CIBV contributed to Skyline, the Contributed Shares), and in exchange for the Contributed Shares, Skyline issued to the members of Champion Holdings, in the aggregate, 47,752,008 shares of Skyline common stock, $0.0277 par value per share (such issuance, the Shares Issuance).

On June 1, 2018, in connection with the Exchange, investment funds affiliated with Bain Capital Credit Member, LLC (the Bain Funds), investment funds affiliated with Centerbridge Capital Partners, L.P. (the Centerbridge Funds), and investment funds affiliated with MAK Capital One L.L.C. (the MAK Funds and, together with the Bain Funds and the Centerbridge Funds, the Principal Shareholders), together with the Company, entered into an Investor Rights Agreement. See Description of Capital Stock Investor Rights Agreement in the accompanying prospectus.

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Upon completion of this offering, the Principal Shareholders will collectively own approximately 27.5% of our issued and outstanding common stock. The Bain Funds, the Centerbridge Funds and the MAK Funds will own approximately 8.9%, 8.6% and 10.0%, respectively, of our issued and outstanding common stock. As a result, the Principal Shareholders will continue to have significant influence over us. See Risk Factors Risks Relating to our Common Stock and this Offering The Principal Shareholders will continue to have significant influence over us after this offering and their interests may conflict with yours and ours.

Corporate Information

Skyline Champion Corporation was originally incorporated in Indiana in 1959 as Skyline Corporation. Following the completion of the Exchange, we changed our name to Skyline Champion Corporation. Our principal executive offices are located at 2520 By-Pass Road, Elkhart, Indiana 46515. Our website is located at www.ir.skylinechampion.com. Our website and the information contained on our website is not incorporated by reference and is not a part of this prospectus supplement or the accompanying prospectus.

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THE OFFERING

The following summary contains basic information about our common stock and the offering and is not intended to be complete. It does not contain all the information that may be important to you. For a more complete understanding of our common stock, you should read the section in the accompanying prospectus entitled Description of Capital Stock and the documents referred to therein.

Issuer	Skyline Champion Corporation
Common stock offered by the selling shareholders	4,500,000 shares
Common stock to be outstanding after this offering	56,713,294 shares
Option to purchase additional shares	The selling shareholders have granted the underwriter a 30-day option to purchase up to 675,000 additional shares.
Use of proceeds	The selling shareholders will receive all of the net proceeds from this offering. We will not receive any of the proceeds from the sale of shares of common stock by the selling shareholders. See Use of Proceeds for additional information.
Risk factors	Investing in our common stock involves a high degree of risk. You should consider the matters referred to under the heading Risk Factors of this prospectus supplement and in the accompanying prospectus and the risk factors incorporated by reference from our filings with the Securities and Exchange Commission (the SEC).
Dividend policy	We have no current plans to pay dividends on our common stock in the foreseeable future. Any future determination to pay dividends to shareholders will be at the sole discretion of our board of directors and will depend upon many factors, including general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, the implications of the payment of dividends by us to our shareholders or by our subsidiaries to us and any other factors that our board of directors may deem relevant. See Dividend Policy.

NYSE ticker symbol	SKY

The number of shares of our common stock to be outstanding after this offering is based on 56,713,294 shares of our common stock outstanding as of November 19, 2018 and excludes 5,650,928 shares of our common stock reserved for the future issuance of grants under our 2018 Equity Incentive Plan.

Except as otherwise noted, all information in this prospectus supplement assumes the underwriter does not exercise its option to purchase up to 675,000 additional shares of common stock from the selling shareholders.

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RISK FACTORS

Investment in our securities involves a high degree of risk. For a discussion of the cautionary information you should carefully consider before deciding to purchase any of our securities, please review the risk factors included in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including the risks that are described in the risk factors included in our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2018 that was filed with the SEC on November 8, 2018, as well as other documents that we file with the SEC that are incorporated by reference. Each of these risk factors, as well as any additional risks and uncertainties not known to us or currently deemed immaterial, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our securities. In that event, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Relating to our Common Stock and this Offering

Our stock price could fluctuate significantly, which could cause the value of your investment to decline, and you may not be able to resell your shares at or above the price you paid for them.

Securities markets worldwide have experienced, and may continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions or events, could reduce the market price of our common stock regardless of our operating performance. The trading price of our common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market;
- regulatory or political developments;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by us or our competitors;
- issuance of new or changed securities analysts reports or recommendations;
- sales, or anticipated sales, of large blocks of our stock;
- additions or departures of key personnel;
- litigation and governmental investigations; and

changing economic conditions.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

The Principal Shareholders will continue to have significant influence over us after this offering and their interests may conflict with yours and ours.

The Principal Shareholders currently own approximately 35.4% of our common stock and will own approximately 27.5% of our common stock following the completion of this offering (or 26.3% if the underwriter exercises in full its option to purchase additional shares from the selling shareholders), based on the

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56,713,294 shares of our common stock outstanding as of November 19, 2018, and six of our nine directors were designated by the Principal Shareholders pursuant to the Investor Rights Agreement between us and the Principal Shareholders. Although we are no longer a controlled company under the NYSE rules, the Principal Shareholders are able, and following this offering will continue to be able, to exert a significant degree of influence over the Company s management and affairs and over matters requiring shareholder approval, including the election of directors, a merger, consolidation or sale of all or substantially all of our assets and other significant business or corporate transactions.

The Principal Shareholders may have interests that are different from other shareholders and may vote in a way that is adverse to the interests of other shareholders. In addition, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could cause the market price of the our common stock to decline or prevent our shareholders from realizing a premium over the market price for their shares.

Additionally, each of the Principal Shareholders is in the business of making investments in companies and may acquire and hold, and in a few instances have acquired and held, interests in businesses that compete directly or indirectly with us. One or more of the Principal Shareholders may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

Certain of our directors have relationships with the Principal Shareholders, which may cause conflicts of interest with respect to our business.

As of the date of this prospectus supplement, three of our nine directors are affiliated with a Principal Shareholder. Our Principal Shareholder-affiliated directors have fiduciary duties to us and, in addition, have duties to their respective funds. As a result, these directors may face real or apparent conflicts of interest with respect to matters affecting both us and their funds, whose interests may be adverse to ours in some circumstances.

Following the completion of the secondary offering of our common stock on September 25, 2018, we are no longer a controlled company within the meaning of the corporate governance standards of the NYSE. However, we will continue to qualify for, and may rely on, exemptions from certain corporate governance requirements that would otherwise provide protection to our shareholders during a one-year transition period.

Following the completion of the secondary offering of our common stock on September 25, 2018, the Principal Shareholders ceased to control a majority of the voting power of our common stock. As a result, we are no longer a controlled company within the meaning of the NYSE corporate governance standards.

Consequently, the NYSE rules will require that we (i) have a majority of independent directors on our board of directors within one year after the date we no longer qualified as a controlled company ; (ii) (A) have at least a majority of independent directors on each of the compensation and nominating and governance committees within 90 days after the date we no longer qualified as a controlled company and (B) have compensation and nominating and governance committees composed entirely of independent directors within one year of such date; and (iii) perform an annual performance evaluation of the compensation and nominating and governance committees.

During this transition period, we will continue to qualify for and may continue to utilize the available exemptions from certain corporate governance requirements as permitted by NYSE rules. Accordingly, during the transition period, you may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements, which could make our common stock less attractive to some investors or otherwise harm our stock price.

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Anti-takeover provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws could prohibit a change of control that our shareholders may favor and could negatively affect our stock price.

In addition to the Principal Shareholders beneficial ownership of a substantial percentage of our common stock, our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws contain provisions that could make it more difficult and expensive for a third party to acquire control of us, even if a change of control would be beneficial to the interests of our shareholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. These provisions may also prevent or frustrate attempts by our shareholders to replace or remove our management. For example, our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws:

- permit our board of directors to issue preferred stock with such terms as they determine, without shareholder approval;
- require advance notice for shareholder proposals and director nominations; and
- contain limitations on convening shareholder meetings and shareholder action by written consent.

These provisions make it more difficult for shareholders or potential acquirers to acquire us without negotiation and could discourage potential takeover attempts and could adversely affect the market price of our common stock.

If a substantial number of shares become are sold in a short period of time, the market price of our common stock could decline, which could impede our ability to raise additional capital through the issuance of additional shares of our common stock or other equity securities.

As of November 19, 2018, there were 56,713,294 shares of our common stock outstanding. Of our issued and outstanding shares, all the common stock sold in this offering will be freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act. In addition, the selling shareholders, our executive officers and our directors (other than Mr. Richard Florea) have entered into a lock-up agreement with the underwriter which regulates their sales of our common stock for a period of 45 days after the date of this prospectus supplement, subject to certain exceptions. After these restrictions have elapsed, additional shares, some of which will be subject to vesting, will be eligible for sale in the public market. If our existing shareholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could decrease significantly. The perception in the public market that our existing shareholders might sell shares of common stock could also depress the market price of our common stock.

In addition, we have reserved 5,650,928 shares of common stock for issuance under our equity compensation plans. A decline in the price of shares of our common stock caused by the lapse of resale restrictions by our existing shareholders or the sale of common stock issued pursuant to our equity incentive plans might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our stock or if our results of operations do not meet their expectations, then our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, then our stock price could decline.

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We do not anticipate paying any cash dividends for the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, to fund the development and growth of our business. As a result, capital appreciation in the price of our common stock, if any, will be your only source of gain on an investment in our common stock.

Any future determination to pay dividends to shareholders will be at the sole discretion of our board of directors and will depend upon many factors, including general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, the implications of the payment of dividends by us to our shareholders or by our subsidiaries to us and any other factors that our board of directors may deem relevant. See Dividend Policy.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. We may also make forward-looking statements in other reports filed with the SEC, in materials delivered to shareholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. These forward-looking statements, including, in particular, statements with respect to management s beliefs, plans, objectives, goals, expectations, assumptions, estimates, intentions, synergies, projections in connection with the valuation of Skyline Champion after the Exchange and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond the control of Skyline Champion, and which may cause actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. The matters referred to in the forward-looking statements contained or incorporated by reference in this prospectus supplement may not in fact occur. We caution you therefore against relying on any of these forward-looking statements.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- local, regional, national and international economic and financial market conditions and the impact they may have on the Company and our customers and our assessment of that impact;
- demand fluctuations in the U.S. and Canadian housing industry;
- the impact of customer preferences;
- regulations pertaining to the housing and park model RV industries;
- general or seasonal weather conditions affecting sales;
- the potential impact of natural disasters on sales and raw material costs;
- the prices and availability of materials;

periodic inventory adjustments by, and changes to relationships with, independent retailers;

changes in interest and foreign exchange rates;

more stringent credit standards or financing terms may be imposed by lenders on us, our dealers or customers;

the ability to service debt;

the impact of inflation;

the impact of labor costs, shortage, and turnover;

competitive pressures on pricing and promotional costs;

the availability of insurance coverage and changes in insurance costs;

the timely development and acceptance of new products and services and perceived overall value of these products and services by others;

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- greater than expected costs or difficulties related to the integration of new products and lines of business;
- acquisitions and the integration of acquired businesses;
- the effect of changes in laws and regulations with which we must comply;
- the effect of changes in accounting policies and practices and auditing requirements; and
- management s ability to attract and retain executive officers and key personnel.

