PECO ENERGY CO
Form 10-K/A
April 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Exact Name of Registrant as Specified in its Charter; State of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
000-16844	**PECO ENERGY COMPANY** **(a Pennsylvania corporation)** P.O. Box 8699 2301 Market Street	23-0970240

Philadelphia, Pennsylvania 19101-8699

(215) 841-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
PECO ENERGY COMPANY:	
Cumulative Preferred Stock, without par value: $4.68 Series, $4.40 Series, $4.30 Series and $3.80 Series	New York
Trust Receipts of PECO Energy Capital Trust III, each representing a 7.38% Cumulative Preferred Security, Series D, $25 stated value, issued by PECO Energy Capital, L.P. and unconditionally guaranteed by PECO Energy Company	New York

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

PECO Energy Company	Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PECO Energy Company	Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

	Large Accelerated	**Accelerated**	**Non-Accelerated**	**Small Reporting Company**
PECO Energy Company			ü	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

PECO Energy Company	Yes ¨ No x

The estimated aggregate market value of the voting and non-voting common equity held by nonaffiliates of each registrant as of June 30, 2012 was as follows:

PECO Energy Company Common Stock, without par value	None

The number of shares outstanding of each registrant s common stock as of January 31, 2013 was as follows:

PECO Energy Company Common Stock, without par value	170,478,507

Documents Incorporated by Reference

None

Explanatory Note

This Form 10-K/A amends Items 10, 11, 12, 13 and 14 and includes exhibits under Item 15 of the Annual Report on Form 10-K for the year ended December 31, 2012 filed by PECO Energy Company (PECO) on February 21, 2013. In that Report, PECO s 2013 information statement was incorporated by reference. As a result of the transaction described below, PECO will not file an information statement as it will not hold an annual meeting of shareholders. Accordingly, Items 10, 11, 12, 13 and 14 of PECO s Form 10-K are being amended via this Form 10-K/A, as well as Exhibits 31-7 and 31-8 under Item 15.

On March 25, 2013, PECO issued a press release announcing that it had issued a notice of redemption for all of the outstanding shares of its preferred stock, effective May 1, 2013.

This Form 10-K/A does not amend or update any other information set forth in the Form 10-K originally filed by PECO on February 21, 2013.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Craig L. Adams, Age 60. President and Chief Executive Officer of PECO since March 12, 2012. Previously, he served as the Senior Vice President and Chief Operating Officer of PECO from 2007 to 2012, as the Senior Vice President and Chief Supply Officer, Exelon Business Services Company from 2004 to 2007 and Senior Vice President, Exelon Energy Delivery Support Services from 2002 to 2004.

Christopher M. Crane, Age 54. Mr. Crane has served as a director and the chair of the PECO board since 2012. Mr. Crane is President and Chief Executive Officer of Exelon Corporation since March 12, 2012. Previously, he served as President and Chief Operating Officer, Exelon; President and Chief Operating Officer, Exelon Generation since 2008. Mr. Crane has served as a director of Aleris International Inc. since 2010 (manufacture and sale of aluminum rolled and extruded products), where he serves on the compensation committee and as the chair of the nominating and corporate governance committee. He is a member of the executive committee of the Edison Electric Institute and the board of directors of the Institute of Nuclear Power Operations, the industry organization promoting the highest levels of safety and reliability in nuclear plant operation.

M. Walter D Alessio, Age 79. Mr. D Alessio has served as a director of PECO since 2007. Principle of NorthMarq Advisors, LLC (a real estate consulting group), a position that he has held since January 2012. Prior to that, he was the Chairman and CEO of Legg Mason Real Estate Services, Inc. (1982 - 2003), Vice Chairman of NorthMarq Capital (a real estate investment banking firm) from 2003-11, and Senior Managing Director of NorthMarq Advisors, LLC from 2003 to 2011. Also Chairman of the Board of Directors of Brandywine Realty Trust, where he has been a trustee since 1996, and chair of Independence Blue Cross, where he has been a director since 1991, a director of the Federal Home Loan Bank Board of Pittsburgh from 2008 through 2010, and a director of Pennsylvania Real Estate Investment Trust since 2005. He was also a director of Exelon from 2000 through 2012. Mr. D Alessio is a leader in the Philadelphia business community and has knowledge of the greater Philadelphia metropolitan area and economic trends in the region, particularly with respect to real estate development.

Nelson A. Diaz, Age 65. Mr. Diaz has served as a director of PECO since 2007. Contract partner at Dilworth Paxson, a Philadelphia-based regional law firm. Previously he was Of Counsel to Cozen O Connor, from May 2007 through June 2011 and a partner of the law firm Blank Rome LLP from March 2004 through May 2007 and from February 1997 through December 2001. He also served as City Solicitor of the City of Philadelphia from December 2001 through January 2004, as Judge of the Court of Common Pleas, First Judicial District of Pennsylvania (1981 - 1993), and as General Counsel, United States Department of Housing and Urban Affairs, from 1993 to 1997. He is also a director of Exelon. Judge Diaz s legal and governmental experience at the federal level and in a city and state where PECO s business is conducted has enabled him to contribute to the board on matters related to federal, state and local regulation and public policy. In addition, Judge Diaz s Puerto Rican heritage adds diversity to the PECO board.

Rosemarie B. Greco, Age 67. Ms. Greco has served as a director of PECO since July 23, 2007. Founding principal of GRECOVentures Ltd. (a private management consulting firm). Served as Senior Adviser to the Governor of Pennsylvania-Health Care Reform until January 2011; director of the Governor s Office of Health Care Reform for the Commonwealth of Pennsylvania from January 2003 through December 2008. Formerly President of CoreStates Financial Corporation and Former Director, President and CEO of CoreState Bank N.A. She was also a director of Sunoco, Inc. from 1998 through 2011, a trustee of Pennsylvania Real Estate Investment Trust from 1997 through 2011 and from June 2012 to the present, and a trustee of SEI I Mutual Funds, a subsidiary of SEI Investments, Co., since 1999. She was also a director of Exelon from 2000 through 2012. Her experience in the banking industry in Philadelphia has given her insight into the needs of the bank s clients, who are also customers of PECO. Ms. Greco s role as a female executive has brought diversity to PECO s board, and she has contributed to PECO s diversity initiatives. Her experience as a CEO with responsibility for overseeing the quality of operations is a useful background for her work on operational issues at PECO.

