

RECIPIENT NAME: Merit Network Inc.

AWARD NUMBER: NT10BIX5570009

DATE: 08/09/2012

OMB CONTROL NUMBER: 0660-0037

EXPIRATION DATE: 12/31/2013

### QUARTERLY PERFORMANCE PROGRESS REPORT FOR BROADBAND INFRASTRUCTURE PROJECTS

#### General Information

<b>1. Federal Agency and Organizational Element to Which Report is Submitted</b>  Department of Commerce, National Telecommunications and Information Administration	<b>2. Award Identification Number</b>  NT10BIX5570009	<b>3. DUNS Number</b>  615121324
<b>4. Recipient Organization</b>  Merit Network Inc. 1000 Oakbrook Drive Suite 200, Ann Arbor, MI 48104-6815		
<b>5. Current Reporting Period End Date (MM/DD/YYYY)</b>  06-30-2012	<b>6. Is this the last Report of the Award Period?</b>  <input type="radio"/> Yes <input checked="" type="radio"/> No	
<b>7. Certification: I certify to the best of my knowledge and belief that this report is correct and complete for performance of activities for the purposes set forth in the award documents.</b>		
<b>7a. Typed or Printed Name and Title of Certifying Official</b>  Andrew Frazier	<b>7c. Telephone (area code, number and extension)</b>  X	
	<b>7d. Email Address</b>  afrazier@merit.edu	
<b>7b. Signature of Certifying Official</b>  Submitted Electronically	<b>7e. Date Report Submitted (MM/DD/YYYY):</b>  08-09-2012	

**Project Indicators (This Quarter)**

**1. Please describe significant project accomplishments completed during this quarter (600 words or less).**

By May 2012, Merit had released all segments for construction, and work in these segments began. Merit has finalized remaining easements needed for construction. Merit put together a final materials order that will provide any remaining materials for the rest of the project. Merit has formed an environmental inspection team to finalize documentation and perform pre- and post-construction inspection to ensure environmental compliance.

Merit worked with pole owners and municipalities to expedite remaining make ready work and permit issuance. As of June 30, 2012, Merit had been issued 97% of known needed permits. Consumers energy has provided permits at an accelerated rate and given Merit specific dates in next quarter when to expect outstanding permits.

Merit interconnected the REACH DWDM (10GB) network to existing Merit infrastructure at the Monroe ISD and Monroe Community College in Monroe, MI. Merit connected Reach I fiber to the BTOP-funded Reach II fiber at the Mackinaw Bridge. Merit completed fiber work to Mackinaw Public Schools with lighting expected in the following quarter. Merit submitted all CAI addition and removal requests and documentation to the NTIA for review. Merit completed fiber to the University of Michigan Biological Station in Pellston, Michigan, which will be lit in the next quarter. Approximately 50% of CAI sites are in the construction phase of the project.

**2. Please provide the percent complete for the following key milestones in your project. Write "0" in the Percent Complete column and "N/A" in the Narrative column if your project does not include this activity. If you provided additional milestones in your baseline plan, please insert them at the bottom of the table. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the percent complete is different from the target provided in your baseline plan (300 words or less).**

	Milestone	Percent Complete	Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)
2a.	Overall Project	55	Permitting (both construction and environmental) delays Merit encountered early in the project has resulted in less spending to date than originally projected. Construction is fully underway and Merit is awaiting invoicing for the construction being completed, so Merit anticipates closing the gap between our current status and the Baseline Plan in subsequent quarters.
2b.	Environmental Assessment	100	The Environmental Assessment is at 435% of budget. After our Finding of No Significant Impact was issued, we continued to need to work with our environmental consulting firm and the Michigan Department of Environmental Quality (MDEQ) on ways to minimize our project's impact in sensitive areas and remain in compliance. Merit also needed to do additional work to obtain environmental approval from the NTIA for route changes. Despite the overrun, Merit does not anticipate revising the budget as reported on Form 424C; the Environmental Assessment is a component of the Engineering budget, and Merit is under budget in that category at this time. Merit is confident that the Engineering budget will be able to absorb the current overrun. There will continue to be minimal charges in this category as we work with agencies on environmental permitting and mitigation.
2c.	Network Design	35	Engineering has so far cost less than anticipated, and we have had some delays in getting our environmental clearances. The current percent complete does not accurately reflect that network design for fiber optic backbone is complete. Final CADs cannot be produced until construction is complete, so Merit anticipates seeing a significant portion of the budget funds expended in the third and fourth quarters of 2012.
2d.	Rights of Way	100	Merit has exceeded our budget for rights-of-way permitting (276%), however, some work still remains to be done. Merit estimates the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, Merit may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2e.	Construction Permits and Other Approvals	100	Merit has exceeded our budget for construction permitting (276%), and some work still remains to be done. Merit estimates the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, Merit may need to submit additional permit