Factors that could cause or contribute to such differences include, but are not limited to, those that are discussed in other documents we file with the SEC. Any forward-looking statement made by us in or through incorporation by reference in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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USE OF PROCEEDS

The selling shareholders will receive all of the proceeds from the sale of shares offered by the selling shareholders in this prospectus supplement. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders. We will, however, bear the costs associated with the sale of shares by the selling shareholders, other than underwriting discounts and commissions and certain other expenses customarily borne by selling shareholders.

MARKET PRICE OF OUR COMMON STOCK

Our common stock is listed on the NYSE under the symbol SKY . The following table sets forth the high and low sales prices per share of our common stock as reported by the NYSE or, prior to June 4, 2018, the NYSE American stock exchange, for the periods indicated:

	High	Low
Year ended April 1, 2017		
First Quarter	$ 11.86	$ 7.00
Second Quarter	$ 13.69	$ 8.66
Third Quarter	$ 17.35	$ 9.02
Fourth Quarter	$ 15.94	$ 7.27
Year ended March 31, 2018		
First Quarter	$ 9.61	$ 5.07
Second Quarter	$ 13.92	$ 5.49
Third Quarter	$ 13.50	$ 10.31
Fourth Quarter	$ 24.99	$ 12.59
Year ending March 30, 2019		
First Quarter	$ 35.65	$ 21.01
Second Quarter	$ 34.66	$ 23.15
Third Quarter (through November 26, 2018)	$ 30.95	$ 21.43

On November 26, 2018, the last reported sale price of our common stock on the NYSE was $23.59 per share. As of the date of this prospectus supplement, we had approximately 587 holders of record of our common stock. The actual number of shareholders is greater than this number of record holders and includes shareholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include shareholders whose shares may be held in trust by other entities. Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock.

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DIVIDEND POLICY

We intend to retain all available funds and any future earnings for general corporate purposes. However, in the future, subject to the factors described below and our future liquidity and capitalization, we may change this policy and choose to pay dividends.

On May 31, 2018, Skyline paid a special cash dividend of $0.62381 per share of common stock to shareholders of record at the close of business on May 25, 2018. Any future determination to pay dividends to shareholders will be at the sole discretion of our board of directors and will depend upon many factors, including general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, the implications of the payment of dividends by us to our shareholders or by our subsidiaries to us and any other factors that our board of directors may deem relevant.

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SELLING SHAREHOLDERS

The number of shares of common stock outstanding and percentage of beneficial ownership before this offering set forth below is computed on the basis of 56,713,294 shares of our common stock issued and outstanding as of November 19, 2018. The number of shares of common stock and percentage of beneficial ownership after the consummation of this offering set forth below are based on the number of shares to be issued and outstanding immediately after the consummation of this offering.

The following table, based upon information currently known by us, sets forth as of November 19, 2018: (i) the number of shares of common stock held of record or beneficially by the selling shareholders as of such date (as determined below), (ii) the number of shares being offered by each selling shareholder pursuant to this prospectus supplement and (iii) the number of shares of our common stock that will be owned by each selling shareholder immediately after the offering contemplated by this prospectus supplement. The beneficial ownership of the common stock set forth in the following table is determined in accordance with Rule 13d-3 under the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose.

Name of Selling Shareholders	Beneficially Owned as of November 19, 2018		Common Stock Offered Pursuant to this Prospectus (no option exercise)	Beneficially Owned upon Completion of this Offering (no option exercise)	
	Number	Percentage		Number	Percentage
Centerbridge Capital Partners, L.P. and related investment funds(1)(2)	6,600,571	11.6%	1,750,000	4,850,571	8.6%
MAK Champion Investment LLC and related investment funds(3)	6,689,759	11.8%	1,000,000	5,689,759	10.0%
Sankaty Champion Holdings, LLC and related investment funds(4)	6,799,631	12.0%	1,750,000	5,049,631	8.9%

(1) Following completion of this offering, Centerbridge Capital Partners, L.P. and related investment funds intend to distribute in kind shares not to exceed 16% of the total shares of our common stock sold by such investment funds in this offering and, following such distributions, such investment funds will no longer beneficially own such shares.

(2) The shares included in the table consist of: 6,182,574 shares held by Centerbridge Capital Partners, L.P., 209,190 shares held by Centerbridge Capital Partners Strategic, L.P., 152,072 shares held by CCP Champion Investors, LLC and 56,735 shares held by Centerbridge Capital Partners SBS, L.P. Centerbridge Associates, L.P. is the general partner of each of Centerbridge Capital Partners, L.P. and Centerbridge Capital Partners Strategic, L.P., and the manager of CCP Champion Investors, LLC. Centerbridge Cayman GP Ltd. is the general partner of Centerbridge Associates, L.P. CCP SBS GP, LLC is the general partner of Centerbridge Capital Partners SBS, L.P. Jeffrey H. Aronson and Mark T. Gallogly are the directors of Centerbridge Cayman GP Ltd. and managing members of CCP SBS GP, LLC. Assuming no exercise of the underwriter s option to purchase additional shares, (i) Centerbridge Capital Partners, L.P. will sell 1,635,498 shares of common stock, (ii) Centerbridge Capital

Partners Strategic, L.P. will sell 56,768 shares of common stock, (iii) CCP Champion Investors, LLC will sell 42,047 shares of common stock and (iv) Centerbridge Capital Partners SBS, L.P. will sell 15,687 shares of common stock. If the underwriter exercise in full its option to purchase additional shares, (i) Centerbridge Capital Partners, L.P. will sell 1,880,823 shares of common stock, (ii) Centerbridge Capital Partners Strategic, L.P. will sell 65,283 shares of common stock, (iii) CCP Champion Investors, LLC will sell 48,354 shares of common stock and (iv) Centerbridge Capital Partners SBS, L.P. will sell 18,040 shares of common stock. The business address of each of the entities and persons identified in this note is 375 Park Avenue, New York, New York 10152.

(3) The shares included in the table consist of: 4,883,524 shares held by MAK Champion Investment LLC (MAK Champion) and 1,806,235 shares held by MAK-ro Capital Master Fund LP (MAK-ro). MAK Champion Investment LLC is wholly owned by the MAK Capital Fund LP. MAK GP LLC is the general partner of, and MAK Capital One LLC is the investment adviser to, each of MAK Capital Fund LP and MAK-ro Capital Master Fund LP. Michael A. Kaufman is the managing member of MAK GP LLC and MAK Management LLC. Assuming no exercise of the underwriter s option to purchase additional shares, (i) MAK Champion will sell 730,000 shares of common stock and (ii) MAK-ro will sell 270,000 shares of common stock. If the underwrites exercise in full its option to purchase additional shares, (i) MAK Champion will sell 839,500 shares of common stock and (ii) MAK-ro will sell 310,500 shares of common stock. The business address of each of the entities and persons identified above is 590 Madison Avenue, Suite 2401, New York, New York 10022.

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(4) The shares included in the table consist of: 4,952,595 shares held by Sankaty Champion Holdings, LLC (SCH), whose manager is Bain Capital Credit Member, LLC (BCCM) and 1,847,036 shares held by Sankaty Credit Opportunities IV, L.P. (together with SCH, Bain Capital Credit), whose sole general partner is Sankaty Credit Opportunities Investors IV, LLC, whose managing member is BCCM. Assuming no exercise of the underwriter s option to purchase additional shares, (i) SCH will sell 1,274,634 shares of common stock and (ii) Sankaty Credit Opportunities IV, L.P. will sell 475,366 shares of common stock. If the underwriter exercise in full its option to purchase additional shares, (i) SCH will sell 1,465,829 shares of common stock and (ii) Sankaty Credit Opportunities IV, L.P. will sell 546,671 shares of common stock. Bain Capital Credit has an address of 200 Clarendon Street, Boston, MA 02116.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS TO

NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income and estate tax considerations applicable to non-U.S. holders with respect to their ownership and disposition of shares of our common stock issued pursuant to this offering. All prospective non-U.S. holders of our common stock should consult their tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock. For purposes of this discussion, a non-U.S. holder means a beneficial owner of our common stock (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States or any political subdivision thereof;

- a corporation, or an entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

- a trust if (1) a U.S. court can exercise primary supervision over the trust s administration and one or more U.S. persons have the authority to control all of the trust s substantial decisions or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, existing U.S. Treasury Regulations promulgated thereunder, published administrative rulings and judicial decisions, all as in effect as of the date of this prospectus supplement. These laws are subject to change and to differing interpretation, possibly with retroactive effect. Any change or differing interpretation could alter the tax consequences to non-U.S. holders described in this prospectus.

We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder s individual circumstances, nor does it address any aspects of U.S. state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as corporations that accumulate earnings to avoid U.S. federal income tax, tax-exempt organizations, S corporations, regulated investment companies, banks, financial institutions, insurance companies, real estate investment trusts, pension plans, brokers, dealers or traders in securities, commodities or currencies, holders who have elected to mark securities to market, tax-qualified retirement plans, holders subject to the alternative minimum tax or the Medicare contribution tax, holders who hold or receive our common stock pursuant to the exercise of employee stock options or otherwise as compensation, holders holding our common stock as part of a hedge, straddle or other risk reduction strategy, conversion transaction, synthetic security or other integrated investment, holders deemed to sell our common stock under the constructive sale provisions of the Code, controlled foreign corporations, passive foreign investment companies and certain former U.S. citizens or long-term residents.

In addition, this discussion does not address the tax treatment of partnerships (or entities or arrangements that are treated as partnerships for U.S. federal income tax purposes) or persons that hold their common stock through such partnerships. If a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds shares of our common stock, the U.S. federal income tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Such partners and partnerships should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of our common stock.

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There can be no assurance that the Internal Revenue Service, which we refer to as the IRS, will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership or disposition of our common stock.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO BE TAX ADVICE. NON-U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THE U.S. FEDERAL INCOME AND ESTATE TAXATION, STATE, LOCAL AND NON-U.S. TAXATION AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK.