Charisse R. Lillie, Age 61. Ms. Lillie has served as a director of PECO since 2010. Vice President of Community Investment for Comcast Corporation since 2008 and President of the Comcast Foundation since 2012. Previously she served as Executive Vice President of the Comcast Foundation from 2008 to 2012. She served as Vice President of Human Resources for Comcast Corporation and Senior Vice President of Human Resources for Comcast Cable from 2005 to 2008. She serves as one of the corporate liaisons with the Comcast External Joint Diversity Council. She was a partner in the law firm of Ballard, Spahr, Andrews & Ingersoll, LLP from January 1992 to February 2005. She formerly served on the board of the Federal Reserve Bank of Philadelphia, including two years as its chair. Ms. Lillie s legal and regulatory experience and experience on the boards of other businesses and organizations enable her to contribute to the PECO board. She brings diversity to the PECO board and will contribute to PECO s diversity initiatives.

Denis O Brien, Age 53. Mr. O Brien has served as a director of PECO since 2003 and as vice chair of the PECO board since 2012. As the chief executive officer of Exelon Utilities, Mr. O Brien oversees the utility businesses of Exelon at ComEd, PECO and BGE. Mr. O Brien is also a senior executive vice president of Exelon. Previously, Mr. O Brien served as executive vice president of Exelon and chief executive officer of PECO.

Thomas J. Ridge, Age 67. Governor Ridge has served as a director of PECO since 2007. President, Ridge Global LLC., a consulting firm. He formerly served as Secretary of the United States Department of Homeland Security from 2003 through 2005, and Assistant to the President for Homeland Security (an Executive Office created by President Bush) from 2001 through 2002. He served as Governor of the Commonwealth of Pennsylvania from 1994 through 2001. He is also a director of Exelon, The Hershey Company (chocolate and sugar confectionary) since 2007, and Lifelock (identify theft protection) since 2012. He previously served as a director of Vonage Holdings Corp. (software technology for voice and messaging services) from 2005 to 2011, and Brightpoint, Inc. from 2009 to 2012, and Home Depot Corporation (home improvement specialty retailer) from 2005 to 2007. Governor Ridge s governmental service at the federal level and in Pennsylvania is valued by the board. His Department of Homeland Security experience provides valuable insight into issues relating to the security of PECO s transmission and distribution facilities.

Ronald Rubin, Age 81. Mr. Rubin has served as a director of PECO since 2007. Executive Chairman of the Pennsylvania Real Estate Investment Trust (a real estate management and development company); he previously served as its Chairman and CEO. Mr. Rubin was a director of PECO from 1988 through 2000 and a director of Exelon from 2000 through 2007. He previously served as a director of Continental Bank and Midlantic Bank. Mr. Rubin is active in the Philadelphia business community and has knowledge of the greater Philadelphia metropolitan area and economic trends in the region, particularly with respect to real estate development.

PECO is an indirect subsidiary of Exelon and does not have a separate audit committee. Instead the Exelon audit committee fulfills that function for PECO.

Item 11. Executive Compensation

The compensation of PECO s named executive officers is set by the compensation committee of the board of directors of Exelon Corporation, generally consistent with Exelon s overall compensation and benefits programs and policies, and is subject to review by the PECO board of directors. The compensation discussion and analysis and compensation disclosure that follows is adapted from the compensation discussion and analysis and compensation disclosure that was included in the 2013 proxy statement for Exelon Corporation and includes the information pertaining to PECO executive compensation. The compensation committee of Exelon provided the following report on the compensation discussion and analysis that was included in the proxy statement for Exelon s 2013 annual meeting:

Report of the Exelon Compensation Committee

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the 2013 Proxy Statement.

March 8, 2013

<u>The Compensation Committee</u>

John A. Canning, Jr., Chair

Robert Lawless

William C. Richardson

Stephen D. Steinour

Don Thompson

Compensation Discussion and Analysis

PECO s named executive officers (NEOs) in 2012 are listed below.

Officer	Title
Craig L. Adams	President and Chief Executive Officer (CEO)
Phillip S. Barnett	Senior Vice President, Chief Financial Officer (CFO) and Treasurer
Michael A. Innocenzo	Senior Vice President Operations
Mark F. Alden	Vice President, Customer Operations
Romulo L. Diaz, Jr.	Vice President and General Counsel
Denis P. O Brien	Senior Executive Vice President, Exelon and CEO, Exelon Utilities

In connection with the completion of Exelon s merger with Constellation Energy Group Inc. (Constellation) on March 12, 2012 (the Merger), the following organizational changes were made: Mr. O Brien was promoted from President and CEO of PECO to Senior Executive Vice President, Exelon and CEO, Exelon Utilities; Messrs. Adams and Innocenzo were promoted to the positions noted above; Mr. Barnett became Treasurer; and Messrs. Alden and Diaz, Jr. remained Vice Presidents and assumed the responsibilities reflected above.

Executive Summary

This Executive Summary is intended to provide an overview of the key 2012 compensation decisions made and the business and market context influencing those decisions. In particular, we have included a discussion of our organization, compensation philosophy and objectives, key 2012 pay actions, initial 2013 pay program changes, and other key pay practices.

Business Organization

Based in Philadelphia, PECO is an electric and natural gas utility subsidiary of Exelon. PECO serves 1.6 million electric and 497,000 natural gas customers in southeastern Pennsylvania and employs about 2,400 people in the region. PECO delivered 76.5 billion cubic feet of natural gas and 37.5 billion kilowatt-hours of electricity in 2012. Founded in 1881, PECO is one of the Greater Philadelphia Region s most active corporate citizens, providing leadership, volunteer and financial support to numerous arts and culture, education, environmental, economic development and community programs and organizations.

Exelon is the nation s leading competitive energy provider, with 2012 revenues of approximately $23.5 billion. Headquartered in Chicago, Exelon has operations and business activities in 47 states, the District of Columbia and Canada. Exelon has approximately 35,000 megawatts of owned capacity comprising one of the nation s cleanest and lowest-cost power generation fleets. The company s Constellation business unit provides energy products and services to approximately 100,000 business and public sector customers and more than 1 million residential customers. Exelon s utilities deliver electricity and natural gas to more than 6.6 million customers in central Maryland (BGE), northern Illinois (ComEd) and southeastern Pennsylvania (PECO)**.**

Compensation Philosophy and Objectives

Exelon s executive compensation program is designed to attract, retain, motivate and reward senior management for achieving financial, operational, strategic objectives to further Exelon s vision of providing superior value to its customers, employees, and investors, as well as the communities it serves. Exelon s compensation program has three guiding principles.

