

RECIPIENT NAME: Merit Network Inc.

AWARD NUMBER: NT10BIX5570114

DATE: 05/22/2012

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>  NT10BIX5570114	<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>  03-31-2012	<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>  Jamie Nielson	<b>7c. Telephone (area code, number and extension)</b>  X	
	<b>7d. Email Address</b>  jamien@merit.edu	
<b>7b. Signature of Certifying Official</b>  Submitted Electronically	<b>7e. Date Report Submitted (MM/DD/YYYY):</b>  05-22-2012	

<b>Project Indicators (This Quarter)</b>			
<p><b>1. Please describe significant project accomplishments completed during this quarter (600 words or less).</b></p> <p>The joint conduit installation for Enventis Telecom (a BTOP recipient) and Merit Network in Duluth, MN was completed and accepted. Construction crews worked in the Northeastern, Middle, and Upper Peninsula regions of the Project. Merit reached a maintenance agreement with the Bad River Tribe regarding the REACH-3MCII project passing through Tribal lands. Capital Communications was selected through Merit's RFP process to complete Central Office work for the project. Merit purchased 41 miles of infrastructure from St. Ignace to Sault Ste. Marie. All 6 Subrecipient Agreements have been signed for the REACH-3MCII award. All fiber has been ordered for the project. Merit has received permits from the Michigan Department of Environmental Quality (MDEQ) for Kalkaska, Missaukee, Wexford, Osceola, and Lake counties. Merit received its Huron National Forest Permit for Alcona, Iosco, Ogemaw, Oscoda, and Crawford counties. Merit has also received several wetland permits.</p>			
<p><b>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).</b></p>			
	<b>Milestone</b>	<b>Percent Complete</b>	<b>Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)</b>
2a.	<b>Overall Project</b>	15	Permitting for Round 2 is in full swing. Construction began on small permitted segments; Merit anticipates having all construction crews working at full capacity next quarter.
2b.	<b>Environmental Assessment</b>	100	Merit has exceeded our Environmental Assessment (EA) costs; we are currently at 554%. This is partially due to an underestimate based on RFP responses Merit had received in the past, and partially due to unexpected challenges in obtaining clearances for in Wisconsin and Minnesota. Since Merit will continue to incur costs related to the Environmental Assessment, Merit is considering a revision to the budget to incorporate the latest estimate of the Environmental Assessment cost at completion, which will be around 600%.
2c.	<b>Network Design</b>	85	Since receiving Merit's Finding of No Significant Impact, Merit has proceeded with most of the required field engineering. Merit anticipates continued costs for incorporating redlines and doing final CADs, and the project will be at budget at completion.
2d.	<b>Rights of Way</b>	88	Merit has prepped and submitted most permits so they can be approved as we start deploying construction crews. Since receiving the Finding of No Significant Impact, Merit has finalized the route and completed most of the engineering work necessary.
2e.	<b>Construction Permits and Other Approvals</b>	46	Merit has prepped and submitted many permits so they can be approved as Merit starts deploying construction crews. Since receiving the Finding of No Significant Impact, Merit has finalized the route and completed most of the engineering work necessary.
2f.	<b>Site Preparation</b>	5	Sites for the huts have been identified. Merit submitted an RFP for Hut Construction and selected a vendor, and is in final stages of completing the contract with the hut vendor. Merit is also in the process of acquiring easement agreements for the placement of huts.
2g.	<b>Equipment Procurement</b>	3	Merit ordered and received equipment, and placed some of it in the field in the Upper Peninsula. As more of the network is completed, we anticipate placing additional orders.
2h.	<b>Network Build (all components - owned, leased, IRU, etc)</b>	18	Materials for construction continue to be ordered. Construction began in late December 2011. Merit anticipates construction will ramp up as larger permitted segments are released for construction going forward.
2i.	<b>Equipment Deployment</b>	10	Merit ordered and received equipment, and placed some of it in the field in the Upper Peninsula. As more of the network is completed, we anticipate placing additional orders.
2j.	<b>Network Testing</b>	0	Network construction has begun, testing will take place as equipment is placed and operational.

	Milestone	Percent Complete	Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)
2k.	Other (please specify): Staffing, Miscellaneous	11	Now that the project is fully staffed, Merit anticipates gradually coming into line with the Baseline Report by project completion.