Distributions on Our Common Stock

Distributions, if any, on our common stock generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder s investment, up to such holder s adjusted tax basis in the common stock, but not below zero. Any remaining excess will be treated as capital gain from the sale or exchange of such common stock, subject to the tax treatment described below in Gain on Sale, Exchange or Other Disposition of Our Common Stock. Distributions, if any, on our common stock generally will also be subject to the discussion below under the heading FATCA.

Dividends paid to a non-U.S. holder will generally be subject to withholding of U.S. federal income tax at a 30% rate of the gross amount of the dividends, or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder s country of residence.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States and, if an applicable income tax treaty so provides, that are attributable to a permanent establishment or a fixed base maintained by the non-U.S. holder within the United States, are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. To claim the exemption, the non-U.S. holder must furnish to us or our paying agent a valid IRS Form W-8ECI (or successor form), certifying that the dividends are effectively connected with the non-U.S. holder s conduct of a trade or business within the United States. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code). Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder s country of residence.

A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty between the United States and such holder s country of residence generally will be required to provide a properly executed IRS Form W-8BEN or W-8BEN-E (or successor form) and satisfy applicable certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

The certification requirement described above must be provided to us or the applicable withholding agent prior to the payment of dividends and may be required to be updated periodically. The certification also may require a non-U.S. holder that provides an IRS form or that claims treaty benefits to provide its U.S. taxpayer identification number. Special certification and other requirements apply in the case of certain non-U.S. holders that hold shares of our common stock through intermediaries or are pass-through entities for U.S. federal income tax purposes.

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A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

If at the time a distribution is made we are not able to determine whether or not it will be treated as a dividend for U.S. federal income tax purposes (as opposed to being treated as a return of capital or capital gain), we or a financial intermediary may withhold tax on all or a portion of such distribution at the rate applicable to dividends. However, a non-U.S. holder may obtain a refund of any excess withholding by timely filing an appropriate claim for refund with t;">2014

2013

Sales of metals concentrate, net

$

31,152

$

42,311

Mine cost of sales:

Production costs

14,221

16,867

Depreciation and amortization

745

536

Reclamation and remediation

-

29

Total mine cost of sales

14,966

17,432

Mine gross profit

16,186

24,879

Costs and expenses:

General and administrative expenses

3,013

4,385

Exploration expenses

1,288

3,299

Facilities and mine construction

-

4,848

Total costs and expenses

4,301

12,532

Operating income

11,885

12,347

Other income (expense)

469

(36)

Income before income taxes

12,354

12,311

Provision for income taxes

5,229

4,924

Net income

$

7,125

$

7,387

Other comprehensive income:

Currency translation gain

-

34

Comprehensive income

$

7,125

$

7,421

Net income per common share:

Basic:

$

0.13

$

0.14

Diluted:

$

0.13

$

0.13

Weighted average shares outstanding:

Basic

53,934,925

52,679,369

Diluted

54,697,710

55,586,031

The accompanying notes are an integral part of these condensed consolidated financial statements.

GOLD RESOURCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 2014 and 2013
(U.S. dollars in thousands)
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	$ 7,125	$ 7,387
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	810	653
Reclamation and remediation	-	29
Stock-based compensation	783	1,512
Unrealized foreign currency exchange loss (gain)	137	(119)
Impairment loss on gold and silver bullion	-	178
Unrealized gain due to changes in fair value of investments	(702)	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,176)	(4,887)
Inventories	496	942
Prepaid expenses and other assets	1,110	(1,677)
Accounts payable	1,331	1,910
Accrued expenses	(608)	1,469
IVA taxes payable/receivable	828	(1,216)
Income taxes payable/receivable	5,219	263
Net cash provided by operating activities	12,353	6,444
Cash flows from investing activities:		
Capital expenditures	(4,190)	(3,682)
Purchases of gold and silver bullion	-	(485)
Proceeds from conversion of gold and silver bullion	8	664
Investments	(1,805)	(231)
Net cash used in investing activities	(5,987)	(3,734)
Cash flows from financing activities:		
Proceeds from exercise of stock options	100	-
Dividends paid	(1,617)	(9,482)
Repayment of capital leases	(365)	-
Net cash used in financing activities	(1,882)	(9,482)
Effect of exchange rates on cash and equivalents	-	18
Net increase (decrease) in cash and cash equivalents	4,484	(6,754)
Cash and equivalents at beginning of period	14,973	35,780
Cash and equivalents at end of period	$ 19,457	$ 29,026

Supplemental Cash Flow Information		
Interest paid	$ 85	$ -
Income taxes paid	$ -	$ 3,496

The accompanying notes are an integral part of these condensed consolidated financial statements.

GOLD RESOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Gold Resource Corporation (the "Company") was organized under the laws of the State of Colorado on August 24, 1998. The Company is a producer of metal concentrates that contain gold, silver, copper, lead and zinc at its El Aguila Project in the southern state of Oaxaca, Mexico. The El Aguila Project includes the El Aguila open pit mine, which ceased operations in February 2011, and the La Arista underground mine, which is currently in operation. The Company is also performing exploration and evaluation work on its portfolio of base and precious metal exploration properties in Mexico and is evaluating other properties for possible acquisition.

On April 30, 2014, the Company announced the completion of its reserve study and issued a report dated December 31, 2013 confirming the existence of proven and probable reserves as defined in Industry Guide 7 promulgated by the U.S. Securities and Exchange Commission ("Guide 7"). As a result of the completion of the reserve study, the Company has transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise consistent with Guide 7. The Company no longer considers itself to be a Development Stage Entity as defined in Accounting Standards Codification 915 – Development Stage Entities ("ASC 915"). Accordingly, cumulative and other disclosures required by ASC 915 are no longer included in the Company's financial statements.

Basis of Presentation

Basis of Presentation: The unaudited interim condensed consolidated financial statements included herein are expressed in United States dollars and were prepared in conformance with United States generally accepted accounting principles ("U.S. GAAP") and applicable rules of the SEC regarding interim financial reporting. The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary GRC Nevada Inc. ("GRC Nevada") and Mexican subsidiary Don David Gold Mexico S.A. de C.V. ("Don David Gold Mexico"). Significant intercompany accounts and transactions have been eliminated. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Form 10-K for the year ended December 31, 2013. Except as noted below, there have been no material changes to the footnotes from those accompanying the audited financial statements contained in the Company's Form 10-K.

In management's opinion, the unaudited condensed consolidated financial statements contained herein reflect all material normal and recurring adjustments that are necessary for the fair presentation of the Company's financial position, results of operations, and cash flows on a basis consistent with that of its audited consolidated financial statements for the year ended December 31, 2013. However, the results of operations for the interim period ended March 31, 2014 may not be indicative of results of operations to be expected for the full fiscal year.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain and bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Revenue Recognition: Sales of concentrates are recorded net of treatment and refining charges, plus final settlement and mark-to-market price adjustments. Treatment and refining charges represent payments or price adjustments that are fixed and applied on a per tonne, pound or ounce basis, and in some cases provide for an increase in charges based on increases in metal prices above a base price. Treatment and refining charges are estimated upon shipment of concentrates based on contractual terms, with adjustments made at final settlement. Adjustments at final settlement typically do not vary materially from estimates made upon shipment; however, mark-to-market price adjustments could vary materially based on the precious metals market. In addition, because a portion of the metals contained in concentrates are unrecoverable as a result of the smelting process, the Company's revenues from sales of concentrates are also recorded net of allowances based on the quantity and value of these estimated unrecoverable metals. These allowances are negotiated with the buyer of the Company's concentrates.

Production Costs: Production costs include labor and benefits, royalties, concentrate shipping costs, mining subcontractors, fuel and lubricants, legal and professional fees related to mine operations, stock-based compensation attributable to mine employees, materials and supplies, repairs and maintenance, explosives, housing and food, insurance, reagents, travel, medical services, security equipment, office rent, tools and other costs that support our mining operations.

Mine Development: The Company expenses general prospecting costs and the costs of acquiring and exploring unevaluated mineral properties. When a mineral property is determined to have proven and probable reserves, subsequent development costs are capitalized to mineral properties. When mineral properties are developed and operations commence, capitalized costs are charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized.

Reclassifications: Certain amounts presented in prior periods have been reclassified to conform to current period presentation.

Exploration Stage Company: For the period ended March 31, 2014 the condensed consolidated financial statements are no longer presented in accordance with Accounting Standards Codification 915 and the provisions of SEC Industry Guide 7 relating to exploration stage entities. On April 30, 2014, the Company issued a report on the reserve estimate for the La Arista underground mine at the El Aguila Project with an effective date of December 31, 2013. The report confirms the existence of proven and probable reserves, allowing the Company to transition from an Exploration Stage Company as defined in ASC 915 and an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Industry Guide 7. Consistent with the Company's transition from an Exploration Stage Entity to a Production Stage Entity as defined in Guide 7, certain underground mine development costs associated with the Company's El Aguila Project were capitalized beginning January 1, 2014. These costs include the cost of building access ways, lateral development, drift development, ramps and infrastructure development. All such costs are amortized using the units-of-production method over the estimated life of the ore body based on estimated recoverable ounces to be produced from proven and probable reserves.

Investments: We make elections, on an investment-by-investment basis, as to whether we measure our investments at fair value. Such elections are generally irrevocable. We have elected the fair value method for most of our investments as we believe this method generally provides the most meaningful information to our investors. However, for investments over which we have significant influence, we consider the significance of transactions between our company and our equity affiliates and other factors in determining whether the fair value method should be applied. In general, we elect the fair value option for those equity method investments with which the Company or its consolidated subsidiaries have significant related-party transactions.

Under the fair value method, investments are recorded at fair value and any changes in fair value are reported in realized and unrealized gains or losses due to changes in fair values of certain investments and debt, net, in our consolidated statement of operations. All costs directly associated with the acquisition of an investment to be accounted for using the fair value method are expensed as incurred. For additional information regarding our fair value method investments, see notes 2 and 4.

2. Fair Value Measurement

The Company's financial instruments consist of accounts receivable (which include provisionally priced sales) and investments in equity securities. The Company's Level 1 assets as of March 31, 2014 included investments in equity securities determined using a market approach based upon unadjusted quoted prices for identical assets in an active market. The Level 2 carrying values for accounts receivable approximated their fair values at March 31, 2014 and December 31, 2013 due to their short maturities.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The following tables summarize the Company's financial instruments required to be measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013.

