SPARK NETWORKS INC
Form 4
February 19, 2014

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
402 CAPITAL LLC

(Last) (First) (Middle)

5015 UNDERWOOD AVENUE

(Street)

OMAHA,, NE 68132

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SPARK NETWORKS INC [LOV]

3. Date of Earliest Transaction (Month/Day/Year)
02/14/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.001 per share	02/14/2014		P		89,438	A	$ 5.6469 (5)	1,358,183 (1) (2) (4)	I	See Footnote (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
402 CAPITAL LLC 5015 UNDERWOOD AVENUE OMAHA,, NE 68132		X		
JACOBS IAN 5015 UNDERWOOD AVENUE OMAHA, NE 68132		X		

Signatures

/s/ Ian V. Jacobs, Managing Member of 402 Capital, LLC	02/19/2014
**Signature of Reporting Person	Date
Ian V. Jacobs	02/19/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The filing of this Form 4 shall not be construed as an admission that Ian V. Jacobs ("Mr. Jacobs"), the managing member of 402 Capital, LLC ("402 Capital"), or 402 Capital, is or was for the purposes of Section 16(a) of the Securities Exchange Act of 1934, as amended, the beneficial owner of any of the shares of common stock, par value $0.001 (the "Common Stock") of Spark Networks, Inc. ("Issuer"), owned by 402 Fund, LP (the "Fund") or SCA Partners, LP ("SCA").

(2) Pursuant to Rule 16a-1, each of Mr. Jacobs and 402 Capital disclaims beneficial ownership except to the extent of their respective pecuniary interests.

(3) The reported shares of Common Stock are held by SCA. After giving effect to the transactions reported in this Form 4, SCA holds 1,358,183 shares of Common Stock. 402 Capital controls the voting and disposition of the Common Stock held by SCA, of which 402 Capital is the investment manager. An affiliate of 402 Capital, for which Mr. Jacobs is the managing member, serves as the general partner of SCA and receives an allocation of net profits from SCA. Mr. Jacobs reports the shares held indirectly by 402 Capital because, as the managing member of 402 Capital at the time of purchase, Mr. Jacobs controlled the disposition and voting of the securities.

(4) As previously reported on the reporting persons' Form 3 and Form 4s with respect to the Issuer, (1) the Fund holds 1,212,950 shares of Common Stock, and 402 Capital and Mr. Jacobs report the shares held by the Fund because as the investment manager of the Fund, and the managing member of 402 Capital, respectively, they control the disposition and voting of the securities and (2) Mr. Jacobs holds 25,000 shares of Common Stock in his personal account.

(5) This transaction was executed in multiple trades at prices ranging from $5.5900 to $5.6500. The price reported above in Column 4 of Table I reflects the weighted average purchase price. The reporting persons hereby undertake to provide upon request to the SEC staff, the issuer or a security holder of the issuer complete information regarding the number of shares and prices at which each of the individual transactions was effected.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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3,021,450

128,687

51,405

3,201,542

3,201,542

			Company			
Financial liabilities	Measured at fair value through profit or loss	Amortized cost	Coverage	Level 2 Estimates based on other market data	Total book value	Total fair value
Current						
Loans and financing (Note 16.1)	328,302	411,328	-	328,302	739,630	776,602
Debentures (Note 16.2)	6,101	672,667	-	6,101	678,768	836,731

Explanation of Responses:

Derivative transactions (Note 34)	124	-	8,048	8,172	8,172	8,172
Noncurrent						
Loans and financing (Note 16.1)	-	477,361	-	-	477,361	435,485
Debentures (Note 16.2)	90,707	2,165,393	-	90,707	2,256,100	2,106,812
Total financial liabilities	**425,234**	**3,726,749**	**8,048**	**433,282**	**4,160,031**	**4,163,802**