	Milestone	Percent Complete	Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)
			applications for community anchor institution builds and route changes necessitated by schedule or engineering.
	2f. Site Preparation	0	Merit has almost completed the process of finalizing central office and community anchor institution routes. A contractor has been selected to perform site preparation work and they are diligently conducting site visits. Some work has been completed this quarter, but Merit was not invoiced during the reporting period. Our strategy includes prepping each site prior to the arrival of the backbone fiber to the anchor, which allows Merit to complete site preparation more efficiently and in a timely manner
	2g. Equipment Procurement	67	All optical hardware has been procured and invoiced, and the procurement process for routers and switches was completed this quarter. Merit anticipates being at budget by project completion.
	2h. Network Build (all components - owned, leased, IRU, etc)	53	Merit has contracts with seven construction firms, each with multiple construction crews, and has begun aerial construction and underground construction across the funded network. Merit anticipates a significant spending rate in this budget category, and will be at budget by project completion.
	2i. Equipment Deployment	0	Merit has not incurred expense for equipment deployment at this time, because not enough construction has been completed to warrant ordering and placing equipment in the field. However, with construction actively underway, spending in this category will increase, and Merit will be at or close to budget by completion. Major deployments are scheduled for the second half of the third quarter.
	2j. Network Testing	52	Test equipment has been purchased; once more construction is complete, testing will be performed. However, due to the scheduling and staffing efficiencies achieved by combining deploying equipment, site preparation, and testing the network on single runs, this category is projected to be under budget by project completion.
	2k. Other (please specify): Staffing, Miscellaneous	100	Spending in this category has reached 104% of budget. Merit anticipates that there should be minimal expenses in this category over the remainder of the project. Surplus funds from the Network Testing Category will cover the cost overruns for staffing and miscellaneous expenses.

**3. To the extent not covered above, please describe any challenges or issues faced during this past quarter in achieving planned progress against the project milestones listed above. In particular, please identify any areas or issues where technical assistance from the BTOP program may be useful (600 words or less).**

The length of time it has taken to get our Finding of No Significant Impact and get permits continues to impact the project, but we do anticipate significant progress during the third quarter and completing by the end of the fourth quarter of 2012. Merit is still working to obtain the few remaining pole permits and complete make ready prior to construction. Merit has been active during the spring and summer months anticipates completing most of the remaining construction over the remaining months in the third and fourth quarter. Permitting for CAI lateral builds may be a challenge, but Merit is prepared to work with agencies to expedite issuance of permits or alter the construction method or route within the confines of the approved Environmental Assessment to facilitate the remaining builds.

**4. Please report the following information regarding network build progress. Write "0" in the Total column and "N/A" in the Narrative column if your project does not include this activity. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the total is different from the target provided in your baseline plan (600 words or less).**

Indicator	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
New network miles deployed	182	Delays in some of the milestone categories has resulted in a delay in fiber installation; however, once construction is fully underway Merit anticipates closing the gap between our Baseline Report and the reported totals. In addition to the mileage listed, conduit and strand has already been installed

Indicator	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
		along much of the route, ready for fiber to be pulled or hung as soon as contiguous stretches are available.
New network miles leased	0	No variance.
Existing network miles upgraded	85	No variance.
Existing network miles leased	0	No variance.
Number of miles of new fiber (aerial or underground)	182	Delays in some of the milestone categories has resulted in a delay in fiber installation; however, once construction is fully underway Merit anticipates closing the gap between our Baseline Report and the reported totals. In addition to the mileage listed, conduit and strand has already been installed along much of the route, ready for fiber to be pulled or hung as soon as contiguous stretches are available.
Number of new wireless links	0	N/A
Number of new towers	0	N/A
Number of new and/or upgraded interconnection points	0	N/A

For questions 5 and 6 please include information relating to agreements that you are negotiating or have entered into, or that your sub recipient, contractor or subcontractor is negotiating or entered into.

5a. If applicable, please provide the following information with regard to agreements with broadband wholesalers and/or last mile providers as a result of your project.