	Fair Value as of March 31, 2014				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
	(in thousands)				
Receivables related to unsettled invoices (1)	$ -	$ 6,442	$ -	$ 6,442	Accounts receivable
Investments in equity securities	$ 2,512	$ -	$ 231	$ 2,743	Investments

	Fair Value as of December 31, 2013				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
	(in thousands)				
Receivables related to unsettled invoices (1)	$ -	$ 2,307	$ -	$ 2,307	Accounts receivable
Investments in equity securities	$ -	$ -	$ 231	$ 231	Investments

(1) Certain concentrate sales contracts provide for provisional pricing as specified in such contracts. These sales contain an embedded derivative related to the provisional pricing mechanism which is bifurcated and accounted for as

a derivative. At the end of each reporting period, the Company records an adjustment to sales to mark-to-market outstanding provisional invoices. Because these provisionally priced sales have not yet settled, the mark-to-market adjustment related to these invoices is included in accounts receivable as of each reporting date. The receivable is the sales contract with no quoted market price, whereas the underlying metal values (inputs) are directly observable for the full amount of the receivable (Level 2).

Gains and losses related to changes in the fair value of these financial instruments were included in the Company's condensed consolidated statement of income for the three months ended March 31, 2014.

3. Gold and Silver Bullion

The Company periodically purchases gold and silver bullion on the open market for investment purposes and to use in its dividend exchange program whereby shareholders may exchange their cash dividend for gold and silver bullion. The Company's investment in gold and silver bullion is carried at cost and evaluated for impairment at relevant financial reporting dates.

During the three months ended March 31, 2014, the Company made no purchases of gold or silver. During the three months ended March 31, 2013, the Company purchased approximately 302 ounces of gold at market prices for a total cost of $0.5 million. During the three months ended March 31, 2014, approximately 3 ounces of gold and 229 ounces of silver were converted into gold and silver bullion and distributed under the Company's gold and silver bullion dividend exchange program, resulting in a realized gain of $1,000 in that period. During the three months ended March 31, 2013, approximately 348 ounces of gold and 1,578 ounces of silver were converted into gold and silver bullion and distributed under this dividend program, resulting in a realized loss of $39,000 in that period.

The table below shows the balance of the Company's holdings of bullion as of March 31, 2014 and December 31, 2013.

	March 31, 2014		December 31, 2013	
	Gold	Silver	Gold	Silver
	(in thousands, except ounces and per ounce)		(in thousands, except ounces and per ounce)	
Ounces	1,690	92,996	1,693	93,225
Carrying value per ounce	$ 1,206.25	$ 18.86	$ 1,206.23	$ 18.86
Total carrying value	$ 2,039	$ 1,754	$ 2,042	$ 1,759

The Company recorded no impairment on its gold and silver bullion for the three months ended March 31, 2014.

4. Investments

Investments in equity securities at March 31, 2014 and December 31, 2013 consisted of the following:

	Fair Value as of March 31, 2014		
	Cost	Accumulated unrealized gain	Fair Value
	(in thousands)		
Investments in equity securities			
Canamex Resources Corporation - common shares (1)	$ 1,805	$ 707	$ 2,512
Laguna Gold Pty Ltd - common shares	231	-	231
Total Investments	$ 2,036	$ 707	$ 2,743

(1) On February 26, 2014, the Company announced the purchased 22,222,222 shares in Canamex Resource Corp a publically traded company in Cananda. The Company's shares represented approximately 18.4% of the outstanding shares of Canamex. Pursuant to the terms of the subscription agreement, the Company appointed Jason Reid as its representative to the Board of Directors of Canamex on April 14, 2014.

	Fair Value as of December 31, 2013		
	Cost	Accumulated unrealized gain	Fair Value
	(in thousands)		
Investments in equity securities			
Laguna Gold Pty Ltd - common shares	$ 231	$ -	$ 231
Total Investments	$ 231	$ -	$ 231

5. Inventories

Inventories at March 31, 2014 and December 31, 2013 consisted of the following:

	March 31, 2014	December 31, 2013
	(in thousands)	
Ore stockpiles - underground mine	$ 987	$ 1,586
Concentrates	917	480
Materials and supplies	5,063	5,402
Inventories - current	6,967	7,468
Ore stockpiles - open pit mine	903	903
Inventories - non-current	903	903
Total inventories	$ 7,870	$ 8,371

6. Property, equipment and mine development - net

At March 31, 2014 and December 31, 2013, property, equipment and mine development consisted of the following:

	March 31, 2014	December 31, 2013
	(in thousands)	
Mine development	$ 2,593	$ -
Trucks and autos	1,875	1,875
Building	1,738	1,737
Office furniture and equipment	2,704	2,698
Construction in progress	1,570	-

Machinery and equipment	17,529	17,510
Subtotal	28,009	23,820
Accumulated depreciation and amortization	(6,503)	(5,693)
Total property, equipment and mine development - net	$ 21,506	$ 18,127

Depreciation expense on property and equipment for the three months ended March 31, 2014 and 2013 was $0.7 million and $0.7 million, respectively, and amortization expense on the mine development costs for the three months ended March 31, 2014 and 2013 was $0.1 million and nil, respectively.

In May and June 2013, the Company entered into financing transactions with certain equipment financing companies whereby the Company sold to them mining equipment that was purchased by the Company from February 2013 through June 2013. The equipment was subsequently leased back to the Company for a three-year period with a bargain purchase option at the end of the lease term, which the Company intends to exercise. The Company will retain full use and all benefits attributable to the leased equipment.

The equipment leases qualify as capital leases and have been recorded at the present value of the future minimum lease payments, including the bargain purchase option and transaction fees, which approximates the net carrying value of the equipment. The equipment leases bear interest of 4.5% to 5.5% per annum, with monthly principal and interest payments of approximately $0.1 million over the three-year lease term. The Company has an option to purchase the equipment at the end of the lease term for less than $0.1 million. The present value of the future minimum lease payments, including the bargain purchase options and up-front transaction fees, totaled $4.8 million. Depreciation on the leased assets is recorded over their estimated useful lives.

As of March 31, 2014, the Company's obligations under capital leases are as follows:

	March 31, 2014 (in thousands)
2014	$ 1,211
2015	1,578
2016	901
Total payments due	3,690
Less amounts representing interest	(199)
Subtotal	3,491
Less current portion	(1,476)
Non-current portion	$ 2,015

7. Reclamation and Remediation

The Company's reclamation and remediation obligations relate to its El Aguila Project. The following table presents the changes in reclamation and remediation obligations for the three months ended March 31, 2014 and the twelve months ended December 31, 2013.

	March 31, 2014	December 31, 2013
	(in thousands)	
Reclamation and remediation liabilities – opening balance	$ 2,887	$ 2,790
Additions and changes in estimates	-	112
Foreign currency exchange loss	(4)	(15)
Reclamation and remediation liabilities – ending balance	$ 2,883	$ 2,887

8. Shareholders' Equity

The Company declared dividends of $1.6 million and $9.5 million and paid gross cash dividends of $1.6 million and $9.5 million during the three months ended March 31, 2014 and 2013, respectively. Under our dividend exchange program during the three months ended March 31, 2014 our shareholders who participated in the program exchanged gross cash dividends of $8,000 for approximately 3 ounces of gold and 229 ounces of silver and for March 31, 2013 exchanged gross cash dividends of $0.7 million for approximately 348 ounces of gold and 1,578 ounces of silver, respectively. The Board of Directors has authorized the Company's dividends to be charged to paid-in capital until such time as the Company has retained earnings, at which time dividends will be charged to retained earnings to the extent that the Company has retained earnings. For the three months ended March 31, 2014 and 2013, $1.4 million and $1.5 million of declared dividends were charged to retained earnings, and $0.2 million and $8.0 million was charged to paid-in capital, respectively.

9. Concentrate Sale Settlements

The Company records adjustments to sales of metals concentrate that result from final settlement of provisional invoices in the period that the final invoice settlement occurs. The Company also reviews assays taken at the mine site on its concentrate shipments, upon which the Company's provisional invoices are based, with assays obtained from samples taken at the buyer's warehouse prior to final settlement, upon which the final invoices are in part based, to assess whether an adjustment to sales is required prior to final invoice settlement. These adjustments resulted in a decrease of $0.7 million to sales during the three months ended March 31, 2014, and an increase to sales of $0.5 million for the three months ended March 31, 2013.

In addition to the final settlement adjustments on provisional invoices, the Company records a sales adjustment to mark-to-market outstanding provisional invoices at the end of each reporting period. These adjustments resulted in a decrease to sales of $1.2 million for the three months ended March 31, 2014, and a decrease to sales of $2.3 million for the three months ended March 31, 2013.

Sales of metals concentrate are recorded net of smelter refining fees, treatment charges and penalties. Total charges for these items totaled $2.9 million for the three months ended March 31, 2014 and $4.2 million for the three months ended March 31, 2013.

10. Stock Options

The Company has a non-qualified stock option and stock grant plan under which equity awards may be granted to key employees, directors and others (the "Plan"). A summary of activity under the Plan for the three months ended March 31, 2014 is presented below:

	Stock Options		Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2014	5,615,000	$	9.66	6.7	$	3,364
Granted	10,000		5.81			
Forfeited	(240,000)		17.64			
Exercised	(400,000)		0.25			
Outstanding as of March 31, 2014	4,985,000	$	10.10	6.8	$	2,127
Vested and exercisable as of March 31, 2014	3,438,335	$	8.08	6.0	$	2,127

The fair value of options granted during the three months ended March 31, 2014 was $23,000. The options vest over a three year period and have an exercise term of 10 years. The total fair value of stock options vested during the three months ended March 31, 2014 was $0.7 million.

The following table summarizes information about stock options outstanding at March 31, 2014:

Outstanding	Exercisable

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Term (in years)		Weighted Average Exercise Price (per share)	Number of Options		Weighted Average Exercise Price (per share)
$3.40 - $3.95	1,900,000	4.5	$	3.66	1,900,000	$	3.66
$5.81 - $14.36	1,765,000	8.2		10.90	1,098,334		11.64
$17.10 - $20.51	1,320,000	8.4		18.31	440,001		18.31
	4,985,000	6.8	$	10.10	3,438,335	$	8.08

The fair value of stock option grants is amortized over the respective vesting period. Total stock-based compensation expense related to stock options for the three months ended March 31, 2014 was $0.8 million and for the three months ended March 31, 2013 was $1.5 million.

Stock-based compensation expense has been allocated between production costs and general and administrative expense for the three months ended March 31, 2014 and 2013 as follows:

Three months ended March 31,	
2014	2013
(in thousands)	

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Production costs	$ 466	$ 422
General and administrative expenses	317	1,090
Total stock-based compensation	$ 783	$ 1,512

The estimated unrecognized stock-based compensation expense from unvested options as of March 31, 2014 was approximately $6.4 million, and is expected to be recognized over the remaining vesting periods of up to 3.0 years.