Consolidated

	Fair value		Amortized cost					
<u>Financial assets</u>	Measured at fair value through profit or loss	Coverage	Available for sale	Loans and receivables	Level 1 Market price	Level 2 Estimates based on other market data	Total book value	Total fair value
Current								
Cash and cash equivalents (Note 3)	-	-	-	6,750,950	-	-	6,750,950	6,750,950
Derivative transactions (Note 34)	312	32,140	-	-	-	32,452	32,452	32,452
Noncurrent								
Equity interest (Note 10)	-	-	128,687	-	128,687	-	128,687	128,687
Derivative transactions (Note 34)	-	259,917	-	-	-	259,917	259,917	259,917
Total financial assets	**312**	**292,057**	**128,687**	**6,750,950**	**128,687**	**292,369**	**7,172,006**	**7,172,006**

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

	Consolidated					
Financial liabilities	Measured at fair value through profit or loss	Amortized cost	Coverage	Level 2 Estimates based on other market data	Total book value	Total fair value
Current						
Loans and financing (Note 16.1)	357,261	890,066	-	357,261	1,247,327	1,421,800
Debentures (Note 16.2)	6,101	672,667	-	6,101	678,768	836,731
Derivative transactions (Note 34)	477	-	35,975	36,452	36,452	36,452
Noncurrent						
Loans and financing (Note 16.1)	975,621	2,538,629	-	975,621	3,514,250	3,272,607
Debentures (Note 16.2)	90,707	2,165,393	-	90,707	2,256,100	2,106,812
Derivative transactions (Note 34)	-	-	25,890	25,890	25,890	25,890
Total financial liabilities	**1,430,167**	**6,266,755**	**61,865**	**1,492,032**	**7,758,787**	**7,700,292**

At December 31, 2012:

	Company			
	Fair value	Amortized cost		
Financial assets	Coverage			Level 2

Explanation of Responses:

		Available for sale	Loans and receivables	Level 1 Market price	Estimates based on other market data	Total book value	Total fair value
Current							
Cash and cash equivalents (Note 3)	-	-	3,079,282	-	-	3,079,282	3,079,282
Derivative transactions (Note 34)	39,197	-	-	-	39,197	39,197	39,197
Noncurrent							
Equity interest (Note 10)	-	142,881	-	142,881	-	142,881	142,881
Derivative transactions (Note 34)	21,465	-	-	-	21,465	21,465	21,465
Total financial assets	**60,662**	**142,881**	**3,079,282**	**142,881**	**60,662**	**3,282,825**	**3,282,825**

			Company			
Financial liabilities	Measured at fair value through profit or loss	Amortized cost	Coverage	Level 2 Estimates based on other market data	Total book value	Total fair value
Current						
Loans and financing (Note 16.1)	332,518	411,423	-	332,518	743,941	792,682
Debentures (Note 16.2)	6,013	696,202	-	6,013	702,215	811,919
Derivative transactions (Note 34)	455	-	8,292	8,747	8,747	8,747
Noncurrent						
Loans and financing (Note 16.1)	3,055	579,367	-	3,055	582,422	541,622
Debentures (Note 16.2)	90,235	2,163,455	-	90,235	2,253,690	2,158,008
Derivative transactions (Note 34)	-	-	3,733	3,733	3,733	3,733
Total financial liabilities	**432,276**	**3,850,447**	**12,025**	**444,301**	**4,294,748**	**4,316,711**

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

	Consolidated						
	Fair value		Amortized cost				
Financial assets	Coverage	Available for sale	Loans and receivables	Level 1 Market price	Level 2 Estimates based on other market data	Total book value	Total fair value
Current							
Cash and cash equivalents (Note 3)	-	-	7,133,485	-	-	7,133,485	7,133,485
Derivative transactions (Note 34)	41,109	-	-	-	41,109	41,109	41,109
Noncurrent							
Equity interest (Note 10)	-	142,881	-	142,881	-	142,881	142,881
Derivative transactions (Note 34)	286,278	-	-	-	286,278	286,278	286,278
Total financial assets	**327,387**	**142,881**	**7,133,485**	**142,881**	**327,387**	**7,603,753**	**7,603,753**

	Consolidated					
Financial liabilities	Measured at fair value through profit or loss	Amortized cost	Coverage	Level 2 Estimates based on other market data	Total book value	Total fair value
Current						