**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 the Finding of No Significant Impact and get permits continues to impact the project, but Merit does anticipate making up time during the second and third quarters in 2012. Merit is still working to obtain pole permits and complete make ready prior to construction. Construction was slowed January-March due to weather in northern Michigan, but Merit anticipates an increase in the amount of construction performed during the summer months. Merit is working to obtaining the remaining Right of Way permits from the Bad River Indian Tribe, by making frequent visits with the tribe and working closely with the BIA.

**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	11	Delays in some of our milestone categories has resulted in a delay in installing fiber; however, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
New network miles leased	0	No variance.
Existing network miles upgraded	65	Merit purchased existing fiber along the planned route.
Existing network miles leased	0	No variance.
Number of miles of new fiber (aerial or underground)	76	Delays in some of our milestone categories has resulted in a delay in installing fiber; however, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
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	6
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:**  
 LYNX Network Group, LLC  
 KEPS Technologies, Inc. (D.B.A. - ACD.net)  
 Boardman River Communications, LLC (BRC)  
 CCI Systems, Inc  
 Peninsula Fiber Network, LLC (PFN)  
 Great Lakes Comnet

**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:**  
 No wholesale services are currently being provided.

**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 subrecipients will participate in this "condo" build. Each subrecipient will own strands in the build depending on the segment/location of the build.  
 LYNX Network Group, LLC: Chris Barber, PO Box 237 Kalamazoo, MI 49004, Phone: 877.585.5969  
 Ownership: Northeastern Corridor and Middle Corridor  
 KEPS Technologies, Inc. (D.B.A. - ACD.net): Kevin Schoen, 1800 N Grand River Ave Lansing, MI 48906, Phone: 877.422.3638  
 Ownership: All Corridors  
 Boardman River Communications, LLC (BRC): Gary John, 1801 Boardman Rd., SW, PO Box 17, South Boardman, MI, 49680, Phone: 231-369-2500, 231-492-5594  
 Ownership: Northern Corridor  
 CCI Systems, Inc: Joe Esbrook, 105 Kent Street, Iron Mountain, MI, 48901, Phone: 906-776-2866  
 Ownership: Northeastern Corridor and Middle Corridor  
 Peninsula Fiber Network, LLC (PFN): David McCartney, 108 W. Superior, Munising, MI, 49862, Phone: 906-226-2010  
 Ownership: Northern Corridor  
 Great Lakes Comnet: Bill Goodfellow, 1515 Turf Lane, Suite 100, East Lansing, MI 48823, Phone: 517-664-1600  
 Ownership: North Eastern, Middle, and North Corridor

**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	The projection for agreements for this quarter was dependent upon acquiring leased fiber. Negotiations for leased fiber are taking longer than anticipated; we are currently having productive conversations, and anticipate being on schedule by next quarter.
	Providers with signed agreements receiving improved access	0	The projection for agreements for this quarter was dependent upon acquiring leased fiber. Negotiations for leased fiber are taking longer than anticipated; we are currently having productive conversations, and anticipate being on schedule by next quarter.
	Providers with signed agreements receiving access to dark fiber	0	No variance
	Please identify the speed tiers that are available and the number of subscribers for each	0	The projection for agreements for this quarter was dependent upon acquiring leased fiber. Negotiations for leased fiber are taking longer than anticipated; we are currently having productive conversations, and anticipate being on schedule by next quarter.
Community Anchor Institutions (including Government institutions)	Total subscribers served	1	Although there was one subrecipient connected to the BTOP-funded network in Q1 2012, broadband service was not being provided during that quarter.
	Subscribers receiving new access	0	Delays in some of our milestone categories has resulted in a delay in lighting fiber; however, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
	Subscribers receiving improved access	1	Delays in some of our milestone categories has resulted in a delay in lighting fiber; however, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
	Please identify the speed tiers that are available and the number or subscribers for each	0	Although the subrecipient is connected to the BTOP-funded network, broadband service was not being provided this quarter. Merit anticipates delivering 1 Gbps service during the second quarter of 2012.
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

Subscriber Type	Access Type	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
	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).  
None at this time.

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
Forest Park Schools	Crystal Falls	K12	Yes	This institution is connected to BTOP funded infrastructure. Broadband services will be provided starting in the second 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 number of construction crews working and the number of segments where construction is underway to increase. Merit will obtain remaining easements for hut placements, and finalize the hut contract. Merit looks to obtaining all remaining wetlands and forest use permits. Merit looks to obtain outstanding right of way permits from the Bad River Tribe.