Link compensation to performance results. The program is weighted in favor of incentive pay, in the form of annual and long-term performance incentives, to motivate and reward strong operational and financial performance and the creation of shareholder value. The program provides the compensation committee with some level of discretion to modify awards based on individual performance and other compelling performance factors, recognizing that some performance needs to be assessed in context, and some performance cannot be planned for, particularly in a time of transition.

Align the interests of our NEOs and shareholders. As noted above, both the annual and long-term incentive programs reward our NEOs for achievement of key financial and operational measures. These measures of success create a close alignment between our NEOs and long-term shareholder interests. Further, a substantial portion of compensation is granted as equity-based awards that align NEOs with the interests of Exelon s shareholders.

Attract, motivate, and retain high caliber leadership by providing competitive compensation opportunities. The program assesses total compensation opportunities against appropriate external companies to enable it to attract and retain executives with the experience and talent required to achieve our strategic objectives.

The discussion below explains how we put this philosophy into practice in 2012 and 2013.

2012 Compensation Highlights

In making compensation decisions for our NEOs in 2012, Exelon s compensation committee focused on finding an appropriate balance between rewarding our strategic success and continued strong operational performance during this pivotal year with our recent stock price performance, which has been so heavily influenced by falling natural gas prices. The Exelon compensation committee believes that 2012 pay decisions reflect this balance, recognizing the outsized efforts and strong performance associated with the Merger and integration, our national leadership in client service and capacity, the establishment of a new leadership team for the merged entity, and our ability to retain key leaders during a time of significant transition. Based on the performance highlighted above, the committee made the following compensation decisions for 2012 for the NEOs:

Increased salary and target bonus levels for select NEOs based on increased organizational size, complexity and broader responsibilities. In connection with the completion of the Merger and increased responsibilities, select NEOs received increased base salary and target bonus levels.

Provided annual incentive payouts for corporate executives at 95% of target based on the achievement of adjusted (non-GAAP) operating EPS of $2.91 vs. target of $2.95. For a reconciliation of adjusted (non-GAPP) operating EPS, see below.

Capped and reduced annual incentive payouts for PECO NEOs under the Shareholder Protection Feature (SPF). The SPF is designed to ensure business unit payouts take into account overall Exelon corporate performance (even if independent unit performance is strong).

Applied Individual Performance Multipliers (IPMs) of 105% to annual incentive payouts for all continuing PECO NEOs (with the exception of Mr. Diaz, Jr. who received an IPM of 100% and Mr. O Brien who received an IPM of 110%) to reflect the extraordinary effort associated with the successful consummation of the Merger.

Determined performance under the Performance Share Unit (PSU) program at 125% of target. Payout was based on overall achievement versus the six PSU goal categories that were chosen to reflect the business priorities the committee identified in this year of transition (i.e., operational excellence, financial management, policy advocacy, opportunistic M&A, organic growth, and risk management), with the greatest weight given to the successful consummation of the Merger and delivery of outstanding client service during the year, including the response to Hurricane Sandy.

Note: Adjusted (non-GAAP) Exelon Operating Earnings

Adjusted (non-GAAP) operating earnings, which generally exclude significant one-time charges or credits that are not normally associated with ongoing operations, mark-to-market adjustments from economic hedging activities and unrealized gains or losses from nuclear decommissioning trust fund investments, are

provided as a supplement to results reported in accordance with GAAP. Management uses such adjusted (non-GAAP) operating earnings internally to evaluate the company s performance and manage its operations.

Twelve months ended December 31, 2012	**Exelon**
2012 Adjusted (non-GAAP Operating Earnings (Loss) Per Share for Compensation Purposes	**$ 2.91**
Adjustment by Compensation Committee	**$ 0.06**
2012 Adjusted (non-GAAP) Operating Earnings (Loss) Per Share as Reported in Earnings Release	**$ 2.85**
Mark-to-market impact of economic hedging activities	0.38
Unrealized gains related to nuclear decommissioning trust funds	0.07
Plant retirements and divestitures	(0.29)
Constellation merger and integration costs	(0.31)
Maryland commitments related to Constellation merger	(0.28)
Amortization of commodity contract intangibles	(0.93)
FERC settlement	(0.21)
Reassessment of state deferred income taxes	0.14
Amortization of the fair value of certain debt	0.01
Midwest Generation bankruptcy charges	(0.01)
FY 2012 GAAP Earnings (Loss) Per Share	**$ 1.42**

Compensation Changes in 2013 Based on Shareholder Outreach and Voting

As has been Exelon s practice, prior to our 2012 annual meeting, Exelon reached out to 30 of its largest shareholders to discuss its compensation program and the upcoming vote. During these meetings, Exelon discussed proxy advisory firm recommendations and solicited feedback from its shareholders on the 2011 compensation of its named executive officers.

In response to feedback from shareholders (including the 2012 say-on-pay vote results that were 74.9% in favor), and to reflect the business challenges highlighted above, the Exelon compensation committee has made the following changes to the compensation program for 2013, which were primarily focused on long-term incentives:

Reduced the number of goal categories from six to two in our PSU plan (i.e., operational excellence (40%) and financial management (60%)) to reflect the fact that the transition brought about by the Merger is complete, and our path forward is clear. The two goal categories will improve focus on two of our key strategic imperatives, protecting our credit rating and continuing to deliver reliable energy to our customers.

Moved to a more quantitative assessment approach for the PSU goals to enhance objectivity and transparency.

Reinstated total shareholder return (TSR) as a formulaic award modifier in the PSU plan to strengthen alignment with shareholders: awards can be increased or decreased by up to 25% based on TSR performance relative to other energy services companies with business models most similar to Exelon s.

Increased the duration of the PSU performance cycle from one year to three years to provide a longer-term focus.

Changed the PSU payout range from 75%-125% to 50%-150% in recognition of the more highly quantitative/formulaic approach to assess goal attainment.

Eliminated all grants of stock options by changing the mix of long-term incentives for NEOs from 75% performance shares and 25% stock options to two-thirds performance shares and one-third restricted stock units (RSUs). The mix of vehicles now better aligns with industry practice.

Executive Compensation Practices

Exelon s executive compensation philosophy focuses on pay-for-performance and reflects appropriate governance practices aligned with the needs of our business. Below is a summary of Exelon s executive compensation practices as well as a list of those practices we avoid.

