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Perfumania Holdings, Inc.
Form 8-K
June 04, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 31, 2012

Perfumania Holdings, Inc.

(Exact Name of Registrant as Specified in Charter)

Florida

0-19714

65-0977964

(State or Other Jurisdiction
of Incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

35 Sawgrass Drive, Suite 2

Bellport, NY 11713

(Address of Principal Executive Offices)(Zip Code)

(631) 866-4100

(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 7.01 Regulation FD Disclosure.

On May 31, 2012, Perfumania Holdings, Inc. (the "Company") issued a press release announcing the sales for the month ended May 26, 2012 (fiscal May 2012) for one of its wholly-owned subsidiaries, Perfumania, which operates specialty retail fragrance stores. A copy of this press release is attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit No.	Exhibit Index
99.1	Press Release issued by the Company on May 26, 2012

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 hereunto duly authorized.

Date: June 4, 2012	Perfumania Holdings, Inc. By: /s/ Donna L. Dellomo Donna L. Dellomo Chief Financial Officer
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6,362

Expired interest on capital

(6,450) (6,450)

Allowance for losses on investments

(12,200) (12,200)

Nondeductible expenses, gifts, incentives and dividends received

(3,350) (4,202) (9,017) (3,974)

Other items:

Incentives (cultural, employee meals and transport)

2,751 1,898 2,751 1,898

Income tax charge in the statement of income

(225,642) (181,118) (210,672) (182,712)

Total income and social contribution tax expenses

(299,818) (245,480) (279,459) (247,656)

The components of deferred tax assets and liabilities on temporary differences are shown in Notes 6 and 15, respectively.

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Telecomunicações de São Paulo S.A. - Telesp

29. TRANSACTIONS AND BALANCES WITH RELATED COMPANIES

The principal balances with related parties are as follows:

Consolidated	Atento Brasil S.A.	Grupo Brasilcel (VIVO)	Emergia Brasil Ltda.	Telefônica Factoring do Brasil Ltda.	SP Telecom. Holding Ltda.	Telefônica de Argentina S.A.	Telefônica de España S.A.	Telefônica Empresas S.A.
ASSETS								
Current assets	10,657	108,999	422	7		2,768	931	8,481
Trade accounts receivable	1,573	89,962	160			2,768	931	51
Other	9,084	19,037	262	7				8,430
Noncurrent assets	267	2,003	422	1				75,556
Total assets	10,924	111,002	844	8		2,768	931	84,037
LIABILITIES								
Current liabilities	23,507	134,125	7	23,654	194,347	3,469	2,608	3,929
Accounts payable	23,505	134,123		23,654		3,469	2,608	3,684
Other	2	2	7		194,347			245
Long-term liabilities	536		4,377					53,075
Total liabilities	24,043	134,125	4,384	23,654	194,347	3,469	2,608	57,004
STATEMENT OF INCOME								
Revenue	6,781	229,596	1,328			2,625	1,053	166,853
Telecommunication services	6,428	229,596	880			2,625	1,053	111,619
Financial income	353							
Other operating income			448					55,234
Costs and expenses	(149,256)	(1,577,360)				(3,664)	(3,669)	(95,956)
Cost of services provided	(29,990)	(1,577,360)				(3,664)	(3,669)	(8,882)
Selling	(116,152)							
General and administrative	(3,114)							
Financial expenses								
Other operating expenses								(87,074)
Nonoperating expenses								

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Consolidated	Terra Networks Brasil S.A.	Telefônica Gestão de Serv. Comp. do Brasil Ltda.	Telefônica. Internacional S.A.	Telefônica Procesos y Tecnologia de la Información S.A.	Others	Total 2003	2002
ASSETS							
Current assets	879	19,106	9,176		7,269	168,695	40,452
Trade accounts receivable	875				1,479	97,799	18,876
Other	4	19,106	9,176		5,790	70,896	21,576
Noncurrent assets	641	1,226	2,393		3,230	85,739	94,769
Total assets	1,520	20,332	11,569		10,499	254,434	135,221
LIABILITIES							
Current liabilities	12,505	12,677	643,864	27,389	22,278	1,104,359	616,226
Accounts payable	12,499	12,132		27,389	19,024	262,087	140,297
Other	6	545	643,864		3,254	842,272	475,929
Long-term liabilities		1,326			33	59,347	26,654
Total liabilities	12,505	14,003	643,864	27,389	22,311	1,163,706	642,880
STATEMENT OF INCOME							
Revenue	5,439	996	587		2,753	418,011	246,944
Telecommunication services	5,439	996			2,624	361,260	227,171
Financial income			587		129	1,069	15,801
Other operating income						55,682	3,972
Costs and expenses	(1,539)	(83,329)	(21,246)		(2,301)	(1,938,320)	(1,922,648)
Cost of services provided		(33,606)			(2,175)	(1,659,346)	(1,193,647)
Selling		(15)				(116,167)	(127,211)
General and administrative		(49,708)	(21,246)			(74,068)	(89,576)
Financial expenses	(1,539)				(126)	(1,665)	(365,166)
Other operating expenses						(87,074)	(98,248)
Nonoperating expenses							(48,800)