The assumptions used to determine the value of stock-based awards under the Black-Scholes method are summarized below:

	Three months ended March 31,	
	2014	2013
Risk-free interest rate	1.53%	0.81% - 0.88%
Dividend yield	1.63%	3.25% - 3.40%
Expected volatility	55.35%	63.00% - 63.15%
Expected life in years	5	5

11. Other Income (Expense)

Other income (expense) for the three months ended March 31, 2014 and 2013 consisted of the following:

	Three months ended March 31,	
	2014	2013
	(in thousands)	
Unrealized foreign currency exchange (loss) gain	$ (137)	$ 119
Realized foreign currency exchange (loss) gain	(47)	25
Impairment loss on gold and silver bullion	-	(178)

Realized gain (loss) from gold and silver bullion converted	1	(39)
Unrealized gain due to changes in fair value of investments (1)	702	
Interest income	69	39
Interest expense	(85)	-
Other expense	(34)	(2)
Total other income (expense)	$ 469	$ (36)

(1) Our unrealized gain due to changes in fair values of certain investments include gains associated with changes in fair values that are non-cash in nature until such time that these gains are realized through cash transactions. For additional information regarding our investments and fair value measurements, see notes 2 and 4 to our condensed consolidated financial statements.

12. Income Taxes

The Company recorded income tax expense of $5.2 million for the three months ending March 31, 2014. During the three months ending March 31, 2013, the Company recorded income tax expense of $4.9 million.

During the three months ending March 31, 2014, the Company has not received advances from its Mexican operations. The Company has asserted permanent reinvestment of all Mexico undistributed earnings as of December 31, 2013. The impact of the planned annual dividends for 2014, net of foreign tax credits, is reflected in the estimated annual effective tax rate.

During the quarter ended March 31, 2014, the Company experienced an increase in its annualized effective tax rate principally due to the newly enacted Mexico mining tax.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income and tax-planning strategies in making this assessment. As of March 31, 2014, the Company believes it has sufficient positive evidence to conclude that realization of its federal and foreign deferred tax assets of Gold Resource Corporation are more likely than not to be realized. However, the Company has determined that the realization of its state deferred tax assets is not more likely that not to be realized and has a valuation allowance offsetting the state deferred tax assets.

As of March 31, 2014, the Company believes that it has no liability for uncertain tax positions. If the Company were to determine there was an uncertain tax position, the Company would recognize the liability and related interest and penalties within income tax expense.

The Company is currently not undergoing any income tax examinations in any jurisdiction, however to the extent that net operating losses have been utilized in either the current or preceding years, such losses may be subject to future income tax examination.

13. Net Income per Share

Basic earnings per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated based on the assumption that stock options outstanding, which have an exercise price less than the average market price of the Company's common shares during the period, have been exercised on the later of the beginning of the period or the date granted and that the funds obtained from the exercise were used to purchase common shares at the average market price during the period.

The effect of potentially dilutive stock options on the weighted average number of shares outstanding for the three months ended March 31, 2014 and 2013 is as follows:

	Three months ended March 31, 2014	2013
	(in thousands, except share data)	
Net income	$ 7,125	$ 7,387
Basic weighted average common shares outstanding	53,934,925	52,679,369
Dilutive effect of stock options	762,785	2,906,662
Diluted weighted average common shares outstanding	54,697,710	55,586,031
Net income per basic share	$ 0.13	$ 0.14

Net income per diluted share	$ 0.13	$ 0.13

Stock options totaling 3.1 million for the three months ending March 31, 2014 were excluded from the computation of diluted weighted average shares outstanding, since the exercise price of those stock options exceeded the average market price of the Company's common shares of $5.08 during the three months ended March 31, 2014. Stock options totaling 2.3 million for the three months ending March 31, 2013 were excluded from the computation of diluted weighted average shares outstanding, since the exercise price of those stock options exceeded the average market price of the Company's common shares of $13.61 during the three months ended March 31, 2013.

14. Legal Proceedings

A securities class action lawsuit subsequently captioned In re Gold Resource Corp. Securities Litigation, No.1:12-cv-02832 was filed on October 25, 2012 in the U.S. District Court for the District of Colorado naming the Company and certain of its current and former officers and directors as defendants. The complaint alleged violations of federal securities laws by the Company and certain of its officers and directors. On July 15, 2013, the federal district court granted the Company's motion to dismiss the lawsuit with prejudice. The plaintiff has appealed the District Court's decision to the United States Court of Appeals for the Tenth Circuit.

On February 8, 2013, a shareholder's derivative lawsuit entitled City of Bristol Pension Fund v. Reid et al., No. 1:13-CV-00348 was filed in the U.S. District Court for the District of Colorado naming the Company as a nominal defendant, and naming seven of its current and former officers and directors as defendants. The lawsuit alleges breach of fiduciary duty, gross mismanagement and unjust enrichment and seeks to recover, for the Company's benefit, unspecified damages purportedly sustained by the Company in connection with the alleged misconduct identified in the class action lawsuit discussed above and an award of attorney's fees and costs. The action was stayed pending resolution of the motion to dismiss in the securities class action lawsuit and the stay has been extended pending the appeal. There has been no discovery as the case is in its initial stages and accordingly, the Company is not in a position to assess the likelihood or estimate the potential range of loss associated with this matter; however, pursuant to the Company's articles of incorporation and contractual agreements with the individuals, it is obligated to indemnify its officers and directors with respect to this litigation and the Company will bear the cost associated with defense of these claims.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the results of operations of Gold Resource Corporation and its subsidiaries ("we", "our", or "us") for the three months ended March 31, 2014 and compares those results to the three months ended March 31, 2013. It also analyzes our financial condition at March 31, 2014 and compares it to our financial condition at December 31, 2013. This discussion should be read in conjunction with the Management's Discussion and Analysis and the audited financial statements for the years ended December 31, 2013 and 2012 and footnotes contained in our Form 10-K for the year ended December 31, 2013.

The discussion also presents certain Non-GAAP financial measures that are important to management in its evaluation of our operating results and which are used by management to compare our performance with what we perceive to be peer group mining companies, and are relied on as part of management's decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the Non-GAAP financial measures, please see the discussion below under "Non-GAAP Measures".

Overview

Business

We are a mining company which pursues gold and silver projects that are expected to have low operating costs and high returns on capital. We are presently focused on mineral production from ore at the El Aguila Project in Oaxaca, Mexico. Ore from the El Aguila open pit mine was processed into a metal concentrate containing the primary product of gold, with silver as a by-product. Operations at the El Aguila open pit mine ceased in February 2011 with the start-up of mine operations at the La Arista underground mine in March 2011. Our La Arista underground mine produces metal concentrates from ore containing our primary metal products of gold and silver, and by-products of copper, lead and zinc.

The mill located at our El Aguila Project produced a total of 23,734 precious metal gold equivalent ounces for the three months ended March 31, 2014. During this period we sold 20,600 precious metal gold equivalent ounces produced at a total cash cost net of by-product credits (including royalties and as otherwise defined below) of $422 per precious metal gold equivalent ounce sold. Precious metal gold equivalent is determined by taking gold ounces produced or sold, plus silver ounces produced or sold converted to precious metal gold equivalent ounces using the gold to silver average price ratio for the period. The gold and silver average prices used to determine the gold to silver average price ratio are the actual metal prices realized from sales of our gold and silver. (Please see the section titled "Non-GAAP Measures" below for additional information concerning the cash cost per ounce measures.)

For the three months ended March 31, 2014, we reported revenue of $31.2 million, mine gross profit of $16.2 million and a net income of $7.1 million.

Reserve Report

Beginning January 1, 2014, we transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise as defined by SEC Industry Guide 7. On April 30, 2014, we issued a report on the reserve estimate for the La Arista underground mine at the El Aguila Project with an effective date of December 31, 2013. The report confirms proven and probable reserves and we therefore transitioned from an Exploration Stage Company as defined in Accounting Standards Codification 915 – Development Stage Entities (“ASC 915”) and an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Industry Guide 7. We no longer consider ourselves to be an exploration stage company as defined in ASC 915 and accordingly cumulative and other disclosures required by ASC 915 are no longer included in the Company’s financial statements.

Prior to January 1, 2014, we were considered an exploration stage company under SEC criteria since we had not demonstrated proven or probable reserves at our El Aguila Project in Oaxaca, Mexico or any of our other properties. Accordingly, as required under SEC guidelines, substantially all of our investment in mining properties up to that date, including construction of the mill, mine facilities and mine construction expenditures, were expensed as incurred and therefore do not appear as assets on our balance sheet.

Our characterization as an exploration stage company resulted in the classification of our facilities and mine construction expenditures as operating expenses rather than capital expenditures, and may have caused us to report lower net income than if we had capitalized the expenditures. In addition, prior to January 1, 2014, our financial statements did not reflect a corresponding depreciation or amortization expense for our facilities and mine construction costs since they were expensed as incurred rather than capitalized. The change in our accounting presentation as a result of our transition to a production stage enterprise may make certain period-over-period comparisons in this quarterly report less meaningful than otherwise since we capitalized mine development related expenditures that would have been expensed under our prior accounting presentation.

Exploration Activities

El Aguila Project: Our mine exploration activities during the first quarter of 2014 at El Aguila continued to focus on the La Arista vein system. Twenty-nine diamond drill holes totaling 10,003 meters were completed during the first quarter of 2014. Drilling consisted of both infill and step-out holes testing the mineralized vein extensions at our producing La Arista underground mine. During the quarter, drilling principally targeted the northwest and southeast extensions of the Baja, Candelaria, Luz and Splay 66 veins currently in production in the La Arista underground mine. Surface drilling highlights include 1.87 meters grading 6.16 g/t gold, 321 g/t silver, 0.97% copper, 2.12% lead and 4.35% zinc for the Luz vein and 3.02 meters grading 9.51 g/t gold, 2,702 g/t silver, 0.35% copper, 0.75% lead and 1.31% zinc for the Candelaria vein. Underground drilling also targeted the new “Switchback” discovery located approximately 500 meters northeast of the La Arista underground mine and the recently discovered vein Santa Lucia vein. High grade mineralization was intercepted on the Santa Lucia vein including 2.67 meters grading 13.90 g/t gold, 3,228 g/t silver, 1.32% copper, 0.95% lead and 1.61% zinc. The Santa Lucia vein is a parallel vein structure located approximately 60 meters northeast of the Arista vein on level 14. Both the Switchback and Santa Lucia vein structures remain open on strike and at depth. Other activities at El Aguila during the first quarter of 2014 included detailed geological mapping, sampling and a review of existing geological and geophysical data to identify priority exploration targets for future surface drilling. During the first quarter, the Company was granted an exploration concession from the Mexican government for the 3,000-hectare El Aguila III claim we staked adjoining the El Aguila project to the southeast. The Company staked this claim to cover possible extensions of the La Arista and Switchback vein systems. Surface expressions of these structures denoted by strong alteration zones have been identified on El Aguila III. Preliminary field investigations are planned for El Aguila III during the second quarter.