Loans and financing (Note 16.1)	365,192	890,131	-	365,192	1,255,323	1,456,466
Debentures (Note 16.2)	6,013	696,202	-	6,013	702,215	811,919
Derivative transactions (Note 34)	470	-	29,116	29,586	29,586	29,586
Noncurrent						
Loans and financing (Note 16.1)	1,009,673	2,746,328	-	1,009,673	3,756,001	3,581,630
Debentures (Note 16.2)	90,235	2,163,455	-	90,235	2,253,690	2,158,008
Derivative transactions (Note 34)	-	-	26,545	26,545	26,545	26,545
Total financial liabilities	**1,471,583**	**6,496,116**	**55,661**	**1,527,244**	**8,023,360**	**8,064,154**

Fair value hierarchy

The Company and its subsidiaries use the following hierarchy to determine and disclose the fair value of financial instruments by the valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: other techniques for which all data that have significant effect on the fair value recorded are directly or indirectly observable;

Level 3: techniques that use data that have significant effect on fair value recorded, not based on observable market data.

For the quarter ended March 31, 2013, no transfers of assessments of fair value between level 1 and level 2, nor level 3 and level 2 were made. The Company and its subsidiaries do not have financial instruments with fair value level 3 assessments.

Capital management

The purpose of the Company and its subsidiaries' Capital management is to ensure that a solid credit *rating* is sustained with the institutions, as well as an optimum capital ratio, in order to support the Company's businesses and maximize the value to its shareholders.

The Company and its subsidiaries manage their capital structure by making adjustments and adapting to the current economy conditions. For this purpose, the Company and its subsidiaries may pay dividends, raise new loans, issue promissory notes and contract derivative transactions. For the quarter ended March 31, 2013, there were no changes in the Company's objectives, policies or capital structure processes.

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

Net debt structure of the Company and its subsidiaries includes: loans, financing, derivative operations, less cash and cash equivalents.

Risk management policy

The Company and its subsidiaries are exposed to various market risks as a result of its commercial operations, debts obtained to finance its activities and debt-related financial instruments.

The main market risk factors that affect the business of the Company and its subsidiaries are detailed below.

a. Currency risk

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations, which would increase the financial expenses stemming from loans denominated in foreign currency.

At March 31, 2013, 20.0% (19.9% at December 31, 2012) of the financial debt was denominated in foreign currency. The Company and its subsidiaries have entered into derivative transactions (exchange rate hedge) with financial institutions to protect itself against exchange rate variation on its gross debt in foreign currency (R$1,541,556 at March 31, 2013 and R$1,586,711 at December 31, 2012). In view of this, total debt was covered by asset positions on currency *hedge* transactions (*swap* for CDI) on those dates.

There is also the exchange rate risk related to non-financial assets and liabilities in foreign currency, which can lead to a lower amount receivable or higher amount payable, depending on exchange rate variation in the period.

As from May 2010, hedge transactions were contracted to minimize the exchange rate risk related to these non-financial assets and liabilities in foreign currency. This balance is subject to daily changes due to business dynamics, however, the Company aims to cover the net balance of these rights and obligations (US$26,723 and €2,720 payable at March 31, 2013 and US$ 16,130 and €4,140 payable at December 31, 2012) to minimize the related currency risk.

b. Interest rate and inflation risk

This risk arises from the possibility of the Company and its subsidiaries incurring losses due to an unfavorable change in domestic interest rates, which may negatively affect financial expenses connected with part of debentures pegged to CDI and liability positions in derivatives (exchange rate hedge and IPCA) contracted at floating interest rates (CDI).

The debt taken out from BNDES is indexed by the TJLP (Long Term Interest Rate) quarterly set by the National Monetary Council, which was kept at 6.0% p.a. from July 2009 to June 2012. From July to December 2012, the TJLP was 5.5% p.a., and reduced to 5.0% p.a. as from January 2013.

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

The risk of inflation arises from the debentures of Telemig (merged into Vivo Part. on June 1, 2010), indexed by the IPCA, which may adversely affect our financial expenses in the event of an unfavorable change in this index.