Telecomunicações de São Paulo S.A. - Telesp

Revenue from telecommunication services comprise mainly billings to Telefônica Empresas S.A., for telephony services, rent of data circuits, DDR, backbone network, saba (giga ADSL), infrastructure, last mile, internet links, and commissions on sales of voice and data; to Atento Brasil S.A., for telephony services, Speedy and others; to Terra Networks Brasil S.A., for telephony and DDG services, Speedy and rent of infrastructure; to Brasilcel Group companies (VIVO), for services related to the use of media in calls made from cell phones to fixed line phones, as well as the supply of media (EILD), sharing of infrastructure and sale of voice services (DDR and RDSI), etc. Most telecommunication services are subject to tariffs and conditions regulated by ANATEL. For services not subject to a regulated tariff, prices equivalent to those available to third parties are applied.

Cost of services provided and selling expenses refer mainly to services provided by Atento Brasil S.A. for Callcenter services related to answering of customers calls and sale of products and services, retention and collection of past-due bills, etc., by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., related to management of assets, logistics, transportation and security services, and by Terra Networks Brasil S.A., related to placement of ads and sales commissions. Also worth mentioning are expenses for network connection provided by Brasilcel Group companies (VIVO). Inputs related to telecommunication services are regulated by ANATEL. Other inputs are acquired under conditions equivalent to those practiced by other companies operating in the respective sectors.

General and administrative expenses refer to management services provided by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., in the accounting, financial, HR, and IT areas and management fees calculated up to the limit of 0.2% of net revenue, payable to Telefônica Internacional S.A. The contracts and conditions related to management fees were negotiated at the time of the Company's privatization auction.

Other operating expenses refer to voice and data communication services provided to Telefônica Empresas S.A.'s customers, at commissions ranging from 5% to 15% of billed amounts.

30. POST-RETIREMENT BENEFIT PLANS

Telesp, together with other companies of the former Telebrás System, sponsors private pension benefit plans and health care plans for retirees, managed by Fundação Sistel de Seguridade Social (Sistel). Until December 1999, all sponsors of the plans managed by Sistel were unified as to all plans then existent. On December 28, 1999, the sponsors of the plans managed by Sistel negotiated the conditions for the creation of plans separated by sponsor (PBS Telesp Plan) and the continuation of participation in the unified plans only for participants who were already retired on January 31, 2000 (PBS-A), resulting in a proposal for restructuring the statutes and regulations of Sistel, which was approved by the Supplementary Pension Plan Secretariat on January 13, 2000.

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Due to the end of unification in December 1999, Telesp individually sponsors a defined retirement benefit plan (PBS Telesp Plan) which covers approximately 1% of the Company's employees. In addition to the supplemental pension benefit, health care (PAMA) is provided to retired employees and their dependents, at shared costs. Contributions for the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The method used to determine costing is the capitalization method and the contribution by the sponsoring entity is 41.4% of payroll of employees covered by the plan, of which 39.9% is allocated to costing of the PBS Telesp Plan and 1.5% to costing of the PAMA Plan.

For the other Telesp employees, there is an individual defined contribution plan - Visão Telesp Benefit Plan, established by Sistel in August 2000. The Visão Telesp Plan is supported by contributions made by the participants (employees) and by the sponsor which are credited to participants' individual accounts. Telesp is responsible for the costs of all administrative expenses and plan maintenance, including participant's death and disability risks. The employees participating in the defined benefit plan (PBS Telesp Plan) were granted the option of migrating to the Visão Telesp Plan. The new Plan was also offered to the other employees who did not participate in the PBS Telesp Plan, as well as to new hires. The Company's contributions to the Visão Telesp Plan are equal to those of the employees, varying from 2% to 9% of salary, based on the percentage chosen by the participant.