What We Do	What We Don t Do
Pay-for-performance: A majority of executive compensation is performance-based and is tied to our financial and operational performance, individual performance and Exelon stock price performance.	***No Excise Tax Gross-Ups Upon Change in Control:*** We have eliminated the excise tax gross-ups on termination payments in change in control agreements entered into after April 2009.
Stock Ownership: NEOs must acquire and hold Exelon stock equal in value to at least a specified multiple of the NEO s annual salary within five years of appointment. Executive officers may not sell Exelon stock except through a stock trading plan designed to comply with Rule 10b5-1.	***No Excessive Executive Perquisites:*** We provide only standard benefits and perquisites (e.g., executive disability, annual medical exam and life insurance) that are consistent with competitive practices.
Double Trigger Change-in-Control Benefits: Change-in-Control agreements provide for benefits only if the executive is involuntarily terminated (without cause) in conjunction with a change-in-control.	***No Exelon CEO Employment Agreement.***
Mitigation of Undue Risk: Our compensation plans have provisions to mitigate undue risk, including caps on the maximum level of payouts (200% on annual awards and 137.5% on PSUs), recoupment (clawback) provisions, multiple performance metrics and board and management processes to identify risk. We do not believe any of our compensation programs create risks that are reasonably likely to have a material adverse impact on the company.	***No Additional Credited Service Under Benefit Plans:*** We have not granted additional years of credited service under supplemental executive retirement plans since 2004.
	No Repricing of Out of the Money Stock Options; No Grants Below 100% of Fair Market Value.
Independent Executive Compensation Consultant: The Exelon compensation committee works with an independent executive compensation consultant on matters concerning executive pay and governance. This consultant provides no other services to Exelon.	***No Inclusion of Long-term Incentive Awards in Severance Calculations.***
	No Hedging, Short Sales, Derivative Transactions or Pledging in Company Stock Are Permitted.

Pay for Performance Analysis

As discussed under Compensation Philosophy and Objectives above, the executive pay program is focused on linking executive compensation outcomes to company performance and long-term shareholder interests. We believe the analysis and discussion below demonstrate this commitment to pay for performance.

2012 Pay Mix

As the following charts show, 70% of PECO s CEO target pay and, on average, 58% of the pay for our other NEOs is performance-based and subject to the achievement of pre-defined performance targets.

Process for Determining NEO Compensation

Key Features of 2012 Executive Compensation

Exelon s executive compensation program comprises four elements: base salary; annual incentives; long-term incentives; and other benefits. Cash compensation comprises base salary and annual incentives. Equity compensation is delivered through long-term incentives. Together, these elements are designed to balance short-term and longer-range business objectives and to align NEOs financial rewards with shareholders interests. The range in the mix of cash and equity compensation is consistent with competitive compensation practices among companies in the peer group. The Exelon compensation committee believes that this mix of cash and equity compensation strikes the right balance of incentives to pursue specific short and long-term performance goals that drive shareholder value. Compensation programs in 2012 were substantially similar to compensation programs in 2011.

Cash Compensation

Type	Focus	Terms
Salary	Short-term business objectives	Fixed compensation based on competitive market data for position; generally eligible for annual increase based on market movement, performance and internal equity.
Annual Incentive Plan (AIP)		A cash-based plan rewarding executives for the achievement of short-term financial and operational goals. The goals include adjusted (non-GAAP) operating earnings per share for all executives and business-unit specific objectives for executives with specific business unit responsibilities.

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Equity-Based Compensation

Type	Focus	Terms
Exelon Non-Qualified Stock Options		Stock options vest ratably over four years and expire at the end of a 10 year term. Number of shares determined by compensation committee annually. Provide value to executive only when stock price increases. Stock option repricing is prohibited by policy or the terms of the company s long-term incentive plans. Awards are generally granted annually at the regularly scheduled January compensation committee meeting when the committee reviews results for the preceding year and establishes the compensation program for the coming year. Stock options will no longer be granted after 2012.
Exelon Performance Share Unit Awards (PSUs)	Long-term business objectives	A PSU is the right to receive a specified number of shares of Exelon common stock or the fair market value thereof, contingent upon the attainment of specified performance measures within a performance period and the expiration of any applicable restriction periods. In 2012, PSUs had a one year performance period and awards were paid ratably over three years in combination of cash and stock based on performance against six goals and initiatives enhancing the long-term value of Exelon. The goals were: Operational excellence Financial management Policy advocacy Opportunistic M&A Organic growth Risk Management Total Shareholder Return (TSR) performance was also considered as a secondary factor.
Restricted Stock Unit Awards (RSUs)		A RSU is the right to receive one share of Exelon common stock or the fair market value of a share of Exelon common stock, contingent upon the expiration of a specified period, called a vesting period. Restricted stock units are occasionally provided to executives to deliver additional retention value. Retention restricted stock units vest 100% at the end of the requisite vesting period. Beginning in 2013, restricted stock units vesting ratably over three years will replace stock options in the mix of long-term incentives.

Retirement and Other Compensation

Type	Focus	Terms
Pension	Attraction and retention of key executive talent	Qualified defined benefit pension plans are provided to executives.
Supplemental Pension (SERP)		Exelon offers supplemental executive retirement plans to our NEOs.
Savings Plan		Executives may elect to participate in the Employee Savings Plan, a tax-qualified plan under IRS Code Section 401(k) to which the company may also make matching contributions.
Deferred Compensation Plan		Executives may elect to participate in a non-qualified plan that permits them to defer receipt of Savings Plan contributions above the qualified plan limits.
Perquisites		Exelon provides limited perquisites intended to serve specific business needs.

Key Factors Influencing Compensation Determination

On an annual basis, or when changes in NEO leadership occur, the committee reviews and determines NEO target pay opportunities. The committee takes a balanced approach to determining compensation for NEOs, taking into consideration several factors as outlined below, without prescribing specific weightings for these factors.

In establishing the compensation opportunity for each NEO, the compensation committee carefully considers competitive factors, including competitive pay levels and the roles and responsibilities of each of the NEOs relative to the peer group positions, as well as individual factors, including the individual s performance and contribution to the performance of the business. The differences in the amounts of targeted compensation awarded to the NEOs reflect a balanced assessment of these two sets of factors as described in more detail below.

Competitive Factors	Individual Factors
Current compensation relative to competitive market references	Individual performance
Company size and scope of business as compared to companies used in competitive market references	Contribution to the performance of the business and relative strategic value of the role
Scope, complexity, and contribution of the position compared to competitive positions	Internal pay equity
	Change in responsibilities / Newness to role (if applicable)

Assessing the Competitive Market

The compensation committee seeks to provide competitive pay opportunities in order to attract, motivate, and retain high caliber leadership. In assessing the appropriateness of each NEO s compensation, the committee considers pay level relative to market as one of many inputs. The company does not target NEO compensation at a specific level relative to competitive data.