To reduce exposure to local floating interest rates (CDI), the Company and its subsidiaries invest cash surplus of R$6,589,068 (R$7,039,181 at December 31, 2012), mainly in short-term financial investments (Bank Deposit Certificates) based on CDI variation. The book value of these instruments approximates market value, since they are redeemable within a short term.

c. Liquidity risk

Liquidity risk derives from the possibility that the Company and its subsidiaries do not have sufficient resources to meet their commitments according to the different currencies and terms of execution/settlement of their rights and obligations.

The Company and its subsidiary structure the maturity dates of the non-derivative financial agreements, as shown in note 16, and their respective derivatives as shown in the payments schedule disclosed in the referred note, in such manner as not to affect its liquidity.

The control of the Company’s and its subsidiaries’ liquidity and cash flow is monitored daily by Management, in such way as to ensure that the operating cash generation and the available lines of credit, as necessary, are sufficient to meet its schedule of commitments, not generating liquidity risks.

d. Credit risk

This risk arises from the possibility that the Company and its subsidiaries may incur losses due to the difficulty in receiving amounts billed to its customers and sales of handsets and pre-activated pre-paid cards to the distributor's network.

The credit risk on accounts receivable is dispersed and minimized by a strict control of the customer base. The Company and its subsidiaries constantly monitor the level of accounts receivable of post-paid plans and limit the risk of past-due accounts, interrupting access to telephone lines for past due bills. At Vivo, the customer base predominantly uses the prepaid system, which requires prior charging and consequently entails no credit risk. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

The credit risk in the sale of handsets and "pre-activated" prepaid cards is managed under a conservative credit policy, by means of modern management methods, including the application of "*credit scoring*" techniques, analysis of financial statements and information, and consultation to commercial data bases, in addition to request of guarantees.

At March 31, 2013 and December 31, 2012, the customer portfolio of the Company and its subsidiaries had no subscribers whose receivables were individually higher than 1% of total accounts receivable from services.

The Company and its subsidiaries are also subject to credit risk arising from short-term investments, letters of guarantee received as collateral in connection with certain transactions and receivables from derivative transactions. The Company and its subsidiaries control the credit limit granted to all counterparties and diversifies such exposure among top tier financial institutions, according to credit policy of financial counterparties in force.

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

Derivatives and risk management policy

All the Company's and its subsidiaries' derivative instruments have the objective of providing a hedge against the risk of variation in exchange rates arising from assets and liabilities in foreign currency and against inflation risk from its debenture indexed to IPCA (inflation rate) with shorter term. As such, any changes in risk factors generate an opposite effect on the hedged end. Therefore, there are no derivative instruments for speculative purposes and the Company is hedged against currency risk.

The Company and its subsidiaries have internal controls over their derivative instruments, which, according to management, are appropriate to control the risks associated with each market strategy. The Company's results derived from its derivative financial instruments indicate that the risks have been adequately managed.

The Company and its subsidiaries determine the effectiveness of the derivative instruments entered into to hedge its financial liabilities upon origination and on an ongoing basis (quarterly). At March 31, 2013 and December 1, 2012, derivative instruments taken out were effective for the hedged debts. Provided that these derivative contracts qualify as hedge accounting, the hedged risk may also be adjusted at fair value, according to hedge accounting rules.

The Company and its subsidiaries entered into *swap* contracts in foreign currency at different exchange rates hedging their assets and liabilities in foreign currency.

At March 31, 2013 and December 31, 2012, the Company and its subsidiaries had no embedded derivatives agreements.

<u>Fair value of financial instruments</u>

The discounted cash flow method was used to determine the fair value of financial liabilities (when applicable) and derivative instruments, considering expected settlement of liabilities or realization of assets and liabilities at the market rates prevailing at balance sheet date.

Fair values are calculated by projecting future operating flows, using BM&FBovespa curves, and discounting to present value through market DI rates for *swaps*, as informed by BM&FBovespa.

The market values of exchange rate derivatives were obtained through market currency rates in force at the balance sheet date and projected market rates were obtained from currency coupon curves. The coupon for positions indexed to foreign currencies was determined using the 360-calendar-day straight-line convention; the coupon for positions indexed by CDI was determined using the 252-workday exponential convention.