Additionally, the Company supplements the retirement benefits of certain employees of the former CTB - Companhia Telefônica Brasileira.

In 2003, the Company made contributions to the PBS Telesp Plan in the amount of R\$244 (R\$209 in 2002) and the Visão Telesp Plan in the amount of R\$22,389 (R\$21,382 in 2002).

Assist individually sponsors a defined contribution plan similar to that of Telesp, the Visão Assist Benefit Plan, which covers about 44% of its employees. Assist's contributions to that plan totaled R\$133 (R\$27 in 2002).

The Company recognized actuarial liabilities as provided in CVM Instruction No. 371 of December 13, 2000. The actuarial valuation of the plans was made using the projected unit credit method, based on the plan assets as of September 30, 2003 and November 30, 2002. For multiemployer plans (PAMA and PSB-A), apportionment of assets is made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

The accrual for the plans as of December 31, 2003 and 2002 is as follows:

Plan	2003	2002
PBS/Visão Telesp/CTB	33,398	48,806
PAMA	48,996	96,278
Total Company	82,394	145,084
Visão Assist	2	(13)
Total consolidated	82,396	145,071



Telecomunicações de São Paulo S.A. - Telesp

a) Reconciliation between assets and liabilities

	2003			
	PBS/Visão Telesp/CTB	PAMA (i)	PBS-A (i) (ii)	Visão Assist
Total actuarial liabilities	120,699	112,414	746,492	150
Fair value of assets	87,301	63,418	891,936	148
Liabilities (assets), net	33,398	48,996	(145,444)	2

	2002			
	PBS/Visão Telesp/CTB	PAMA (i)	PBS-A (i) (ii)	Visão Assist
Total actuarial liabilities	117,983	173,262	624,904	38
Fair value of assets	69,177	76,984	780,620	51
Liabilities (assets), net	48,806	96,278	(155,716)	(13)

- (i) Refers to the proportional share of Telesp in the assets and liabilities of the multisponsored plans PAMA and PBS-A.
- (ii) Despite the surplus of PBS-A as of December 31, 2003 and 2002, no asset was recognized by the sponsor in view of the legal impossibility of reimbursement of such surplus, in addition to the fact that this is a noncontributory plan, which prevents a reduction of the sponsor's contributions in the future.

b) Expenses recognized in income

	2003		
	PBS/Visão Telesp/CTB	PAMA	Visão Assist
Service cost	2,679	99	11
Interest cost	11,505	19,220	3
Expected return on assets	(6,632)	(10,671)	(5)
Employees' contributions	(272)		
Companies' contributions for 2003	(1,912)	(33)	(24)
Recognition of (gains) losses for the year	(20,777)	(55,897)	30
	(15,409)	(47,282)	15

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	2002		
	PBS/Visão Telesp/CTB	PAMA	Visão Assist
Service cost	2,798		8
Interest cost	7,162	12,112	3
Expected return on assets	(6,847)	(3,735)	(11)
Employees' contributions	(281)		
Companies' contributions for 2002	(1,682)	(27)	(5)
Recognition of (gains) losses for the year	43,097	(51,691)	74
	<u>44,247</u>	<u>(43,341)</u>	<u>69</u>

Telecomunicações de São Paulo S.A. - Telesp

c) Change in net actuarial liabilities (assets)

	PBS/Visão Telesp/CTB	PAMA	Visão Assist
Liabilities (assets), net - December 31, 2001	4,559	139,619	(82)
Expenses for 2002	2,832	8,377	
Companies' contributions for 2002	(1,682)	(27)	(5)
Recognition of (gains) losses for the year	43,097	(51,691)	74
Liabilities (assets), net - December 31, 2002	48,806	96,278	(13)
Expenses for 2003	7,281	8,648	9
Companies' contributions for 2003	(1,912)	(33)	(24)
Recognition of (gains) losses for the year	(20,777)	(55,897)	30
Actuarial liabilities, net	33,398	48,996	2