Indicators	
Number of signed agreements with broadband wholesalers or last mile providers	3
Number of agreements currently being negotiated with broadband wholesalers or last mile providers	0
Average term of signed agreements (in quarters)	80

5b. Please list the names of the wholesale and last mile providers with whom you have signed agreements (100 words or less). Providers:

We originally projected having 4 agreements, but only 3 parties chose to sign the agreement.  
 LYNX Network Group, LLC (fiber strands on all segments)  
 KEPS Technologies, Inc. d.b.a. ACD.net (fiber strands on all segments)  
 The Computer Care Company, Inc. d.b.a. TC3Net (fiber strands from Monroe, MI to Benton Harbor, MI)

5c. What wholesale services are being provided by this project? Please describe below. As an attachment to this report, please provide pricing plans (in \$ per month) associated with each wholesale service provided by your product (100 words or less). Wholesale services description:

None at this time.

5d. If you have designated a third party to operate all or a portion of your network, please provide the name and contact information for this third party, indicate if this entity is a sub recipient, contractor, and/or subcontractor, and describe with specificity the portion of your network this third party operates (600 words or less).

We anticipate 3 subrecipients will participate in this infrastructure project. Each subrecipient will own strands in the network depending on the segment and location of the build.  
 LYNX Network Group, LLC (fiber strands on all segments)  
 Chris Barber, PO Box 237 Kalamazoo, MI 49004, Phone: 877.585.5969  
 KEPS Technologies, Inc. d.b.a. ACD.net (fiber strands on all segments)  
 Kevin Schoen, 1800 N Grand River Ave Lansing, MI 48906, Phone: 877.422.3638  
 The Computer Care Company, Inc. d.b.a. TC3Net (fiber strands from Monroe, MI to Benton Harbor, MI)  
 Joe Mattausch, President, 247 S. Main St. Adrian, MI 49221, Phone: 517-266-0402

6. Please provide the data according to the type of subscriber. Write "0" in the Total column and "N/A" in the Narrative column if your project does not pass or serve a particular subscriber type. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the total is different from the target provided in your baseline plan (300 words or less).

Subscriber Type	Access Type	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
Broadband Wholesalers or Last Mile Providers	Providers with signed agreements receiving new access	0	No variance.
	Providers with signed agreements receiving improved access	0	Broadband wholesalers and last mile providers are waiting for contiguous segment of fiber to be installed, which Merit anticipates occurring in the third quarter.
	Providers with signed agreements receiving access to dark fiber	0	Broadband wholesalers and last mile providers are waiting for contiguous segment of fiber to be installed, which Merit anticipates occurring in the third quarter.
Community Anchor Institutions (including Government institutions)	Please identify the speed tiers that are available and the number of subscribers for each	0	Broadband wholesalers and last mile providers are waiting for contiguous segment of fiber to be installed, which Merit anticipates occurring in the third quarter.
	Total subscribers served	2	Although there were two Community Anchor Institutions connected to the BTOP funded network in Q2 2012, broadband service was only being provided to one by the end of the quarter. Additional Community Anchor Institutions will be connected as the middle mile is completed during the third and fourth quarter of 2012.
	Subscribers receiving new access	0	Both Community Anchor Institutions connected in the reporting quarter had access to broadband previously.
	Subscribers receiving improved access	2	Additional Community Anchor Institutions will be connected as the middle mile is completed during the third and fourth quarter of 2012.
Residential / Households	Please identify the speed tiers that are available and the number of subscribers for each	1	Both Community Anchor Institutions are connected at 1GB; one is currently receiving service at 1 GB; the other will begin to receive service in the following quarter.
	Entities passed	0	N/A
	Total subscribers served	0	N/A
	Subscribers receiving new access	0	N/A
	Subscribers receiving improved access	0	N/A
Businesses	Please identify the speed tiers that are available and the number of subscribers for each	0	N/A
	Entities passed	0	N/A
	Total subscribers served	0	N/A
	Subscribers receiving new access	0	N/A
	Subscribers receiving improved access	0	N/A

**7. Please describe any special offerings you may provide (600 words or less).**  
No additional special service offerings are planned, at this time, to deviate from the original application Attachment B -- Proposed Middle Mile Service Offerings.

**8a. Have your network management practices changed over the last quarter?**     Yes     No

**8b. If so, please describe the changes (300 words or less).**  
N/A

**9. Community Anchor Institutions:**

Using the table below, please provide a list by service area of the community anchor institutions (including Government institutions) connected to your network as a result of BTOP funds. Figures should be reported for the most recent reporting quarter only (NOT cumulatively). Also indicate whether your organization is currently providing broadband service to the anchor institution. Finally, provide a short narrative description with examples of how institutions are using BTOP-funded infrastructure (300 words or less).