Each year Exelon s compensation committee commissions its consultant to prepare a study to assess total direct compensation against a peer group of companies. The members of the peer group are reviewed annually to determine whether their inclusion continues to be appropriate.

In 2012, in connection with the Merger with Constellation, Exelon s board of directors requested that the compensation consultant[1] review the peer companies to develop a peer group of high-performing, asset intensive companies that would be appropriate for developing competitive compensation data for the newly merged company. Exelon is larger than all but one of the energy services peers on a revenue basis. As a result, it was necessary to include companies outside the industry to better reflect the company s size and complexity. The following criteria were used to select the new peer group:

Ownership structure	Only US publicly traded parent companies
Revenues	Companies with revenues between 0.5x and 2x Exelon s estimated revenue scope
Market capitalization	Generally above $10 billion
Industry segment	Balance of industry segments, while avoiding companies in industries less relevant to Exelon (e.g., financial services, insurance, media)
Availability of compensation data	The company must be a participant in the Towers Watson compensation survey used by the consultant in the analysis
Current peers	Retained as many of Exelon s historical utility and general industry peers as possible, provided they met the established screening criteria

(1) Pay Governance was the committee s consultant at the time this analysis was conducted.

The resulting peer group consists of 20 companies: 10 general industry companies and 10 energy services companies as listed below.

	12/31/11 Market Cap ($ Million)	Revenue ($ Million)
General Industry Companies		
3M Co.	$ 57,280	$ 26,662
Alcoa, Inc.	9,206	21,013
Caterpillar Inc.	58,584	42,588
EI DuPont	42,297	32,347
Hess Corporation	19,019	33,950
Honeywell	42,040	33,370
International Paper Co.	12,937	25,179
Johnson Controls Inc.	21,269	40,833
Murphy Oil Corporation	10,787	23,401
Pepsico, Inc.	103,732	57,838

	12/31/11 Market Cap ($ Million)	Revenue ($ Million)
Energy Services Companies		
AEP Co., Inc.	$ 19,949	$ 14,427
Dominion Resources, Inc.	30,235	15,197
Duke Energy Corporation (2)	42,185	24,162
Edison International	13,489	12,409
Entergy Corporation	12,865	11,488
FirstEnergy Corp.	18,527	16,814
NextEra Energy, Inc.	25,724	15,317
PG & E Corp.	16,334	13,841
PSEG, Inc.	16,700	11,793
Southern Company	39,899	17,456

	12/31/12 Market Cap ($ Million)	Revenue ($ Million)
Exelon (2)	$ 25,400	$ 23,489

Role of Individual Factors in Setting Compensation

While the consideration of market data to assure that Exelon s compensation is competitive is a critical component of compensation decisions, individual performance is a key factor in setting of compensation opportunities. Base salary and target bonus adjustments are also based on an assessment of the individual s performance in the preceding year and their expected future contribution to the business and strategic value of the role.

Additionally, annual incentive performance measures are established based on the individual s role in the enterprise the most senior officers with responsibilities that span specific business units or functions have awards based on earnings per share for the company as a whole, while individuals with specific functional or business unit responsibilities have a significant portion of their awards based on the performance of that function or business unit.

(2) Peer company data is effective as of December 31, 2011, except Exelon data is effective as of December 31, 2012 and Duke Energy revenues and market value were adjusted to reflect the effect of its acquisition of Progress Energy Inc.

Individual performance also impacts whether an individual performance multiplier would be appropriately applied to the individual s annual incentive plan or performance share program award. The individual performance multiplier can result in a decision not to make an award, to decrease the award by up to 50%, or to increase the award by up to 10% for senior vice presidents and higher officers and 20% for vice presidents. For the annual incentive plan, the adjusted award cannot exceed 200% of target and for the performance share award program; the adjusted award cannot exceed 137.5% of target.

Role of Compensation Consultants and Executives in Compensation Decisions

With respect to 2012 compensation, Pay Governance provided the compensation committee with market data for each senior executive position, reviewed Exelon s compensation strategy in the context of the Merger, and made recommendations for updating the peer group. While the compensation consultant RFP was in process, management engaged consultants from Deloitte Consulting LLP (Deloitte), which was not participating in the RFP. Deloitte, at the request of management, conducted a review of Exelon s executive compensation program in light of Exelon s changed circumstances post-Merger and with prolonged adverse energy market conditions. Management and Deloitte reviewed the findings with the compensation committee. Semler Brossy provided the compensation committee with its views on the Deloitte review of compensation programs and made recommendations with respect to changes in the compensation programs for 2013. The CEO and senior executives made recommendations to the Exelon compensation committee with respect to the assessment of the performance of their subordinates and individual performance multipliers and other elements of compensation. The Exelon compensation committee considered the recommendations of the consultants and the senior executives but made its own decisions on compensation for the NEOs. For additional information on the role of compensation consultants and executives in compensation committee decisions, see Compensation Committee and Compensation Consultant at pages 10 12 of the Exelon proxy statement.

2012 Compensation Decisions

At its January 23, 2012 meeting, the Exelon compensation committee reviewed target total direct compensation (TDC), which includes base salary and annual and long-term target incentive compensation data for the NEOs listed in the Summary Compensation Table as compared to the compensation data for the new peer group. Market adjustments were made as appropriate with base pay increases effective as of March 12, 2012 and annual incentive targets effective retroactive to January 1, 2012.

Name	**2012 Base Salary**			$ -	
EXPENSES					
General and administrative	-	-	-	426	64,739
Professional fees	23,668	8,662	49,830	42,756	316,994
Taxes	-	-	-	-	1,036
Management fees	-	-	-	-	29,155
Stock based compensation	-	-	-	-	327,500
Total Expenses	23,668	8,662	49,830	43,182	739,424
LOSS FROM OPERATIONS	(23,668)	(8,662)	(49,830)	(43,182)	(739,424)
OTHER INCOME (EXPENSE)					
Interest income	7	-	12	2	2,140
Interest expense	(3,554)	(1,663)	(6,247)	(2,621)	(13,811)
Total Other Income (Expense)	(3,547)	(1,663)	(6,235)	(2,619)	(11,671)
LOSS BEFORE TAXES	(27,215)	(10,325)	(56,065)	(45,801)	(751,095)

INCOME TAX EXPENSE		(60)		-		(60)		-	(60)
NET LOSS	$	(27,275)	$	(10,325)	$	(56,125)	$	(45,801)	$ (751,155)
NET LOSS PER SHARE, BASIC AND DILUTED	$	(0.00)	$	(0.00)	$	(0.01)	$	(0.00)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		11,218,457		11,218,457		11,218,457		11,218,457	