d) Change in actuarial liabilities

	PBS/Visão Telesp/CTB	PAMA	PBS-A	Visão Assist
Actuarial liability as of December 31, 2001	73,248	205,851	599,305	32
Cost of current service	2,798			8
Interest on actuarial liabilities	7,161	12,112	65,103	3
Benefits paid during the year	(3,504)	(6,239)	(53,300)	
Actuarial (gains) losses for the year	38,280	(38,462)	13,796	(5)
Actuarial liability as of December 31, 2002	117,983	173,262	624,904	38
Cost of current service	2,679	99		12
Interest on actuarial liabilities	11,505	19,220	67,772	3
Benefits paid during the year	(8,923)	(5,220)	(58,557)	
Actuarial (gains) losses for the year	(2,545)	(74,947)	112,373	97
Actuarial liability as of December 31, 2003	120,699	112,414	746,492	150

Telecomunicações de São Paulo S.A. - Telesp

e) Change in plan assets

	PBS/Visão Telesp/CTB	PAMA	PBS-A	Visão Assist
Fair value of plan assets at December 31, 2001	68,689	66,232	646,129	114
Benefits paid in the year	(3,504)	(6,239)	(53,300)	
Sponsor's contributions in the year	1,807	27		4
Return on plan assets in the year	2,185	16,964	187,791	(67)
Fair value of plan assets at December 31, 2002	69,177	76,984	780,620	51
Benefits paid in the year	(8,923)	(5,220)	(58,557)	
Sponsor's contributions in the year	2,139	33		25
Return on plan assets in the year	24,908	(8,379)	169,873	72
Fair value of plan assets at December 31, 2003	87,301	63,418	891,936	148

f) Expenses estimated for 2004

	PBS/Visão Telesp/CTB	PAMA	Visão Assist
Cost of current service	2,932	77	17
Interest cost	13,006	12,395	15
Expected return on assets	(9,855)	(6,860)	(17)
Employees' contributions	(367)		
	5,716	5,612	15

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g) Actuarial assumptions

	2003		
	PBS/Visão		
	Telesp/Visão	PAMA	PBS-A
	Assist/CTB		
Rate used for present value discount of actuarial liabilities	11.30%p.a.	11.30%p.a.	11.30% p.a.
Expected return on plan assets	11.83% p.a.	11.30%p.a.	11.30% p.a.
Future salary increase rate	7.10% p.a.	7.10% p.a.	7.10% p.a.
Inflation	5.00% p.a.	5.00% p.a.	5.00% p.a.
Medical cost increase rate	Not applicable	8.15% p.a.	Not applicable
Increase in use of medical services for each additional year of age	Not applicable	4.00% p.a.	Not applicable
Benefit growth rate	5.00% p.a.	5.00% p.a.	5.00% p.a.
Capacity factor - salaries	98.00%	Not applicable	Not applicable
Capacity factor - benefits	98.00%	Not applicable	Not applicable
Mortality rate	UP84 with 1 year of aggravation segregated by sex	UP84 + 1	UP84 with 1 year of aggravation segregated by sex
Disability mortality rate	IAPB-57	Not applicable	Not applicable
Disability rate	Mercer Disability Table	Mercer Disability Table	Not applicable
Turnover table	0.15/(Employment time + 1) up to 50 years old - zero	Not applicable	Not applicable
Retirement age	Age at which participants are first entitled to one of the benefits	Not applicable	Not applicable
Percentage of married active participants on retirement date	95.00%	Not applicable	Not applicable
Age difference between participants and spouses	Wives four years younger than husbands	Not applicable	Not applicable
Number of active participants and dependents		78	
Number of participants beneficiaries		4,188	5,378
Number of PBS Telesp Plan/CTB active participants	128		
Number of PBS Telesp Plan/CTB retired participants	628		
Number of dependent groups of retirees - PBS Telesp/CTB	193		
Number of active participants of Visão Telesp Plan (including self-sponsored)	7,527		
Number of active participants of Visão Assist Plan	30		