Institution Name	Service Area (town or county)	Type of Anchor Institution (as defined in your baseline)	Are you also the broadband service provider for this institution? (Yes / No)	Narrative description of how anchor institutions are using BTOP-funded infrastructure
Monroe Community College	Monroe County	Higher Ed	Yes	This institution is connected to BTOP funded infrastructure. Broadband services were being provided during the second quarter of 2012.
The University of Michigan Bio Station	Pellston, MI	Higher Ed/ Research	Yes	This institution is connected to BTOP funded infrastructure. Broadband services will be provided during the third quarter of 2012.

**Project Indicators (Next Quarter)**

**1. Please describe significant project accomplishments planned for completion during the next quarter (600 words or less).**

Merit anticipates the completion of infrastructure installation and lighting of fiber in the Bloomingdale joint build, a collaborative project between Merit and Bloomingdale Communications, a BTOP recipient, in Southwest Michigan. Merit also plans to have interconnection with the Comnet project, another BTOP-funded project, in Hillsdale, Michigan complete.

Merit plans to have segments from Monroe, MI to Hillsdale, MI and Kalkaska, MI to Grayling, MI complete and lit. Merit will continue to work on additional middle mile fiber installation, and start testing and lighting fiber. Merit anticipates having 95% of all strand and conduit in place by the end of the quarter.

Merit anticipates increased deployment of optical equipment in the second half of the third quarter, and Merit's engineers and contractors will be working throughout Michigan to complete the bulk of the inside plant work and connect anchor institutions to the outside plant fiber as it is constructed. Merit will be working with the project's subrecipients to connect to central office facilities, including general installation, wiring, and connecting project-funded central office equipment.

Projected number of miles deployed next quarter (not cumulative): 450

Projected number of CAIs connected next quarter (not cumulative): 15

Projected number of broadband wholesaler/last mile provider contracts expected to be signed next quarter: Merit has all three of the projected contracts in place.

**2. Please provide the percent complete for the following key milestones in your project. Write "0" in the Planned Percent Complete column and "N/A" in the Narrative column if your project does not include this activity. If you provided additional milestones in your baseline plan, please insert them at the bottom of the table. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the next reporting quarter. Please provide a narrative description if the percent complete is different from the target provided in your baseline plan (300 words or less).**

	Milestone	Planned Percent Complete	Narrative (describe reasons for any variance from baseline plan or any other relevant information)
2a.	Overall Project	87	Permitting (both construction and environmental) delays have resulted in less spending than originally projected for this quarter. While the overall project completion in terms of spending is still behind, significant progress will be made this quarter in eliminating the variance between the percent complete and the baseline plan. Additional construction will be complete, allowing equipment deployment, site preparation, and network testing, so we anticipate closing the gap between our current status and the Baseline Plan in subsequent quarters.
2b.	Environmental Assessment	100	The Environmental Assessment is at 435% of budget. After our Finding of No Significant Impact was issued, we continued to need to work with our environmental consulting firm and the Michigan Department of Environmental Quality (MDEQ) on ways to minimize our project's impact in sensitive areas and remain in compliance. Despite the overrun, we do not anticipate revising the budget as reported on Form 424C; the Environmental Assessment is a component of the Engineering budget, and we are significantly under budget in that category at this time. We are confident that the Engineering budget will be able to absorb the current overrun. There will continue to be minimal charges in this category as we work with agencies on environmental permitting and mitigation.

	Milestone	Planned Percent Complete	Narrative (describe reasons for any variance from baseline plan or any other relevant information)
2c.	<b>Network Design</b>	78	Engineering has so far cost far less than anticipated, and we have had significant delays in getting our environmental clearances. The current percent complete does not accurately reflect that network design for fiber optic backbone is complete. The Engineering teams will continued to work on the route and incorporate redlines into Merit's GIS database. Final CADs cannot be produced until construction is complete, so we anticipate seeing a significant portion of the budget funds expended in the fourth quarters of 2012.
2d.	<b>Rights of Way</b>	100	Merit estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, Merit may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2e.	<b>Construction Permits and Other Approvals</b>	100	Merit estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, Merit may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2f.	<b>Site Preparation</b>	67	Merit anticipates being invoiced for site preparation work performed in the previous quarter. We will have increased the number of staff working on site preparation from one individual to four individuals. Our strategy includes prepping each site prior to the arrival of the backbone fiber to the anchor, which allows Merit to complete site preparation more efficiently and in a timely manner.
2g.	<b>Equipment Procurement</b>	89	Most of the dense wave division multiplex (DWDM) equipment will be invoiced this quarter. The procurement process for routers and switches will be completed, and equipment will be ordered. Merit anticipates being at budget by project completion.
2h.	<b>Network Build (all components - owned, leased, IRU, etc.)</b>	84	Merit has contracts with seven construction firms, each with multiple construction crews, and has begun aerial construction and underground construction across the funded network. Merit anticipates a significant increase in the spending rate in this budget category, and will be at budget by project completion.
2i.	<b>Equipment Deployment</b>	67	Merit has been behind our baseline due to delays in starting from construction. However, with construction actively underway, our engineers will be out in the field deploying equipment, and spending in this category will increase. Merit will be at or close to budget by completion.
2j.	<b>Network Testing</b>	84	Test equipment has been purchased; once more construction is complete, testing will be performed. However, due to the scheduling and staffing efficiencies achieved by combining deploying equipment, site preparation, and network testing on single runs, this category is projected to be under budget by project completion.
2k.	<b>Other (please specify):</b> Staffing, Miscellaneous	100	Spending in this category has evened out, and is now below the Baseline Projection. We anticipate being over budget (114%) by project completion, because we will continue to require administrative staff and incur miscellaneous expenses as long as construction and deployment are underway. Surplus funds from the Network Testing Category will cover the cost overruns for staffing and miscellaneous expenses.