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

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INVIVO THERAPEUTICS HOLDINGS CORP.
F/K/A
DESIGN SOURCE, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

	Six Months Ended September 30, 2010 (Unaudited)	Six Months Ended September 30, 2009 (Unaudited)	From Inception (April 2, 2003) through September 30, 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (56,125)	$ (45,801)	$ (751,155)
Adjustments to reconcile net loss to net cash used in operating activities:			
Increase (decrease) in:			
Accounts payable	(6,885)	(36,832)	16,310
Accrued interest	6,247	2,621	12,159
Stock issued for compensation	-	-	327,500
Stock issued for reimbursement of expenses	-	-	25,923
Net cash used in operating activities	(56,763)	(80,012)	(369,263)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stockholder loans	-	-	21,560
Repayment of stockholder loans	-	-	(21,560)
Proceeds from convertible note	75,000	80,000	155,000
Proceeds from issuance of common stock	-	-	232,500
Net cash provided by financing activities	75,000	80,000	387,500
NET INCREASE (DECREASE) IN CASH	18,237	(12)	18,237
CASH, BEGINNING OF PERIOD	-	12	-
CASH, END OF PERIOD	$ 18,237	$ -	$ 18,237
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ -	$ -	$ 1,653
Income taxes paid	$ 60	$ -	$ 60

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

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INVIVO THERAPEUTICS HOLDINGS CORP.
F/K/A
DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the six months ended September 30, 2010
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

InVivo Therapeutics Holdings Corp., formerly known as ("f/k/a") Design Source, Inc. (hereinafter "the Company") was incorporated on April 2, 2003 under the laws of the State of Nevada for the purpose of offering textiles to the commercial designer market utilizing the internet. The Company's headquarters is located in Chapel Hill, North Carolina. The Company is a development stage enterprise.

The Company's year end is March 31.

The foregoing unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the period ended March 31, 2010. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. Operating results for the six-month period ending September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending March 31, 2011.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the accompanying financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Accounting Method
The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Development Stage Activities
The Company has been in the development stage since its formation and has not realized any revenue from operations. The Company is a shell corporation which has yet to engage in its intended business of offering commercial upholstery, drapery, bedspread, panel and wall covering fabrics.

Going Concern
The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As reflected in the financial statements, the Company incurred a net loss of $56,125 for the six months ended September 30, 2010. In addition, the Company had an accumulated deficit of $751,155 at September 30, 2010. Since its inception, the Company has not generated any revenues and has minimal cash resources.

These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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INVIVO THERAPEUTICS HOLDINGS CORP.
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NOTES TO THE FINANCIAL STATEMENTS
As of and for the six months ended September 30, 2010
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's efforts have been directed towards the development and implementation of a plan to generate sufficient revenues to cover all of its present and future costs and expenses. For the twelve-month subsequent period, the Company anticipates that its minimum operating cash requirements to continue as a going concern will be approximately $60,000.

The Company has determined that it cannot continue with its business operations as outlined in its original business plan because of a lack of financial resources; therefore, although it may return to its intended business operations at a later date, management has redirected their focus towards identifying and pursuing options regarding the development of a new business plan and direction. The Company intends to explore various business opportunities that have the potential to generate positive revenue, profits and cash flow in order to financially accommodate the costs of being a publicly held company. However, the Company cannot assure that there will be any other business opportunities available nor the nature of the business opportunity, nor indication of the financial resources required of any possible business opportunity.

The Company has minimal operating costs and expenses at the present time due to its limited business activities. The Company, however, will be required to raise additional capital over the next twelve months to meet its current administrative expenses, and it may do so in connection with or in anticipation of possible acquisition transactions. This financing may take the form of additional sales of equity securities and/or loans from directors. There is no assurance that additional financing will be available, if required, or on terms favorable to the Company.

The Company is currently engaged in discussions with InVivo Therapeutics Corporation, a Delaware corporation (“InVivo”), regarding a possible business combination. InVivo is engaged in the development of technologies for the treatment of spinal cord injuries. No assurance can be given it will proceed with and complete the business combination.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

The accompanying financial statements have been prepared, in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”).

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all short-term debt with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments
The Company's financial instruments may include cash, and accounts payable. All such instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at

September 30, 2010 and March 31, 2010.

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INVIVO THERAPEUTICS HOLDINGS CORP.
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(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the six months ended September 30, 2010
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates
The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Provision for Taxes
Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against the deferred tax asset if management does not believe the Company has met the "more likely than not" standard to allow recognition of such an asset.

Derivative Liabilities
The Company accounts for its embedded conversion features in its convertible debentures in accordance FASB ASC 815-10 (Prior authoritative literature: SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires a periodic valuation of their fair value and a corresponding recognition of liabilities associated with such derivatives, and FASB ASC 815-40 Section 05, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock. The recognition of derivative liabilities related to the issuance of convertible debt is applied first to the proceeds of such issuance as a debt discount, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as “Loss on Valuation of Derivative” in other expense in the accompanying financial statements. Any subsequent increase or decrease in the fair value of the derivative liabilities is recognized as “Other expense” or “Other income”, respectively.

Basic and Diluted Earnings (Loss) Per Share
Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation, plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented separately as it is anti-dilutive.

Recently Issued Accounting Pronouncements Affecting the Company
In October 2009, the FASB issued guidance for amendments to FASB Emerging Issues Task Force on EITF Issue No. 09-1 “Accounting for Own-Share Lending Arrangements in Contemplation of a Convertible Debt Issuance or Other Financing” (Subtopic 470-20) “Subtopic”. This accounting standards update establishes the accounting and reporting guidance for arrangements under which own-share lending arrangements issued in contemplation of convertible debt issuance. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009. Earlier adoption is not permitted. Management believes this Statement will have no impact

on the consolidated financial statements of the Company once adopted.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2009, the FASB issued guidance for Consolidations – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (Topic 810). The amendments in this update are a result of incorporating the provisions of SFAS No. 167, Amendments to FASB Interpretation No. 46(R). The provisions of such Statement are effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2009. Earlier adoption is not permitted. The presentation and disclosure requirements shall be applied prospectively for all periods after the effective date. Management believes this Statement will have no impact on the consolidated financial statements of the Company once adopted.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, which enhances the usefulness of fair value measurements. The amended guidance requires both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. The amended guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation requirement for the reconciliation disclosure of Level 3 measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The Company does not anticipate that this pronouncement will have a material impact on its results of operations or financial position.