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	2002		
	PBS/Visão Telesp/Visão Assist/CTB	PAMA	PBS-A
Rate used for present value discount of actuarial liabilities	10.24% p.a.	11.30% p.a.	11.30% p.a.
Expected return on plan assets	10.24% p.a.	14.45% p.a.	14.45% p.a.
Future salary increase rate	6.08% p.a.	8.15% p.a.	8.15% p.a.
Inflation	4.00% p.a.	5.00% p.a.	5.00% p.a.
Medical cost increase rate	Not applicable	10.62% p.a.	Not applicable
Increase in use of medical services for each additional year of age	Not applicable	4.00% p.a.	Not applicable
Benefit growth rate	4.00% p.a.	5.00% p.a.	5.00% p.a.
Capacity factor - salaries	100.00%		
Capacity factor - benefits	100.00%		
Mortality rate	GAM-71	UP84 with 1 year of aggravation	UP84 with 1 year of aggravation
Disability mortality rate	RRB1944		
Disability rate	RRB1944	Mercer Disability Table	Not applicable
Percentage of married active participants on retirement date	95%		
Number of active participants and dependents		96	
Number of participants beneficiaries		5,754	5,420
Number of PBS Telesp Plan/CTB active participants	139		
Number of PBS Telesp Plan/CTB retired participants	676		
Number of dependent groups of retirees - PBS Telesp/CTB	177		
Number of active participants of Visão Telesp Plan (including self-sponsored)	9,266		
Number of active participants of Visão Assist Plan	7		

31. COMMITMENTS

a) Capital expenditures

The Company will submit to the Board of Directors the capital expenditure budget for 2004, in the amount of R\$1,410,859 - consolidated, which will then be submitted for approval at the Annual Shareholders Meeting. The source will be funds generated by operations.

b) ANATEL commitments

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Quality and universalization targets for fixed-switch telephone service are available to monitor the Company's performance at ANATEL's website: www.anatel.gov.br.

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32. INSURANCE

TGP Brasil Corretora de Seguros e Resseguros Ltda., the Group's in-house broker in Brazil, and a branch of Pleyade Peninsular Correduria de Seguros Y Reaseguros del Grupo Telefónica S.A., both directly responsible to Subdirección General de Riesgos y Seguros Corporativos, is responsible for the implementation of corporate insurance policies and presently analyzes insurance coverage needs, performs research, contracts and manages all the insurance coverage for the Company, also performing risk and loss management.

The principal coverages are:

Operating risks, covering physical damages and business interruption for the entire plant.

General civil liability (RCG).

Car fleet liability (RCF-V).

ANATEL guarantee insurance.

Other risks.

Domestic and international freight.

Group life insurance.

Health insurance.

The policy of the Company and its subsidiaries, as well as that of the Telefónica Group, includes the maintenance of insurance coverage for all assets and liabilities involving significant amounts and high risks based on management's judgment, following Telefónica S.A.'s corporate program guidelines.

33. FINANCIAL INSTRUMENTS

In compliance with the terms of CVM Instruction No. 235/95, the Company and its wholly-owned subsidiary made an evaluation of the book values of their assets and liabilities in relation to market values, based on available information and appropriate valuation methodologies. However, the interpretation of market information, as well as the selection of methodologies, requires considerable judgment and reasonable estimates in order to produce adequate realization values. As a result, the estimates presented do not necessarily indicate the amounts which might be realized in the current market. The use of different market approaches and/or methodologies for the estimates may have a significant effect on the estimated realizable values.

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Book and market values of financial instruments as of December 31 are as follows:

	Consolidated			
	2003		2002	
	Book value	Market value	Book value	Market value
Loans and financing	(2,977,149)	(3,006,402)	(4,586,397)	(4,235,193)
Derivatives	(359,482)	(178,393)	890,520	436,716
Cash and cash equivalents	214,932	214,932	490,640	490,640
Portugal Telecom - direct/indirect interest through Aliança Atlântica	146,939	310,515	147,931	258,404
	<u>(2,974,760)</u>	<u>(2,659,348)</u>	<u>(3,057,306)</u>	<u>(3,049,433)</u>

The Company has investments carried under both the cost and equity methods. The net assets of the subsidiary, Aliança Atlântica, are represented principally by an equity interest of 0.42% in Portugal Telecom.

The Company has a direct interest of 0.64% and an indirect interest of 0.21% in Portugal Telecom, carried at cost. The investment, at market value, is based on the last quotation of December 2003 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 7.98 euros (6.55 euros in December 2002):

	Consolidated			
	2003		2002	
	Book value	Market value	Book value	Market value
Portugal Telecom - direct interest	75,362	232,886	75,362	193,803
Portugal Telecom - indirect interest through Aliança Atlântica	71,577	77,629	72,569	64,601
	<u>146,939</u>	<u>310,515</u>	<u>147,931</u>	<u>258,404</u>

The principal market risk factors that affect the Company's business are detailed below:

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a) Exchange rate risk

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations, which would increase the balances of loans and financing denominated in foreign currency and the related financial expenses. To reduce this risk, the Company enters into hedge contracts (swaps) with financial institutions.