Las Margaritas property: No diamond drilling was conducted at Las Margaritas during the first quarter of 2014. Results of previous exploration drilling at the Las Margaritas property are being evaluated along with structural geology, alteration, geochemical studies and geophysical surveys completed on the property. Detailed geological mapping, sampling and a review of existing geological and geophysical data is planned for Las Margaritas in the second quarter.

Alta Gracia property: No diamond drilling was conducted at Alta Gracia during the first quarter of 2014. Detailed geological mapping, sampling and a review of existing geological and geophysical data is also planned for Alta Gracia in the second quarter.

Lachiguiri property: During the first quarter of 2014, the Company was granted an exploration concession from the Mexican government for the 4,000-hectare Lachiquiri claim we staked located 55 kilometers east of El Aguila. The Company staked this claim to cover zones of interesting gold-silver-base metal mineralization occurring in limestone conglomerates affected by intense fracturing, oxidation and some silicified zones. Preliminary field investigations are planned for Lachiguiri during second quarter.

Results of Operations

The following table summarizes our results of operations for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013:

	Three months ended March 31, 2014	2013
	(in thousands)	
Sales of metals concentrate, net	$ 31,152	$ 42,311
Mine cost of sales	14,966	17,432
Mine gross profit	16,186	24,879
Costs and expenses:		
General and administrative expenses	3,013	4,385
Exploration expenses	1,288	3,299
Facilities and mine construction	-	4,848
Total costs and expenses	4,301	12,532
Operating income	11,885	12,347
Other income (expense)	469	(36)
Income before income taxes	12,354	12,311
Provision for income taxes	5,229	4,924

Net income $ 7,125 $ 7,387

Sales of metals concentrate, net

During the three months ended March 31, 2014, sales of metal concentrates totaled $31.2 million, net of treatment charges, compared to sales of $42.3 million during the same period of 2013, a decrease of 26.2%. The decrease in revenue of $11.1 million was due to both a decrease in precious metal gold equivalent ounces sold as well as a decrease in the average realized gold and silver prices. During the three months ended March 31, 2014 the precious metal gold equivalent ounces sold decreased by 4,373 ounces or 17.5%. The average realized gold price decreased to $1,296 from $1,648 per ounce, a decrease of 21%, and the average realized silver price decreased to $20 from $31 per ounce, a 35.5% decrease when compared to the three months ended March 31, 2013, each reflecting a year-over-year decrease in precious metal prices. Aggregate by-product revenues from copper, lead and zinc for the three months ended March 31, 2014 were comparable to the three months ended March 31, 2013. Revenue generated from the sale of base metals contained in our concentrates is considered a by-product of our gold and silver production. (See "Production and Sales Statistics - La Arista Underground Mine" table below for additional information regarding our mineral production statistics for the three months ended March 31, 2014 and 2013).

Production

For the three months ended March 31, 2014, mill production totaled 23,734 precious metal gold equivalent ounces compared to 22,330 precious metal gold equivalent ounces for the three months ended March 31, 2013. The increase in mill gold equivalent production for the three months ended March 31, 2014 as compared to March 31, 2013 was primarily due to the mill expansion that was recently completed, increasing total tonnes milled by 37% over the comparable period. The increase in mill gold equivalent production for March 31, 2014 was partially offset by lower average gold and silver grades when compared to the three months ending March 31, 2013. See "Production and Sales Statistics-La Arista Underground Mine" table below for additional information regarding our mineral production statistics.

We continue to focus on mining and development activities at the La Arista underground mine. Our production rate at La Arista is directly a result of mine development and the establishment of sufficient stopes and working faces. We are currently mining the wider veins using the long-hole open stoping method, and the narrower veins using the cut and fill method.

The El Aguila mill expansion increased the mill's nominal flotation circuit processing capacity to 1,500 tonnes per day. Commissioning of the expanded mill took place at the end of 2013. Achieving this processing rate is dependent upon our ability to develop the La Arista underground mine to a point where ore extraction can consistently achieve an average rate of 1,500 tonnes per day. Although we are targeting a mining processing rate for ore of 1,500 tonnes per day in the future, we expect a ramp up towards that capacity and there is no assurance that this mining rate can be achieved or sustained over the long-term. During the three months ended March 31, 2014 we milled 1,159 ore tonnes per day which represented an increase of 37% when compared to the 846 ore tonnes per day milled for the three months ended March 31, 2013.

The following table summarizes certain information about our mining operations for the three months ended March 31, 2014 and 2013:

Production and Sales Statistics - La Arista Underground Mine

	Three months ended March 31,	
	2014	2013
Production Summary		
Milled:		
Tonnes Milled	104,349	76,184
Tonnes Milled per Day	1,159	846
Grade:		
Average Gold Grade (g/t)	3.25	3.67
Average Silver Grade (g/t)	285	345
Average Copper Grade (%)	0.35	0.39
Average Lead Grade (%)	1.23	1.10
Average Zinc Grade (%)	3.43	2.79

Recoveries:		
Average Gold Recovery (%)	91	88
Average Silver Recovery (%)	92	92
Average Copper Recovery (%)	80	84
Average Lead Recovery (%)	72	70
Average Zinc Recovery (%)	82	79
Mill production (before payable metal deductions)(1)		
Gold (ozs.)	9,958	7,898
Silver (ozs.)	878,958	777,671
Copper (tonnes)	292	248
Lead (tonnes)	929	586
Zinc (tonnes)	2,920	1,676
Payable metal sold		
Gold (ozs.)	8,586	8,953
Silver (ozs.)	766,535	863,152
Copper (tonnes)	259	305
Lead (tonnes)	812	642
Zinc (tonnes)	2,158	1,735
Average metal prices realized (2)		
Gold (oz.)	$ 1,296	$ 1,648
Silver (oz.)	$ 20	$ 31
Copper (tonne)	$ 6,939	$ 7,996
Lead (tonne)	$ 2,091	$ 2,448
Zinc (tonne)	$ 2,050	$ 2,154
Precious metal gold equivalent ounces produced (mill production)(1)(4)		
Gold Ounces	9,958	7,898
Gold Equivalent Ounces from Silver	13,776	14,432
Total Precious Metal Gold Equivalent Ounces	23,734	22,330
Precious metal gold equivalent ounces sold(3)(4)		
Gold Ounces	8,586	8,953
Gold Equivalent Ounces from Silver	12,014	16,019
Total Precious Metal Gold Equivalent Ounces	20,600	24,972
Total cash cost (before by-product credits) per precious metal gold equivalent ounce sold (including royalties) (3)	$ 806	$ 825
Total cash costs, after by-product credits, per precious metal gold equivalent ounce sold (including royalties) (3)	$ 422	$ 515

(1) Mill production represents metal contained in concentrates produced at the mill, which is before payable metal deductions are levied by the buyer of our concentrates. Payable metal deduction quantities are defined in our contracts with the buyer of our concentrates and represent an estimate of metal contained in the concentrates produced at our mill, for which the buyer cannot recover through the smelting process. There are inherent limitations and differences in the sampling method and assaying of estimated metal contained in concentrates that are shipped, and those contained metal estimates derived from sampling methods and assaying throughout the mill production process. The Company monitors these differences to ensure that precious metal mill production quantities are materially correct.

(2) Average metal prices realized vary from the market metal prices due to out of period settlement adjustments from our provisional invoices when they are settled. Our average metal prices realized will therefore differ from the market average metal prices in most cases.

(3) A reconciliation of this Non-GAAP measure to total mine cost of sales, the most comparable U.S. GAAP measure, can be found below in "Non-GAAP Measures".

(4) Precious metal gold equivalent mill production for the first quarter of 2014 of 23,734 ounces differs from gold equivalent ounces sold for the same period of 20,600 due principally to buyer (smelter) concentrate processing deductions of approximately 2,123 gold equivalent ounces and an increase in gold equivalent ounces contained in ending inventory of approximately 1,011 ounces.

Mine gross profit. For the three months ended March 31, 2014, mine gross profit totaled $16.2 million compared to $24.9 million for the three months ended March 31, 2013. The decrease in gross profit principally resulted from lower realized metal prices in the first quarter of 2014. The change in realized metal prices contributed to a decrease in our gross profit percentage from 59.0% for the three months ended March 31, 2013 to 51.9% for the three months ended March 31, 2014.

Net income. For the three months ended March 31, 2014, we recognized a net income of $7.1 million, or $0.13 per basic share, as compared to net income of $7.4 million, or $0.14 per basic share, for the comparable period of 2013. The net income for the three months ended March 31, 2014 principally resulted from lower realized prices on metals sold, offset by a decrease in general and administrative, exploration and facilities and mine construction expenses.

Costs and expenses. Total costs and expenses during the three months ended March 31, 2014 were $4.3 million compared to $12.5 million during the comparable period of 2013, a decrease of $8.2 million, or 65.6%, and principally resulted from a decrease in general and administrative, exploration, and facilities and mine construction expenses as discussed in more detail below.

General and administrative expenses. General and administrative expenses for the three months ended March 31, 2014 were $3.0 million, compared to $4.4 million for the same period of 2013. The decrease in general and administrative expenses for the three months ended March 31, 2014 was the result of various cost cutting measures, reducing compensation, insurance, computer IT support, investor relations and legal expenses.

Exploration expenses. Exploration expenses totaled $1.3 million for the three months ended March 31, 2014 as compared to $3.3 million for the corresponding period in 2013. The $2.0 million decrease principally resulted from a temporary decrease in drilling activity at the El Aguila project. In April of 2014 the Board of Directors approved an increase to the 2014 exploration budget by $2.2 million for an estimated 10,000 meters of additional drilling with primary targets to include those on the El Aguila project including the Arista Mine and the El Aguila open pit. Other potential targets include those on Las Margaritas and Alta Gracia properties.

Facilities and mine construction expenses. Facilities and mine construction expenses during the three months ended March 31, 2014 were nil, resulting in a decrease of $4.9 million when compared to $4.9 million during the comparable period in 2013. The decrease is the result of the Company's transition from an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Guide 7 due to our new Reserve Report. Prior to the transition, all development of mill, mine facilities, and mine construction expenditures were expensed as incurred to facilities and mine development expenses. The Company now capitalizes such expenditures as a result of our transition to a Production Stage Enterprise.

Provision for income taxes. During the three months ended March 31, 2014, the Company recorded an income tax expense of $5.2 million. During the three months ended March 31, 2013, the Company recorded income tax expense of $4.9 million.

Non-GAAP Measures

Reconciliation of Non-GAAP Measures to Total Mine Cost of Sale

Throughout this report, we have provided information prepared or calculated according to U.S. GAAP, as well as referenced some non-U.S. GAAP ("non-GAAP") performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by U.S. GAAP, they may not be comparable to similar measures presented by other companies. Accordingly, these measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP.

