

RECIPIENT NAME: Merit Network Inc.

AWARD NUMBER: NT10BIX5570009

DATE: 08/11/2011

OMB CONTROL NUMBER: 0660-0037

EXPIRATION DATE: 12/31/2013

QUARTERLY PERFORMANCE PROGRESS REPORT FOR BROADBAND INFRASTRUCTURE PROJECTS

General Information

| | | |
|---|---|--|
| 1. Federal Agency and Organizational Element to Which Report is Submitted Department of Commerce, National Telecommunications and Information Administration | 2. Award Identification Number NT10BIX5570009 | 3. DUNS Number 615121324 |
| 4. Recipient Organization Merit Network Inc. 1000 Oakbrook Drive Suite 200, Ann Arbor, MI 48104-6815 | | |
| 5. Current Reporting Period End Date (MM/DD/YYYY) 06-30-2011 | 6. Is this the last Report of the Award Period? <input type="radio"/> Yes <input checked="" type="radio"/> No | |
| 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. | | |
| 7a. Typed or Printed Name and Title of Certifying Official Ryan Kunzelman Grant Compliance Manager | 7c. Telephone (area code, number and extension) 7345275739 | |
| | 7d. Email Address kunzelr@merit.edu | |
| 7b. Signature of Certifying Official Submitted Electronically | 7e. Date Report Submitted (MM/DD/YYYY): 08-11-2011 | |

Project Indicators (This Quarter)

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

Bulk fiber and materials orders have been placed to prepare for increasing amounts of construction. A storage facility for warehousing fiber and materials was located and the process of contract negotiation is currently underway, and security measures are being analyzed. We have implemented multiple tools to track and monitor construction. Currently have agreements with 40 community anchor institutions and also we have collocation contracts in place with a majority of the sites necessary to make the network operationally viable. Make-ready for pole attachments have been moving along and many make-ready estimates have been paid and an in the construction process. Merit has hired a temporary position to work solely on follow up of these permits. Only 9 right-of-way permits were not returned and we have the Michigan Public Service Commission contacting the municipalities for clarification. If no response is received the commission will approve the permits. Merit has submitted route changes and is currently awaiting guidance on the process of the environmental completion. Construction contractors now have signed contracts due to the wage determinations approved by the Department of Labor. Posted a position for Project Manager and Environmental Assessor.

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 | 14 | The combination of delays in several milestone categories has resulted in significantly less spending than we projected; however, once construction is fully underway, we anticipate closing the gap between our current status and the Baseline Plan. |
| 2b. | Environmental Assessment | 100 | The Environmental Assessment is actually at 387% of budget. Since our Finding of No Significant Impact was issued, we have needed to work with our environmental consulting firm 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, as well as the additional Environmental Assessment costs between now and completion, estimated at 400%. |
| 2c. | Network Design | 17 | Engineering has cost significantly less than originally budgeted. This is offset by the Environmental Assessment subcategory (split out separately for the purpose of reporting), which has cost significant more than anticipated. The percent complete number, when based solely on financials, does not reflect that network design for the fiber optic backbone is complete aside from route changes required by permit kickbacks. |
| 2d. | Rights of Way | 100 | We have exceeded our budget for rights-of-way permitting (we are at 196%), however, work still remains to be done. We estimate the percentage at completion will be 200%, and the funds will come out of the construction budget. In addition, we 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 | We have exceeded our budget for construction permitting (we are at 196%), however, work still remains to be done. We estimate the percentage at completion will be 200%, and the funds will come out of the construction budget. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering. |

| | Milestone | Percent Complete | Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer) |
|-----|--|------------------|--|
| 2f. | Site Preparation | 0 | We selected a contractor to perform the site preparation work; we are also still in the process of finalizing central office and community anchor routes. We will be catching up by prepping the site prior to the arrival of the backbone fiber to the anchor, allowing us to get more site preparation complete in a short time frame. Wherever possible, we will save time by purchasing existing entrances to the central office facilities. |
| 2g. | Equipment Procurement | 15 | We have begun procuring optical equipment. Merit does not want to deploy optical equipment until we are closer to the fiber installation date. Due to a lack of storage capacity in our business office, we feel it is wasteful to order more equipment at this time than we are ready to deploy. |
| 2h. | Network Build (all components - owned, leased, IRU, etc) | 8 | We are slightly behind on the network build because of the wait for the Davis Bacon Act wage determinations to be issued. However, we now have contracts with seven construction firms, and we anticipate bringing on several construction crews and beginning aerial construction next quarter. |
| 2i. | Equipment Deployment | 0 | We have not incurred expense for equipment deployment at this time. Merit has not completed enough construction to warrant placing equipment in the field during this quarter. We are early in the deployment process, but Merit will be most likely be at or close to budget by completion. |
| 2j. | Network Testing | 0 | We have not incurred expense for testing equipment at this time. Merit has not completed enough construction to do network testing in this quarter. We are early in the deployment process, but Merit will be most likely be at or close to budget by completion. |
| 2k. | Other (please specify): Staffing, Misc. | 65 | We are slightly over budget in this category because legal fees were higher than projected. We believe the difference will be eliminated next quarter, since we are not yet at projected staffing levels. |

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).