The consolidated derivative financial instruments shown below are registered with CETIP. All of them are classified as *swaps* and do not require margin deposits.

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

		Consolidated					
		Reference value (notional)		Fair value		Accumulated balance Amount receivable (payable)	
Description	Index	3.31.13	12.31.12	3.31.13	12.31.12	3.31.13	12.31.12
Swap contracts Receivable							
Foreign currency (a)		1,371,117	1,329,065	1,671,100	1,672,895	224,622	253,189
Citibank	USD	181,230	181,230	212,911	216,270	35,157	39,617
Votorantim	USD	5,047	7,744	6,081	9,311	-	-
Banco do Brasil	USD	258,900	258,900	322,221	326,263	29,726	38,576
Bradesco	USD	463,883	415,464	551,822	519,481	28,542	32,931
Itaú	USD	18,850	22,520	19,079	22,239	238	-
JP Morgan	USD	443,207	443,207	558,986	579,331	130,959	142,065
Foreign currency (b)		12,655	11,773	12,612	11,772	1	-
Bradesco	EUR	12,141	2,613	12,097	2,613	-	-
Itaú	EUR	514	9,160	515	9,159	1	-
Foreign currency (c)		179,533	179,533	231,670	238,422	46,378	52,112
Bradesco	LIBOR USD	179,533	179,533	231,670	238,422	46,378	52,112
Inflation rates		72,000	72,000	96,808	96,249	21,368	22,086
Itaú	Brazil’s Extended Consumer Price Index (IPCA)	72,000	72,000	96,808	96,249	21,368	22,086
Floating rate (c)		28,830	-	28,880	-	-	-
Bradesco	CDI	15,739	-	15,792	-	-	-

Itaú	CDI	13,091	-	13,088	-	-	-
Payable							
Floating rate (a)		(1,455,771)	(1,412,838)	(1,550,157)	(1,509,659)	(61,133)	(55,545)
Citibank	CDI	(181,230)	(181,230)	(183,248)	(180,418)	(5,494)	(3,765)
Votorantim	CDI	(5,047)	(7,744)	(14,129)	(21,336)	(8,048)	(12,025)
Banco do Brasil	CDI	(258,900)	(258,900)	(292,496)	(287,686)	-	-
Bradesco	CDI	(476,023)	(418,077)	(522,577)	(463,910)	(32,706)	(26,273)
Itaú	CDI	(91,364)	(103,680)	(94,871)	(105,893)	(76)	(333)
JP Morgan	CDI	(443,207)	(443,207)	(442,836)	(450,416)	(14,809)	(13,149)
Foreign currency (b)		(179,533)	(179,533)	(231,670)	(238,422)	(872)	(586)
Bradesco	LIBOR USD	(179,533)	(179,533)	(231,670)	(238,422)	(872)	(586)
Floating rate (b)		-	(72,000)	-	-	-	-
Itaú	IPCA	-	(72,000)	-	-	-	-
Foreign currency (c)		(19,575)	-	(3,867)	-	(19)	-
Bradesco	EUR	(15,739)	-	-	-	-	-
Itaú	EUR	(3,836)	-	(3,867)	-	(19)	-
Foreign currency (d)		(9,255)	-	(25,351)	-	(318)	-
Itaú	USD	(9,255)	-	(9,246)	-	(5)	-
Bradesco	USD	-	-	(16,105)	-	(313)	-
			Receivable			292,369	327,387
			Payable			(62,342)	(56,131)
			Amount receivable, net			**230,027**	**271,256**

a) *Swaps* of foreign currency (USD) x CDI (R$1,595,785) – *swap* transactions contracted with different maturity dates until 2019, to hedge against foreign exchange variation for loans in USD (financial debt book value of R$1,541,556).

b) Swap of foreign currency (Euro and Dollar) and (CDI x EUR) (R$58,262 - swap contracts entered into with maturities until March 1, 2013, to hedge against foreign exchange variation for net amounts payable in Euro and Dollar (book value of R$53,815 in dollars and R$7,039 in Euro).