We have reconciled total cash cost, before by-product credits and total cash cost, after by-product credits to total mine cost of sales, which is a reported U.S. GAAP measure. Total cash cost, before by-product credits, includes all direct and indirect operating cash costs related directly to our production of precious metals which includes mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and general and administrative costs.

We use total cash cost, after by-product credits per precious metal gold equivalent ounce sold (including royalties) as one indicator for comparative monitoring of our mining operations from period to period and believe that investors also find this information helpful when evaluating our performance. By-product credits include revenues earned from all base metals other than the primary precious metals sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective. Total cash cost, after by-product credits, per precious gold equivalent ounce sold is a measure developed by the Gold Institute Standard in an effort to provide a uniform standard for comparison purposes. However, there can be no assurance that our reporting of this Non-GAAP measure is similar to that reported by other mining companies.

The following tables present a reconciliation between the non-GAAP measures of total cash cost, before by-product credits and total cash cost, after by-product credits to the GAAP measure of total mine cost of sales and depreciation, accretion, reclamation and stock-based compensation for our operations at the El Aguila project for the three months ended March 31, 2014.

Total Cash Costs after By-Credit Credits (Non-GAAP)

	Three months ended March 31, 2014	2013
	(In thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)	
Total cash cost (before by-product credits) (1)	$ 16,611	$ 20,605
By-product credits (2)	(7,919)	(7,744)
Total cash cost (after by-product credits)	8,692	12,861
Precious metal gold equivalent ounces sold (3)	20,600	24,972
Total cash cost (before by-product credits) per precious metal gold equivalent ounce sold (including royalties)	806	825
By-product credits per precious metal gold equivalent ounces sold (2)	(384)	(310)
Total cash costs, after by-product credits, per precious metal gold equivalent ounce sold (including royalties)	$ 422	$ 515

(1) Includes all direct and indirect operating cash costs related directly to our production of metals including mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and general and administrative costs.
(2) See table below for a summary of our by-product revenue and by-product credit precious metal equivalent ounces sold.
(3) Gold ounces sold, plus gold equivalent ounces of silver ounces sold converted to gold ounces using our realized gold price per ounce to silver price per ounce ratio, at the La Arista underground mine.

The following table reconciles our non-GAAP measure of cash costs to Total Mine Cost of Sales, the most comparable GAAP measure from our condense consolidated financial statements, for the three months ended March 31, 2014 and 2013:

Reconciliation to GAAP:

	Three months ended March 31, 2014	2013
	(In thousands)	

Total cash costs (after by-product credits)	$ 8,692	$ 12,861
Treatment and refining charges	(2,856)	(4,160)
By-product credits	7,919	7,744
Depreciation and amortization	745	536
Reclamation and remediation	-	29
Stock-based compensation	466	422
Total mine cost of sales	$ 14,966	$ 17,432

The following table summarizes our by-product revenue and by-product credits per precious metal gold equivalent ounce sold for the three months ended March 31, 2014 and 2013:

Summary of By-Product Revenue and By-Product Credit Precious Metal Gold Equivalent Ounces Sold

	Three months ended March 31,	
	2014	2013
	(In thousands)	
By-product credits by dollar value:		

	2014	2013
Copper sales	$ 1,797	$ 2,435
Lead sales	1,699	1,573
Zinc sales	4,423	3,736
Total sales from by-products	$ 7,919	$ 7,744

	Three months ended March 31,	
	2014	2013
By-product credits per precious metal gold equivalent ounce sold:		
Copper ounces	$ 87	$ 97
Lead ounces	82	63
Zinc ounces	215	150
Total by-product precious metal gold ounces sold	$ 384	$ 310

Cash Flow from Mine Site Operations

Cash flow from mine site operations ("Cash Flow From Mine Site Operations") is furnished to provide additional information and is a Non-GAAP measure. This measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. We believe that certain investors use this measure as a basis to assess mine performance and we use it as a measure of our targeted distributions to shareholders.

The following table provides a reconciliation of Cash Flow From Mine Site Operations to mine gross profit as presented in the consolidated statements of income:

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Mine gross profit	$ 16,186	$ 24,879
Stock-based compensation	466	422
Depreciation and amortization	745	536
Reclamation and remediation	-	29
Cash flow from mine site operations	$ 17,397	$ 25,866

Liquidity and Capital Resources

As of March 31, 2014, we had working capital of $33.5 million, consisting of current assets of $46.5 million and current liabilities of $13.0 million. This represents an increase of $0.1 million from the working capital balance of $33.4 million as of December 31, 2013. Our working capital balance fluctuates as we use cash to fund our operations, including exploration, mine development, and our dividends.

Since achieving profitability in 2011, we have relied on cash flow generated from mining operations to fund our operations, income tax obligations, dividends and other expenditures. Due to the decrease in Cash Flow from Mine Site Operations from lower gold and silver prices and the new Mexican tax reform legislation imposed on precious and non-precious metal producers, the Board of Directors elected to reduce the company's monthly dividend of $0.03 per share to $0.01 per share effective December 2013. There is no assurance as to what any future dividend may be regardless of Company goals. However, we believe our successful mill expansion will position us to achieve higher mineral processing capacity in 2014 and subsequent years.

Our philosophy remains consistent in returning as much in dividends to the shareholders as possible with a long term annual goal of approximately one-third of Cash Flow From Mine Site Operations, subject to special situations, taxation and other market conditions that may vary the percentage returned in a given year (See "Non-GAAP Measures" above). These cash distributions are subject to the laws of the State of Colorado that govern distributions to shareholders. For the three months ended March 31, 2014, we declared dividends of $1.6 million, representing 9.3% of Cash Flow From Mine Site Operations.

Upon declaration of a dividend, each shareholder has the option to subsequently convert that cash dividend into gold and/or silver bullion in accordance with the terms of our physical dividend program. To the extent we do not hold sufficient gold and silver bullion by the distribution payment date we must purchase gold and/or silver bullion in the market. We intend to purchase gold and silver bullion in the market at various times throughout the year, and intend to hold quantities of gold and/or silver bullion to enable us to meet, at a minimum, our forecasted physical delivery requirements in the current and following month. During the three months ended March 31, 2014, we purchased no gold or silver.

The mineral concessions that comprise our La Arista underground mine are subject to a 4% net smelter returns royalty on sales of any gold and silver doré, and a 5% net smelter returns royalty on sales of any concentrate. We produce gold and silver in our copper, lead and zinc concentrates, but no gold and silver doré, at our La Arista underground mine. Royalties are considered mine operating costs and are funded from the sale of concentrates. Royalty expense is recorded based on provisional invoices and adjusted based on the final invoice. An initial royalty payment of 50% of the provisional invoice amount is made when the provisional invoice is collected. The remaining royalties owed are paid when we receive full payment for the final invoice. We made royalty payments for the three months ended March 31, 2014 of $1.5 million, and $2.1 million for the three months ended March 31, 2013. We estimate that between $6 million and $7 million of royalty will be paid in 2014, subject to market prices for the metals in our concentrates, mine production and timing of final invoice settlements.

For the three months ended March 31, 2014, we spent $1.3 million for development drilling and other related activities at our El Aguila project. Our planned development drilling expenditures are discretionary and could be significantly more or less depending on variables including the ongoing results from the drilling programs and market conditions. Development drilling activities to further delineate and define our La Arista deposit are considered mine development.

Cash and cash equivalents as of March 31, 2014 increased to $19.5 million from $15.0 million as of December 31, 2013, a net increase in cash of $4.5 million. The $4.5 million increase in cash principally resulted from net cash generated from operating activities of $12.4 million, less capital expenditure of $4.2 million, investments of $1.8 million and dividends paid of $1.6 million.

Net cash provided by operating activities for the three months ended March 31, 2014 was $12.4 million compared to $6.4 million during the comparable period in 2013. The increase in cash provided by operating activities was, in part, the result of $4.2 million of cash outflows which would have historically been charged to operating expenses that are now considered investing activities as they qualify for capitalization as mine development and an increase change in income taxes payable/receivable of $5.2 million.

Net cash used in investing activities for the three months ended March 31, 2014 was $6.0 million compared to $3.7 million during the comparable period in 2013. Cash used in investing activities during the three months ended March 31, 2014 was the result of mine equipment purchases, investments and mine development.

Net cash used in financing activities for the three months ended March 31, 2014 was $1.9 million compared to $9.5 million during the same period in 2013, consisting of dividends paid of $1.6 million and $9.5 million, respectively.

Critical Accounting Estimates

There have been certain changes in our critical accounting estimates since December 31, 2013 as noted below:

Proven or Probable Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages. Our assessment of reserves occurs at least annually, and will periodically utilize external audits. Reserves are a key component in the valuation of our property, equipment and mine development.

Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values to ensure that carrying values are reported appropriately. Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals or that we will do so at a profitable level.

Depreciation and Amortization

Depreciation and amortization on our property, equipment and mine development is calculated on a straight line basis over the estimated useful life for rolling stock assets and units-of-production basis over remaining estimated reserves for mining related assets. Significant judgment is involved in the determination of the estimated life of the assets.

Impairment of Assets

Assessing the fair value of our long-lived assets requires us to make several estimates and assumptions that are subject to risk and uncertainty. Changes in these estimates and assumptions could result in the impairment of our long-lived asset carrying values. Events that could result in impairment of our long-lived assets include, but are not limited to, obsolescence, damage, underperformance and assets held for disposal.

Forward-Looking Statements

This report contains or incorporates by reference "forward-looking statements," as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others:

•statements about our future exploration drilling and plans for development of our properties;

•statements concerning the benefits that we expect will result from our business activities and certain transactions that we contemplate or have completed, such as receipt of proceeds, decreased expenses and avoided expenses and expenditures; and

•statements of our expectations, beliefs, future plans and strategies, our targets, exploration activities, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents that we will file with the SEC. You can find many of these statements by looking for words such as "believes," "expects," "targets," "anticipates," "estimates," or similar expressions used in this report or incorporated by reference in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied in those statements. Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied. We caution you not to put undue reliance on these statements, which speak only as of the date of this report. Further, the information contained in this document or incorporated herein by reference is a statement of our present intention and is based on present facts and assumptions, which may change at any time and without notice, based on changes in such facts or assumptions.