- Estimated number of miles planned for deployment during the next quarter: 15
- Estimated number of CAIs planned or connection during the next quarter: 3
- Number of agreements with broadband wholesaler/last mile providers: 7

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	33	Merit anticipates construction moving into full swing. We will select vendors for hut construction, continue to procure optical equipment, and begin to procure switches and routers. Our Finding of No Significant Impact was received approximately two quarters later than we had projected, so many of our key indicators are also two quarters behind

	Milestone	Planned Percent Complete	Narrative (describe reasons for any variance from baseline plan or any other relevant information)
2b.	Environmental Assessment	100	Merit has exceeded our Environmental Assessment (EA) costs; we are currently at 554%. This is partially due to an underestimate based on RFP responses we had received in the past, and partially due to unexpected challenges in obtaining clearances for in Wisconsin and Minnesota. Since we will continue to incur costs related to the Environmental Assessment, we are considering a revision to the budget to incorporate the latest estimate of the Environmental Assessment cost at completion, which will be around 600%.
2c.	Network Design	90	While most of the field engineering is complete, we anticipate continued costs for incorporating redlines and doing final CADs, and the project will be at budget at completion.
2d.	Rights of Way	88	We have prepped and submitted most permits so they can be approved as we start deploying construction crews. Since receiving our Finding of No Significant Impact we have finalized the route and completed most of the engineering work necessary.
2e.	Construction Permits and Other Approvals	57	We have prepped and submitted most permits so they can be approved as we start deploying construction crews. Since receiving our Finding of No Significant Impact we have finalized the route and completed most of the engineering work necessary.
2f.	Site Preparation	24	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.	Equipment Procurement	22	More optical equipment will be ordered. The procurement process for routers and switches will be completed, and route/switch equipment will be ordered. Merit anticipates being at budget by project completion.
2h.	Network Build (all components - owned, leased, IRU, etc.)	34	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.	Equipment Deployment	28	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.	Network Testing	20	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 testing completed fiber, and spending in this category will increase. Merit will be at or close to budget by completion.
2k.	Other (please specify): Staffing, Miscellaneous	29	Now that the project is fully staffed, Merit anticipates gradually coming into line with the Baseline Report by project completion.

**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 do not project encountering any challenges or issues leading to delays unique to this quarter, with the exception of possible weather delays. 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 gaining ground during the second and third quarters in 2012 and beyond.

**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	\$621,845	\$124,369	\$497,476	\$170,389	\$34,078	\$136,311	\$455,756	\$91,151	\$364,605
b. Land, structures, right-of-ways, appraisals, etc.	\$1,116,000	\$223,200	\$892,800	\$31,410	\$6,282	\$25,128	\$174,191	\$34,838	\$139,353
c. Relocation expenses and payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
d. Architectural and engineering fees	\$4,301,298	\$860,260	\$3,441,038	\$2,238,211	\$447,642	\$1,790,569	\$2,240,912	\$448,182	\$1,792,729
e. Other architectural and engineering fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
f. Project inspection fees	\$732,625	\$146,525	\$586,100	\$0	\$0	\$0	\$0	\$0	\$0
g. Site work	\$723,009	\$144,602	\$578,407	\$0	\$0	\$0	\$0	\$0	\$0
h. Demolition and removal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
i. Construction	\$51,151,342	\$10,230,268	\$40,921,074	\$9,624,082	\$1,924,817	\$7,699,265	\$18,303,829	\$3,660,766	\$14,643,063
j. Equipment	\$28,244,599	\$5,648,920	\$22,595,679	\$826,001	\$165,200	\$660,801	\$6,333,412	\$1,266,682	\$5,066,729
k. Miscellaneous	\$158,396	\$31,679	\$126,717	\$407,177	\$81,435	\$325,742	\$1,292,882	\$258,576	\$1,034,306
<b>l. SUBTOTAL (add a through k)</b>	\$87,049,114	\$17,409,823	\$69,639,291	\$13,297,270	\$2,659,454	\$10,637,816	\$28,800,982	\$5,760,195	\$23,040,785
m. Contingencies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>n. TOTALS (sum of l and m)</b>	\$87,049,114	\$17,409,823	\$69,639,291	\$13,297,270	\$2,659,454	\$10,637,816	\$28,800,982	\$5,760,195	\$23,040,785

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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