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NOTES TO QUARTERLY INFORMATION

Quarter ended March 31, 2013

(In thousands of reais, unless otherwise indicated)

c) Swap IPCA x CDI percentage (R$96,808) – swap transactions with maturity dates until 2014 to hedge against the cash flow identical to the debentures (4th issuance – 3rd series) pegged to the IPCA (market value R$96,808).

The expected maturities of *swap* contracts as of March 31, 2013 are as follows:

Swap contracts	Maturity				
	2013	2014	2015	2016 onward	Amount receivable (payable) at 3.31.13
Foreign currency vs. CDI	9,019	3,842	132,294	63,840	208,995
VOTORANTIM	(4,166)	(3,882)	-	-	(8,048)
BRADESCO	(9,440)	(14,393)	1,335	63,840	41,342
JP MORGAN	(3,852)	(10,957)	130,959	-	116,150
BANCO DO BRASIL	29,726	-	-	-	29,726
CITIBANK	(3,411)	33,074	-	-	29,663
ITAÚ	162	-	-	-	162
CDI vs. foreign currency	(336)	-	-	-	(336)
ITAÚ	(23)				(23)
BRADESCO	(313)	-	-	-	(313)
IPCA vs. CDI	467	20,901	-	-	21,368
ITAÚ	467	20,901	-	-	21,368
Total	**9,150**	**24,743**	**132,294**	**63,840**	**230,027**

For the purpose of preparing the financial statements, the Company and its subsidiaries adopted *hedge* accounting for its foreign currency X CDI and IPCA x CDI swap transactions providing financial debt hedge. Under this methodology, both the derivative and the risk covered are stated at fair value.

At March 31, 2013 and December 31, 2012, ineffectiveness amounted to R$1,271 and R$2,188, respectively.

For the quarters ended March 31, 2013 and 2012, derivative transactions generated a consolidated losses of R$49,502 and R$31,600, respectively, according to Note 27.

At March 31, 2013, the Company and its subsidiaries recorded R$292,369 as assets and R$62,342 as liabilities in order to recognize the derivatives position as of that date.

Sensitivity analysis of the Company's risk variables

CVM Rule No. 604/09 requires listed companies to disclose, in addition to the provisions of Technical Pronouncement CPC No. 40 - Financial Instruments: Disclosure (equivalent to IFRS 7), a table showing the sensitivity analysis of each type of market risk inherent in financial instruments considered significant by management and to which the Company is exposed at the closing date of each reporting period, including all transactions involving derivative financial instruments.

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In compliance with the foregoing, all the transactions involving derivative financial instruments were evaluated considering a probable scenario and two scenarios that may adversely impact the Company.

The assumption taken into consideration under the probable scenario was to keep, the maturity date of each transaction, what has been signaled by the market through BM&FBovespa market curves (currencies and interest rates). Accordingly, the probable scenario does not provide for any impact on the fair value of the derivative financial instruments mentioned above. For scenarios II and III, risk variables contemplated 25% and 50% deterioration, respectively, pursuant to the applicable CVM ruling.

Considering that the Company and Vivo has derivative instruments only to cover its assets and liabilities in foreign currency, the changes in scenarios are offset by changes in the related hedged items, thus indicating that the effects are practically null. For these transactions, the Company reported the value of the hedged item and of the derivative financial instrument on separate rows in the sensitivity analysis table in order to provide information on the Company's and Consolidated net exposure for each of the three mentioned scenarios, as shown below:

Sensitivity analysis – Net exposure

	Consolidated		
Transaction	Risk	Probable	Deterioration
Hedge (receivable)	Derivatives (Risk of USD devaluation)	1,100,200	1,383
Debt in USD	Debts (Risk of UDS appreciation)	(1,100,200)	(1,383
	Net exposure	-	
Hedge (receivable)	Derivatives (Risk of EUR devaluation)	8,745	10
Accounts payable in EUR	Accounts payable in EUR (Risk of EUR appreciation)	(18,183)	(22
Accounts receivable in EUR	Accounts payable in EUR (Risk of EUR devaluation)	11,144	13
	Net exposure	1,706	2
Hedge (receivable)	Derivatives (Risk of USD devaluation)	49,516	62
Accounts payable in USD	Debts (Risk of UDS appreciation)	(76,159)	(95
Accounts receivable in USD	Debts (Risk of UDS appreciation)	22,344	27