Effective May 10, 2010, the Company adopted FASB ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity’s Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity’s Own Stock). The adoption of FASB ASC Topic No. 815 –40’s requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or “down-round” provisions). As a result of the Company issuing a convertible note on May 10, 2010, the Company adopted ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity’s Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity’s Own Stock). See Note 4 for further discussion.

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-08—Technical Corrections to Various Topics. This update’s purpose is to eliminate GAAP inconsistencies, update outdated provisions, and provide needed clarifications. The adoption of ASU No. 2010-08 will not have a material impact on the Company’s financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, could have a material effect on the accompanying financial statements.

NOTE 3 – EQUITY TRANSACTIONS

The Company is authorized to issue 100,000,000 shares of $0.00001 par value common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

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NOTE 3 – EQUITY TRANSACTIONS (continued)

Upon incorporation, the Company issued 435,000 shares of common stock at a price of $0.05 per share as reimbursement of a cash advance in the amount of $1,000 and expenses paid personally by a director totaling $20,750.

During the period ending March 31, 2004, an additional 283,457 shares of common stock were issued at $0.05 per share for reimbursement of expenses paid personally by a director totaling $4,173 and for cash totaling $10,000.

During the period ending March 31, 2006, an additional 3,320,000 shares of common stock were issued at $0.05 per share for cash totaling $160,000 and subscription receivable of $6,000.

During the year ended March 31, 2007, 130,000 shares of common stock were issued at $0.05 per share for cash totaling $6,500 to outside investors; 6,550,000 share of common stock were issued to its officers for compensation at $0.05 per share for $327,500 and $6,000 subscription receivable was received.

During the year ended March 31, 2008, 500,000 shares of common stock were issued at $0.10 per share for cash totaling $50,000 to Milestone Enhanced Fund Ltd;

During the years ended March 31, 2010 and 2009, the Company had issued no additional shares of common stock.

During the six months ended September 30, 2010, the Company had issued no additional shares of common stock.

NOTE 4 – CONVERTIBLE DEBT AND DERIVATIVES

On May 8, 2009, the Company issued a convertible promissory note in the principal amount of $80,000. This note is payable on November 8, 2010 and bears an interest rate of 8.25% per annum payable at the end of the term. The debt balance and accrued interest balance as of September 30, 2010 amounts to $80,000 and $9,221, respectively. The terms of conversion have not been determined as of the date of the filing of the 10 Q for the period ended September 30, 2010.

On May 10, 2010 the Company received funding amounting to $75,000 from an investor and in connection therewith issued a 10%, $75,000 convertible note dated May 10, 2010 (the "Note"). Subject to prepayment, interest and principal are due on November 9, 2011, unless its term is mutually extended by both parties. At all times while the Note is outstanding, the Note is convertible into shares of the Company's common stock at the rate of $0.10 per share, subject to adjustment for stock splits, business combinations, mergers, reclassifications, sales of assets and similar transactions (the "Fixed Conversion Price"). Further, if at any time while the Note is outstanding the Company issues shares of our common stock at a price below the then Fixed Conversion Price, the Fixed Conversion Price shall be reduced to such lower issue price.

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NOTE 4 – CONVERTIBLE DEBT AND DERIVATIVES (continued)

The Note contains ratchet provisions which adjust the conversion price of the Units if the Company issues common stock at a price lower than the fixed conversion prices in the 10% Convertible Note Payable. As a result, the Company adopted ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity's Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity's Own Stock) and determined that the underlying Units are not indexed to the Company's common stock and should be valued at fair value at the date of issuance and at each subsequent interim period.

Down-round provisions reduce the exercise price of a convertible instrument if a company either issues new warrants or convertible instruments that have a lower exercise price.

The Company has performed a complete assessment of its embedded conversion features in connection with its convertible loans utilizing the Black Scholes model and concluded that the conversion features issued in connection with the convertible loan are within the scope of ASC 815 due to the down-round provisions included in the terms of the agreements.

Based on these calculations, the Company determined that the value of the derivative was $0 on the date of issuance (May 10, 2010), and as a result, there was no discount on the convertible debt as of September 30, 2010. The Company, every quarter, will perform a valuation of the derivative.

The debt balance and accrued interest balance as of September 30, 2010 amounts to $75,000 and $2,938, respectively.

NOTE 5 – INCOME TAXES

At September 30, 2010 and March 31, 2010, the Company had a deferred tax asset of approximately $305,000 and $282,000 respectively, calculated at a combined federal and state expected rate of 40.5%. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded.

The significant components of the deferred tax assets at September 30, 2010 and March 31, 2010 were as follows:

	September 30, 2010	March 31, 2010
Deferred tax asset-net operating losses	$ 305,000	$ 282,000
Deferred tax asset valuation allowance	(305,000)	(282,000)
Net deferred tax asset	$ -	$ -

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INVIVO THERAPEUTICS HOLDINGS CORP.
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(A Development Stage Company)
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(Unaudited)

NOTE 5 – INCOME TAXES (continued)

The reconciliation between the statutory federal income tax rate of 35% to the actual rate is as follows:

	September 30, 2010	March 31, 2010
Expected Federal tax (benefit)	$ (20,000)	$ (22,000)
State tax (benefit), net of Federal effect	(3,000)	(3,000)
Permanent differences	-	-
Valuation allowance	23,000	25,000
Effective tax rate	$ -	$ -

At September 30, 2010 and March 31, 2010, the Company has net operating loss carry forwards of $752,000 and $696,000 respectively, which begin to expire in the year 2011. The change in the allowance account from September 30, 2010 to March 31, 2010 was $2,000.

NOTE 6 - RELATED PARTY DEBT AND TRANSACTIONS

In 2004 and 2005, Company directors loaned the Company a total of $21,560. The underlying notes were unsecured with interest at 5%, and a scheduled maturity of October 2007 for all principal and accrued interest. There were no monthly note payments due during the term of the loans. All shareholder loans and accrued interest had been repaid in the fiscal year 2007.