The Company's indebtedness and the results of operations are significantly affected by the foreign exchange rate risk. As of December 31, 2003, 99% of the debt was denominated in foreign currency (U.S. dollar, Canadian dollar and yen); 99% of this debt was covered by asset positions on currency hedge transactions (swaps for CDI). Gains or losses on these operations are recorded in income. In 2003, these transactions generated a net loss of R\$1,182,206 (consolidated). The Company has recorded a liability of R\$359,482 as of December 31, 2003 to reflect the unrealized temporary loss.

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The book value and market value of the Company's net excess (exposure) to the exchange rate risk as of December 31, 2003 and 2002 are as follows:

	Consolidated			
	2003		2002	
	Book value	Market value	Book value	Market value
Liabilities:				
Loans and financing	2,945,795	2,975,048	4,169,662	3,818,458
Purchase commitments	40,846	40,846	74,857	74,857
Asset position on swaps	2,983,462	3,020,168	4,244,132	3,790,553
Net excess (exposure)	(3,179)	4,274	(387)	(102,762)

The valuation method used to calculate the market value of loans, financing and hedge instruments (foreign exchange swaps) was the discounted cash flow method, considering settlement or realization expectations of liabilities and assets, at market rates prevailing on the balance sheet date.

b) Interest rate risk

This risk arises from the possibility that the Company may incur losses due to internal and external interest rate fluctuations affecting the Company's results.

As of December 31, 2003, the Company had R\$2,945,795 (R\$4,169,662 as of December 31, 2002) of loans and financing in foreign currency, of which R\$1,950,577 (R\$3,937,153 as of December 31, 2002) was at fixed interest rates and R\$995,218 (R\$232,509 as of December 31, 2002) was at variable interest rates (Libor). To hedge against the exchange risk on these foreign currency debts, the Company has hedge transactions in order to peg these debts to local currency, at floating rates indexed to the CDI, in a way that the Company's financial result is affected by the CDI. On the other hand, the Company invests its excess cash (temporary cash investments) of R\$214,932 (R\$490,640 as of December 31, 2002), mainly in short-term instruments, based on the CDI variation, which reduces this risk. The book values of these instruments approximate market values, since they may be redeemed in the short term.

The Company has a hedge against external variable interest rate risks on the financing obtained from JBIC - Japan Bank for International Cooperation. The Company continues monitoring market rates in order to evaluate the need to contract other derivatives to hedge against the volatility risk of external variable rates on the remaining balance.

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As of December 31, 2003, the Company had swap transactions - CDI x fixed rate - to partially hedge against internal interest rate fluctuations. Hedged operations mature in September 2004 and January 2005, totaling R\$1,117,359.

Another risk to which the Company is exposed is the nonmatching of the monetary restatement indices for its debt and for accounts receivable. Telephone tariff adjustments do not necessarily follow increases in local interest rates which affect the Company's debt.

Telecomunicações de São Paulo S.A. - Telesp

c) Debt acceleration risk

As of December 31, 2003, most of the Company's loan and financing agreements contain restrictive clauses (covenants), typically applied to such agreements, relating to cash generation, debt ratios and other. These restrictive clauses have been complied with by the Company in full and do not restrict its capacity to conduct its regular business.

d) Credit risk

This risk arises from the possibility that the Company may incur losses due to the difficulty of receiving amounts billed to its customers. The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer does not pay the related bills in 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of December 31, 2003, the Company's customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

The Company is also subject to credit risk related to temporary cash investments and receivables from swap transactions. The Company reduces this exposure by dispersing it among first line financial institutions.

34. MANAGEMENT COMPENSATION

For the year ended December 31, 2003, the Company paid approximately R\$13,000 as management compensation to the Board of Directors and Statutory Directors, of which R\$9,800 refers to salaries and benefits and R\$3,200 to bonus.

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.

TELESP HOLDING COMPANY

Date: April 28, 2004.

By: /s/ Charles E. Allen

Name: Charles E. Allen

Title: Investor Relations Director