	Net exposure	(4,299)	(5
Hedge (receivable)	Derivatives (Risk of IPCA devaluation)	96,808	97
Debt in IPCA	Debts (Risk of IPCA appreciation)	(96,808)	(97
	Net exposure	-	
Hedge (receivable)	Derivatives (Risk of UMBNDES devaluation)	496,034	633
Debt in UMBNDES	Debts (Risk of UMBNDES appreciation)	(490,681)	(626
	Net exposure	5,353	6
Hedge (CDI - receivable)	Derivatives (Risk of CDI appreciation)		
Hedge USD (payable)	Derivatives (Risk of CDI appreciation)	(932,708)	(957
Hedge USD and EUR (payable and receivable)	Derivatives (Risk of CDI appreciation)	(58,427)	(58
Hedge UMBND (payable)	Derivatives (Risk of CDI appreciation)	(454,702)	(492
Hedge IPCA (payable)	Derivatives (Risk of CDI appreciation)	(75,439)	(77
	Net exposure	(1,521,276)	(1,586
Total net exposure in each scenario		**(1,518,516)**	**(1,582,**
Net effect in the variation of current fair value		**-**	**(64,**

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Assumptions for sensitivity analysis

Risk variable	Probable	Deterioration 25%	Deterioration 50%
USD	2.0138	2.5173	3.0207
EUR	2.5787	3.2233	3.868
IPCA	6.67%	8.34%	10.01%
CDI	7.01%	8.76%	10.52%

To determine the net exposure of the sensitivity analysis, all derivatives were considered at market value and only hedged elements classified under the hedge accounting method were also considered at fair value.

The fair values shown in the table above are based on the status of the portfolio as of March 31, 2013, not reflecting an estimated realization in view of the market dynamics, always monitored by the Company. The use of different assumptions may significantly impact estimates.

37. SUBSEQUENT EVENTS

Issue of debentures

On April 11, 2013, the Company's Board of Directors approved the proposal for fund raising in the local financial market through issue of simple non-convertible debentures, amounting to R$1.3 billion, so as to guarantee Company's liquidity for future commitments.

These funds will be used by the Company to amortize future debt, investments in Capex of projects developed and in reinforcement of liquidity.

Total 130,000 (one hundred thirty thousand) debentures will be issued, at par value of R$10,000.00 (ten thousand reais) each. Debentures have a maturity of five years from the issue date (April 25, 2013), i.e., April 25, 2018. Par value of each debenture will not be monetarily restated. The outstanding balance of the face value of each debenture bears interest corresponding to 100% (one hundred percent) of accumulated daily rates for interbank deposits (DI) per day, "extra-group", expressed in the form percentage per year of 252 working days, calculated and published daily by the OTC Clearing House (CETIP SA) in the daily report available on its website, plus a spread equal to 0.68% (zero point sixty-eight percent) for a year of 252 working days (remuneration). Remuneration will be calculated exponentially and cumulatively *pro rata temporis* per day elapsed since the issue date or the payment date immediately before, as the case may be, until the date of actual payment. Leading coordinator will be Banco Itaú BBA S.A.

Approval of additional dividends proposed as of December 31, 2012

On April 16, 2013, the Annual Shareholders’ Meeting approved the allocation of additional dividends proposed referring to remaining balance of P&L for 2012, amounting to R$1,498,769, plus provided for in the proposal for allocation of income to common and preferred shareholders recorded by the Company up to April 16, 2013.

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Value per share (VPA) of these dividends is R$1.251620356588 and R$1.376782392246 for common and preferred shares, respectively.

Dividends will be paid until December 21, 2013, on a date to be defined by the Company's Executive Board and timely communicated to the market.

SIGNATURE

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

		TELEFÔNICA BRASIL S.A.		
Date:	May 16, 2013	By:	/s/ Luis Carlos da Costa Plaster	
			Name:	Luis Carlos da Costa Plaster
			Title:	Investor Relations Director