NOTE 7 – SUBSEQUENT EVENTS

On October 4, 2010 the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which it merged with its newly formed, wholly owned subsidiary, InVivo Therapeutics Holdings Corp., a Nevada corporation ("Merger Sub" and such merger transaction, the "Merger"). Upon the consummation of the Merger, the separate existence of Merger Sub ceased.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

This section of the report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

Plan of Operation

We were incorporated on April 2, 2003, to offer a comprehensive supply of, market and distribute commercial upholstery, drapery, bedspread, panel, and wall covering fabrics to the interior designer industry and individual retail customers on our proprietary Internet website. We subsequently determined that we could not continue with our business operations as outlined in our original business plan because of a lack of financial results and resources. Accordingly, we redirected our focus towards identifying and pursuing options regarding the development of a new business plan and direction. We intend to explore various business opportunities that have the potential to generate positive revenue, profits and cash flow in order to financially accommodate the costs of being a publicly held company. However, we cannot assure that there will be any other business opportunities available nor the nature of the business opportunity, if any, nor any indication of the financial resources required to take advantage of any possible business opportunity.

As discussed in greater detail in Part II, Item 5 hereof, we are currently engaged in discussions with InVivo Therapeutics Corporation, a Delaware corporation ("InVivo"), regarding a possible business combination. InVivo is engaged in the development of technologies for the treatment of spinal cord injuries. No assurance can be given that we will proceed with and complete the business combination.

We have minimal operating costs and expenses at the present time due to our limited business activities. We may, however, be required to raise additional capital over the next twelve months to meet our current administrative expenses, and we may do so in connection with or in anticipation of possible acquisition transactions. This financing may take the form of additional sales of our equity securities, loans from our directors, or other transactions. There can be no assurance that additional financing would be available to us if required, or that the terms would be favorable to us and our stockholders.

We are not currently engaging in any product research and development and have no plans to do so in the foreseeable future. We have no present plans to purchase or sell any plant or significant equipment. We also have no present plans to add employees although we may do so in the future if we engage in any merger or acquisition transactions.

Results of Operations

For the period from inception (April 2, 2003) to September 30, 2010, we had no operating revenues and incurred a net loss of $751,155. For the three and six months ended September 30, 2010 we incurred net losses of $27,275 and $56,125, respectively, which consisted principally of professional fees. For the three and six months ended September 30, 2009, we incurred net losses of $10,325 and $45,801, respectively, which consisted principally of professional fees primarily incurred in connection with the preparation and filing of our ongoing SEC filing requirements.

Liquidity and Capital Resources

Our cash at September 30, 2010 and March 31, 2010, was $18,237 and $0, respectively. In order to satisfy our cash requirements for the current period we will have to raise additional funds as described above. There can be no assurance that we will be able to do so.

Net cash used in operating activities in the six months ended September 30, 2010 and 2009, was $56,763 and $80,012, respectively. Net cash used in operating activities from inception through September 30, 2010 was $369,263. Net cash provided by financing activities from inception through September 30, 2010 was $155,000. We had $75,000 of financing activity in the six months ended September 30, 2010 and $80,000 of financing activity in the six months ended September 30, 2009. Our independent registered public accounting firm has expressed the opinion that in our current condition, there is substantial doubt about our ability to continue as a going concern. Please refer to Note 2, Summary of Significant Accounting Policies, of the financial statements included in this report.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

A. Basis of Accounting

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a March 31 fiscal year-end.

B. Basic Earnings Per Share

The Company utilizes the guidance per FASB Codification "ASC 260 "Earnings Per Share". Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of common share equivalents during the period.

Basic net loss per share amounts are computed by dividing the net loss by the weighted average number of common shares outstanding.

C. Cash Equivalents

The Company considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents.

D. Use Of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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. Actual results could differ from those estimates.

E. Income Taxes

Income taxes are accounted for in accordance with the provisions of FASB ASC-740-Income Taxes. ASC-740 requires the recognition of deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, ASC-740 requires an evaluation of the probability of being able to realize the future benefits indicated by such assets. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or the entire deferred tax asset will not be realized.

For federal income tax purposes, substantially all expenses must be deferred until the Company commences business and then they may be written off over a 60-month period. These expenses will not be deducted for tax purposes and will represent a deferred tax asset. The Company will provide a valuation allowance in the full amount of the deferred tax asset since there is no assurance of future taxable income. Tax deductible losses can be carried forward under current applicable law for 20 years until utilized.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Our Disclosure Controls

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, Peter Reichard, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective such that the information relating to us, required to be disclosed in our Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our business, we may from time to time become subject to routine litigation or administrative proceedings which are incidental to our business. We are not a party to nor are we aware of any existing, pending or threatened lawsuits or other legal actions involving us.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not issue any equity securities during the quarter ended September 30, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

On October 4, 2010 we entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which we merged with our newly formed, wholly owned subsidiary, InVivo Therapeutics Holdings Corp., a Nevada corporation ("Merger Sub" and such merger transaction, the "Merger"). Upon the consummation of the Merger, the separate existence of Merger Sub ceased and our shareholders became shareholders of the surviving company named InVivo Therapeutics Holdings Corp.

As permitted by Chapter 92A.180 of Nevada Revised Statutes, the sole purpose of the Merger was to effect a change of our name. Upon the filing of Articles of Merger (the "Articles of Merger") with the Secretary of State of Nevada on October 4, 2010 to effect the Merger, our Articles of Incorporation were deemed amended to reflect the change in our corporate name.

Our common stock will temporarily remain listed for quotation on OTC Markets and the OTC Bulletin Board under the current symbol “DSGS” until new a symbol is assigned by Financial Industry Regulatory Authority, Inc. (FINRA). We will publicly announce the new trading symbol when assigned by FINRA and the effective date of the symbol change.

We are currently engaged in discussions with InVivo Therapeutics Corporation, a Delaware corporation (“InVivo”), regarding a possible business combination involving the two companies. At this stage, no definitive terms have been agreed to, and neither party is currently bound to proceed with the transaction. With the permission of InVivo and as provided herein, we have changed our name to “InVivo Therapeutics Holdings Corp.” to facilitate these discussions. If the parties determine not to proceed with the business combination, we will change our name back to Design Source, Inc. or adopt another name.

ITEM 6. EXHIBITS

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

The following exhibits are included as part of this report:

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Exhibit No.	Description
31.1 / 31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive and Financial Officer
32.1 / 32.2	Rule 1350 Certification of Chief Executive and Financial Officer
99.1	Schedule 14F-1 Information Statement(1)

(1) Filed with the Securities and Exchange Commission on October 5, 2010 and incorporated herein by reference.

SIGNATURES

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

Date: October 18, 2010	InVivo Therapeutics Holdings Corp. f/k/a Design Source, Inc.
	By: /s/ Peter Reichard Peter Reichard, President, Principal Executive Officer, Treasurer, Principal Financial Officer, and Principal Accounting Officer

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