**3. Please describe any challenges or issues anticipated during the next quarter that may impact planned progress against the project milestones listed above. In particular, please identify any areas or issues where technical assistance from the BTOP program may be useful (600 words or less).**

Merit does not project encountering any challenges or issues leading to delays unique to this quarter. The length of time it has taken to get our Finding of No Significant Impact and get environmental permits continues to impact the project, but we do anticipate completing most of the remaining construction during the third quarter in 2012 with completion during the fourth quarter of 2012.

**Infrastructure Budget Execution Details**

**Activity Based Expenditures (Infrastructure)**

1. Please provide details below on your total budget, cumulative actual expenditures (for the period ending the current quarter), and cumulative anticipated expenditures (for the period ending next quarter) for each line item, including detailed disbursements of both matching funds and federal funds from project inception through end of this quarter (actual) or next quarter (anticipated). Actual and anticipated figures should be reported cumulatively from award inception to the end of the applicable reporting quarter.

Budget for Entire Project				Actuals from Project Inception through End of Current Reporting Period			Anticipated Actuals from Project Inception through End of Next Reporting Period		
Cost Classification	Total Cost (plan)	Matching Funds (plan)	Federal Funds (plan)	Total Cost	Matching Funds	Federal Funds	Total Costs	Matching Funds	Federal Funds
a. Administrative and legal expenses	\$422,027	\$84,405	\$337,622	\$282,459	\$56,492	\$225,967	\$340,728	\$68,146	\$272,582
b. Land, structures, right-of-ways, appraisals, etc.	\$676,199	\$135,240	\$540,959	\$1,871,520	\$374,304	\$1,497,216	\$1,919,926	\$383,985	\$1,535,941
c. Relocation expenses and payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
d. Architectural and engineering fees	\$4,703,356	\$940,671	\$3,762,685	\$1,881,506	\$376,301	\$1,505,205	\$3,801,966	\$760,393	\$3,041,573
e. Other architectural and engineering fees	\$1,424,305	\$284,861	\$1,139,444	\$417,293	\$83,459	\$333,835	\$950,491	\$190,098	\$760,393
f. Project inspection fees	\$1,690,497	\$338,100	\$1,352,397	\$1,545	\$309	\$1,236	\$154,952	\$30,990	\$123,962
g. Site work	\$1,696,897	\$339,380	\$1,357,517	\$7,140	\$1,428	\$5,712	\$21,419	\$4,284	\$17,135
h. Demolition and removal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
i. Construction	\$25,357,463	\$5,071,492	\$20,285,971	\$14,411,518	\$2,882,304	\$11,529,214	\$23,884,620	\$4,776,924	\$19,107,696
j. Equipment	\$5,485,955	\$1,097,192	\$4,388,763	\$3,661,640	\$732,328	\$2,929,312	\$4,967,280	\$993,456	\$3,973,824
k. Miscellaneous	\$154,827	\$30,965	\$123,862	\$287,452	\$57,490	\$229,961	\$292,153	\$58,431	\$233,722
<b>l. SUBTOTAL (add a through k)</b>	\$41,611,526	\$8,322,306	\$33,289,220	\$22,822,073	\$4,564,415	\$18,257,658	\$36,333,535	\$7,266,707	\$29,066,828
m. Contingencies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>n. TOTALS (sum of l and m)</b>	\$41,611,526	\$8,322,306	\$33,289,220	\$22,822,073	\$4,564,415	\$18,257,658	\$36,333,535	\$7,266,707	\$29,066,828

2. Program Income: Please provide the program income you listed in your application budget and actuals to date through the end of the reporting period.

a. Application Budget Program Income: \$0	b. Program Income to Date: \$0
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