Merit is working on many route changes, and we are continuing to correspond with our Federal Program Officer and creating supporting documentation on the matter. Changes have been made to the route due to engineering issues. To get these approvals, Merit has created multiple documents and spreadsheets to explain the changes in great detail. Certain materials have been in short supply and long lead times are anticipated. Merit needs approval to purchase from countries not list on the Buy American Act list. As of June 30, we were currently awaiting approval.

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 | 36 | To ensure compliance with all award requirements, Merit is waited to receive the applicable Davis Bacon Act wage determinations before working with additional construction crews to install infrastructure. |
| New network miles leased | 0 | No variance |
| Existing network miles upgraded | 0 | No variance |
| Existing network miles leased | 0 | No variance |
| Number of miles of new fiber (aerial or underground) | 36 | To ensure compliance with all award requirements, Merit is waited to receive the applicable Davis Bacon Act wage determinations before working with additional construction crews to install infrastructure. |

| Indicator | Total | Narrative (describe your reasons for any variance from the baseline plan or any other relevant information) |
|--|-------|--|
| Number of new wireless links | 0 | N/A |
| Number of new towers | 0 | N/A |
| Number of new and/or upgraded interconnection points | 0 | To ensure compliance with all award requirements, Merit is waited to receive the applicable Davis Bacon Act wage determinations before working with additional construction crews to install infrastructure. |

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 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 | We have not lit fiber at this time. |

| Subscriber Type | Access Type | Total | Narrative (describe your reasons for any variance from the baseline plan or any other relevant information) |
|---|---|-------|---|
| | Providers with signed agreements receiving improved access | 0 | We have not lit fiber at this time. |
| | Providers with signed agreements receiving access to dark fiber | 0 | We have not lit fiber at this time. |
| | Please identify the speed tiers that are available and the number of subscribers for each | 0 | We have not lit fiber at this time. |
| Community Anchor Institutions (including Government institutions) | Total subscribers served | 0 | We have not lit fiber at this time. |
| | Subscribers receiving new access | 0 | We have not lit fiber at this time. |
| | Subscribers receiving improved access | 0 | We have not lit fiber at this time. |
| | Please identify the speed tiers that are available and the number or subscribers for each | 0 | We have not lit fiber at this time. |
| Residential / Households | 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 |
| | Please identify the speed tiers that are available and the number of subscribers for each | 0 | N/A |
| Businesses | 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 |
| | Please identify the speed tiers that are available and the number of subscribers for each | 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 | Type of Anchor | Are you also the | Narrative description of how anchor institutions are using BTOP- |
|------------------|---------|----------------|------------------|--|
|------------------|---------|----------------|------------------|--|

| | Area (town or county) | Institution (as defined in your baseline) | broadband service provider for this institution? (Yes / No) | funded infrastructure |
|-----|-----------------------|---|---|-----------------------|
| N/A | N/A | N/A | N/A | N/A |

Project Indicators (Next Quarter)

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

Route changes will be completed or direction will be made to approve at least 50% of these changes. Continue to work with pole owners to complete make-ready on poles across the state. About 18 Community Anchor Institutions will be connected and multiple Collocation sites will be engineered. Merit will build in areas where the Environmental Assessment is consistent with engineering. We project that we will have a total of 69 miles new underground completed.