Risk Factors Impacting Forward-Looking Statements

The important factors that could prevent us from achieving our stated goals and objectives include, but are not limited to, those set forth in other reports we have filed with the SEC and the following:

- commodity price fluctuations;
- the level of demand for our products;
- our costs;
- ability and timing of sufficient mine construction.
- unexpected changes in business and economic conditions, including the rate of inflation;
- changes in interest rates and currency exchange rates;
- decisions of foreign countries and banks within those countries;
- violence and crime associated with drug cartel activity in Mexico;
- natural disasters such as earthquakes or weather-related events;
- changes in our business strategy, plans and goals;
- technological changes in the mining industry;
- changes in exploration and overhead costs;
- access and availability of materials, equipment, supplies, labor and supervision, power and water;
- results of current and future feasibility studies;
- interpretation of drill hole results and the geology, grade and continuity of mineralization;

- the uncertainty of ore estimates and timing of construction expenditures;
- lack of governmental and/or local support for mining operations; and
- changes in labor, income tax, royalties and other laws and regulations.

We undertake no responsibility or obligation to update publicly these forward-looking statements, but may do so in the future in written or oral statements. Investors should take note of any future statements made by or on our behalf.

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risks includes, but is not limited to, the following risks: changes in commodity prices, foreign currency exchange rates, changes in interest rates and equity price risks. We do not use derivative financial instruments as part of an overall strategy to manage market risk; however, we may consider such arrangements in the future as we evaluate our business and financial strategy.

Commodity Price Risk

The results of our operations will depend in large part upon the market prices of gold and silver. Gold and silver prices fluctuate widely and are affected by numerous factors beyond our control. The level of interest rates, the rate of inflation, the world supply of gold and silver and the stability of exchange rates, among other factors, can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of gold and silver has fluctuated widely in recent years, and future price declines could cause a mineral project to become uneconomic, thereby having a material adverse effect on our business and financial condition. We have not entered into derivative contracts to protect the selling price for gold or silver. We may in the future more actively manage our exposure through derivative contracts or other commodity price risk management programs, although we have no intention of doing so in the near-term.

In addition to adversely affecting our ore estimates and our financial condition, declining gold and silver prices could require a reassessment of the feasibility of a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause delays in the implementation of a project. This risk is increased since we have not sought or obtained a formal feasibility study with regard to any of our projects.

Foreign Currency Risk

We transact a significant amount of our business in Mexican pesos. As a result, currency exchange fluctuations may impact our operating costs. The appreciation of non-U.S. dollar currencies such as the peso against the U.S. dollar increases expenses and the cost of purchasing capital assets in U.S. dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, a depreciation of non-U.S. dollar currencies usually decreases operating costs and capital asset purchases in U.S. dollar terms.

The value of cash and cash equivalents denominated in foreign currencies also fluctuates with changes in currency exchange rates. Appreciation of non-U.S. dollar currencies results in a foreign currency gain on such investments and a decrease in non-U.S. dollar currencies results in a loss. We have not utilized market-risk sensitive instruments to manage our exposure to foreign currency exchange rates but may in the future actively manage our exposure to foreign currency exchange rate risk.

Provisional Sales Contract Risk

We enter into concentrate sales contracts with a third-party commodity trading company. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. The provisionally priced sales contracts contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates at the forward price at the time of sale. The embedded derivative, which is the final settlement based on a future price, does not qualify for hedge accounting and is marked-to-market through earnings each period prior to final settlement.

At March 31, 2014, we had outstanding provisionally priced sales of $32.1 million consisting of 8,681 ounces of gold and 769,768 ounces of silver, 261 tons of copper, 820 tons of lead and 2,169 tons of zinc which in the aggregate had a fair value of approximately $32.5 million, including the embedded derivative. If the price for each metal were to change by one percent, the change (plus or minus) in the total fair value of the concentrates sold would be approximately $0.3 million.

Interest Rate Risk

We have no debt outstanding nor do we have any investment in debt instruments other than highly liquid short-term investments. Accordingly, we consider our interest rate risk exposure to be insignificant at this time.

Equity Price Risk

We have, in the past, sought and may, in the future, seek to acquire additional funding by sale of common stock and other equity. The price of our common stock has been volatile in the past and may also be volatile in the future. As a result, there is a risk that we may not be able to sell our common stock at an acceptable price should the need for new equity funding arise.

Country Risk

All of our mineral properties are located in Mexico. In the past, that country has been subject to political instability, increasing crime, changes and uncertainties which may cause changes to existing government regulations affecting mineral exploration and mining activities. Civil or political unrest could disrupt our operations at any time. Our exploration and mining activities may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that could increase the costs related to our activities or maintaining our properties. Finally, Mexico’s status as a developing country may make it more difficult for us to obtain required financing for our properties.

ITEM 4: Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act, the Company's management, with the participation of our Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's “disclosure controls and procedures”, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on its evaluation, in light of the material weakness described below that resulted in the Company’s audited consolidated financial statements for the year ended December 31, 2013, the Company's management, including our Chief Executive Officer and our Chief Financial Officer, have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2014 to ensure that information the Company is required to disclose in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported with the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to its management as appropriate to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following control deficiencies were identified and were determined to be material weaknesses in internal control over financial reporting as of December 31, 2013:

1. Our internal controls over income taxes and cash disbursements were not complete and operating effectively. Specifically, our management review controls over the identification of temporary differences, measurement of the valuation allowance, and presentation of income taxes and approval of cash disbursements related to certain general and administrative expenses in our financial statements were not operating effectively.
2. We did not maintain effective monitoring and oversight of external service providers. Specifically:

- We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the evaluation of the internal control environment and testing of process level controls.
- We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the evaluation of the general information technology control environment, including controls intended to prevent unauthorized system access and inappropriate change management.
- We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the recognition, measurement and presentation of income taxes.

Because of these material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2013.

The material weaknesses resulted in material misstatements in the preliminary consolidated financial statements in the fourth quarter of 2013 related to the current and long-term portions of the deferred tax assets as well as the provision for income taxes which were identified and corrected by the Company prior to the issuance of the annual consolidated financial statements in our annual report on Form 10-K.

Management's Plans for Remediation of the Material Weakness

The Company has been and is continuing to implement changes in its internal control over financial reporting to remediate the control deficiencies that gave rise to material weaknesses. We are undertaking the following remediation plans and actions:

- Improving management oversight and monitoring of its independent service providers
- Replacing its independent Sarbanes-Oxley compliance provider to improve the design, documentation, monitoring, and testing of key controls to strengthen the Company's internal control over financial reporting
- Improving management's oversight and monitoring of its income tax provision process by enhancing its quarterly discussions with our outside tax advisors to anticipate any business developments that could affect the determination or presentation of income tax expense.

As management implements these plans, management may determine that additional steps may be necessary to remediate the material weaknesses.

(b) There have been no changes in our internal controls over financial reporting during the most recent fiscal quarter that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting other than the control deficiency discussed above.

PART II – OTHER INFORMATION

ITEM 1: Legal Proceedings

A securities class action lawsuit subsequently captioned In re Gold Resource Corp. Securities Litigation, No.1:12-cv-02832 was filed in U.S. District Court for the District of Colorado naming us and certain of our current and former officers and directors as defendants on October 25, 2012. The complaint alleged violations of federal securities laws by us and certain of its officers and directors. On July 15, 2013, the federal district court granted our motion to dismiss the lawsuit with prejudice. The plaintiff has appealed the District Court's decision to the United States Court of Appeals for the Tenth Circuit.

On February 8, 2013, a shareholder's derivative lawsuit entitled City of Bristol Pension Fund v. Reid et al., No. 1:13-CV-00348 was filed in the U.S. District Court for the District of Colorado naming us as a nominal defendant, and naming seven of our current and former officers and directors as defendants. The lawsuit alleges breach of fiduciary duty, gross mismanagement and unjust enrichment and seeks to recover, for Gold Resource Corporation's benefit, unspecified damages purportedly sustained by us in connection with the alleged misconduct identified in the class action lawsuit discussed above and an award of attorney's fees and costs. The action was stayed pending resolution of our motion to dismiss in the securities class action lawsuit and the stay has been extended pending the appeal. There has been no discovery as the case is in its initial stages and accordingly, we are not in a position to assess the likelihood or estimate the potential range of loss associated with this matter; however, pursuant to our articles of incorporation and contractual agreements with the individuals, we are obligated to indemnify our officers and directors with respect to this litigation and our company will bear the cost associated with defense of these claims.

ITEM 1A: Risk Factors

Item 1A – Risk Factors of our annual report filed on Form 10-K for the year ended December 31, 2013, as updated in Part II, Item 1A. – Risk Factors in our quarterly report on Form 10-Q for the period ended March 31, 2014, sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition and operating results. One of those risk factors have been updated in this Form 10-Q as set forth below.

Estimates of proven and probable reserves are uncertain and the volume and grade of ore actually recovered may vary from our estimates.

The reserves stated in this report represent the amount of precious metal gold equivalent that we estimated, at December 31, 2013, could be economically and legally extracted or produced at the time of the reserve determination. Estimates of proven and probable reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on the prices of gold, silver, lead, zinc and copper and interpretations of geologic data obtained from drill holes and other exploration techniques. Estimates of mineral reserves, and future cash flows to be derived from the production of such mineral reserves, necessarily depend upon a number of variable factors and assumptions, including, among others, geological and mining conditions that may not be fully identified by available exploration data or that may differ from experience in current operations; historical production from the area compared with production from other producing areas; the assumed effects of regulation by governmental agencies and assumptions concerning exchange rates; interest rates; inflation; operating costs; maintenance costs; reclamation and post-reclamation costs; and the availability and cost of labor, equipment, raw materials and other services required to mine and refine the ore. In addition, if the price of gold, silver, lead, zinc or copper declines from recent levels, if production costs increase or recovery rates decrease, we can offer no assurance that the indicated level of recovery will be realized or that mineral reserves as currently reported can be mined or processed profitably. If we determine that certain of our mineral reserves have become uneconomic, this may ultimately lead to a reduction in our aggregate reported reserves. Consequently, if our actual mineral reserves are less than current estimates, our business, prospects, results of operations and financial position may be materially impaired.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

In September 2011, our Board of Directors authorized a share repurchase of up to $20.0 million with no pre-established end date. During the three months ended March 31, 2014, we did not repurchase any shares of Gold Resource Corporation common stock on the open market.

ITEM 6: Exhibits

The following exhibits are filed or furnished herewith:

Exhibit Number	Descriptions
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Joe A. Rodriguez.
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid and Joe A. Rodriguez.*
101	Financial statements from the Quarterly Report on Form 10-Q of Gold Resource Corporation for the three months ended March 31, 2014, formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Cash Flows, and (iv) the Notes to the Unaudited Consolidated Financial Statements.*
*	This document is not being “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLD RESOURCE CORPORATION

Dated: May 12, 2014 /s/ Jason D. Reid

By: Jason D. Reid,
Chief Executive Officer and President

Bradley

GOLD RESOURCE CORPORATION

Dated: May 12, 2014 /s/ Joe A. Rodriguez

By: Joe A. Rodriguez,
Chief Financial Officer

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