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 | 29 | The combination of delays in several milestone categories has resulted in significantly less spending than we projected; however, once construction is fully underway, we anticipate closing the gap between our current status and the Baseline Plan. |
| 2b. | Environmental Assessment | 100 | Since our Finding of No Significant Impact was issued, we have needed and will continue to need to work with our environmental consulting firm on ways to minimize our project's impact in sensitive areas and remain in compliance. Despite the significant overrun (estimated to be approximately 400% next quarter), 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. |
| 2c. | Network Design | 41 | Engineering has cost significantly less than originally budgeted. This is offset by the Environmental Assessment subcategory (split out separately for the purpose of reporting), which has cost significant more than anticipated. The percent complete number, when based solely on financials, does not reflect that network design for the fiber optic backbone is complete aside from occasional route changes required by permit kickbacks. The route changes, additional engineering work, and staffing will continue to add between 3% and 5% to the percent complete total on a quarterly basis. |
| 2d. | Rights of Way | 100 | We have exceeded our budget for rights-of-way permitting (estimated at 196% for next quarter), however, work still remains to be done. There are several municipalities who have not approved our permit requests. In addition, we 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 | We have exceeded our budget for rights-of-way permitting (estimated at 196% for next quarter), however, work still remains to be done. There are several municipalities who have not approved our permit requests. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering. |
| 2f. | Site Preparation | 0 | We have selected a contractor to perform the site preparation work; we are also still in the process of finalizing central office and Community Anchor Institution routes. We will be catching up by prepping the site prior to the arrival of the backbone fiber to the anchor, allowing us to get more site preparation complete in a short time frame. Wherever possible, we will save time by purchasing existing entrances to the central office facilities. |
| 2g. | Equipment Procurement | 27 | Merit does not want to deploy optical equipment until we are closer to the fiber installation date. Due to a lack of storage capacity in our business office, we feel it is wasteful to order more equipment at this time than we are ready to deploy. However, we will acquire some additional equipment in this quarter. |

| | Milestone | Planned Percent Complete | Narrative (describe reasons for any variance from baseline plan or any other relevant information) |
|-----|--|--------------------------|--|
| 2h. | Network Build (all components - owned, leased, IRU, etc.) | 22 | We are slightly behind on the network build because of the wait for the Davis Bacon Act wage determinations to be issued. We have temporarily secured the services of an underground construction firm so that we could begin some construction, but Merit cannot enter into a contract with a construction firm without attaching the applicable wage determinations. We anticipate bringing on several construction crews and beginning aerial construction in the next quarter. |
| 2i. | Equipment Deployment | 7 | We will have not incurred significant expense for equipment deployment at this time. We are early in the deployment process, but Merit will be most likely be at or close to budget by completion. |
| 2j. | Network Testing | 41 | We have procured test equipment, but less testing has been required due to construction delays. Merit will be most likely be at or close to budget by completion. |
| 2k. | Other (please specify): Staffing, Misc. | 75 | Legal expenses in previous quarters have been significantly higher than expected. |

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).

We anticipate delays due to length of time it has taken so far to have route changes approved. We are continuing to correspond with our Federal Program Officer and creating supporting documentation on the matter. Certain materials have been in short supply and long lead times are anticipated; however, we have placed orders for fiber and materials for the entire network build and set up a facility for storage to ensure all necessary supplies are on hand.

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 | \$210,923 | \$42,185 | \$168,738 | \$246,107 | \$49,221 | \$196,885 |
| b. Land, structures, right-of-ways, appraisals, etc. | \$676,199 | \$135,240 | \$540,959 | \$1,324,011 | \$264,802 | \$1,059,209 | \$1,325,702 | \$265,140 | \$1,060,561 |
| 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 | \$1,042,322 | \$208,464 | \$833,858 | \$1,652,495 | \$330,499 | \$1,321,996 |
| e. Other architectural and engineering fees | \$1,424,305 | \$284,861 | \$1,139,444 | \$112,720 | \$22,544 | \$90,176 | \$331,318 | \$66,264 | \$265,054 |
| f. Project inspection fees | \$1,690,497 | \$338,100 | \$1,352,398 | \$0 | \$0 | \$0 | \$281,749 | \$56,350 | \$225,400 |
| g. Site work | \$1,696,897 | \$339,380 | \$1,357,518 | \$0 | \$0 | \$0 | \$282,816 | \$56,563 | \$226,253 |
| h. Demolition and removal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| i. Construction | \$25,357,463 | \$5,071,492 | \$20,285,971 | \$2,148,789 | \$429,758 | \$1,719,031 | \$6,016,901 | \$1,203,380 | \$4,813,521 |
| j. Equipment | \$5,485,955 | \$1,097,192 | \$4,388,763 | \$825,184 | \$165,037 | \$660,147 | \$1,601,979 | \$320,396 | \$1,281,583 |
| k. Miscellaneous | \$154,827 | \$30,965 | \$123,862 | \$128,957 | \$25,791 | \$103,166 | \$150,450 | \$30,090 | \$120,360 |
| l. SUBTOTAL (add a through k) | \$41,611,526 | \$8,322,306 | \$33,289,222 | \$5,792,906 | \$1,158,581 | \$4,634,325 | \$11,889,517 | \$2,377,903 | \$9,511,613 |
| m. Contingencies | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| n. TOTALS (sum of l and m) | \$41,611,526 | \$8,322,306 | \$33,289,222 | \$5,792,906 | \$1,158,581 | \$4,634,325 | \$11,889,517 | \$2,377,903 | \$9,511,613 |

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