

RECIPIENT NAME: Merit Network Inc.

AWARD NUMBER: NT10BIX5570114

DATE: 11/26/2012

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>  09-30-2012	<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>  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>  11-26-2012	

<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>Merit has received all outstanding forestry and Michigan Department of Environmental Quality permits for this project. Merit is making continued progress with construction, averaging 35-40 miles of completed infrastructure construction per week. Fiber will be blown through once the infrastructure is completed. Merit submitted an Award Action Request to remove some Community Anchor Institutions and replace with more committed Community Anchor Institution sites. The request was approved. Merit has all easements approved for hut location sites for the project.</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>	36	Construction is in full swing for Round 2 across all segments. Merit anticipates having a significant amount of infrastructure installed by the end of the fourth quarter.
2b.	<b>Environmental Assessment</b>	100	Merit has exceeded our Environmental Assessment costs. We are currently at 556% of original budget. This overage is due to the underestimated line item based on Request For Proposal responses to Merit and unexpected challenges in obtaining clearances 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>	100	Since receiving Merit's Finding of No Significant Impact, Merit has completed the required field engineering. Merit anticipates continued costs for incorporating redlines and doing final CADs.
2d.	<b>Rights of Way</b>	95	Merit has prepped and submitted many permits so they can be approved as construction crews are deployed. Since receiving the Finding of No Significant Impact Merit has finalized the route and completed most of the engineering work necessary for permit submission.
2e.	<b>Construction Permits and Other Approvals</b>	56	Merit has prepped and submitted many permits so they can be approved as construction crews are deployed. Since receiving the Finding of No Significant Impact Merit has finalized the route and completed most of the engineering work necessary for permit submission.
2f.	<b>Site Preparation</b>	16	Sites for the huts have been identified. Merit has completed the construction contracts and selected a vendor. Merit has also acquired the easement agreements for hut placements. There is an anticipated increase in spending in this category over the coming quarter and beyond.
2g.	<b>Equipment Procurement</b>	8	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>	47	Materials are still being ordered as construction continues. Since construction began in late December 2011, Merit has had a large number of crews working across multiple segments each week. It is anticipated that construction will continue at this pace, aiming to place as much infrastructure as possible before weather limitations occur.
2i.	<b>Equipment Deployment</b>	20	Merit has managed the equipment deployment by ordering, receiving, and placing it in the Upper Peninsula as needed. As more of the network is completed we will place additional equipment orders.
2j.	<b>Network Testing</b>	0	Network construction has begun. Testing will take place as equipment is placed and operational.
2k.	<b>Other (please specify): Staffing, Miscellaneous</b>	32	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).**

During the second and third quarters of 2012 Merit has accelerated the pace of construction to make up for delays caused by permits and the Finding of No Significant Impact. Merit anticipates having a large increase in the pace of construction. Management of the large quantity of field construction crews has been challenging. Merit conducts weekly status meetings to gather updates regarding: the progress of the crews, to plan for the coming weeks, and to identify and resolve any build obstructions. Merit is still working to receive all approvals and clearances in Wisconsin before construction can begin. Merit is working with the appropriate parties to expedite the process so construction will not be further delayed.

**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	209	Delays in some of our milestone categories have resulted in holdups in fiber installation. However, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.  Strand miles completed through Q3 2012: 39 Miles (includes purchased infrastructure) Conduit miles completed through Q3 2012: 654 Miles (includes purchased infrastructure)
New network miles leased	0	No Variance
Existing network miles upgraded	77	Merit purchased existing fiber along the planned route.
Existing network miles leased	0	No Variance
Number of miles of new fiber (aerial or underground)	209	Delays in some of our milestone categories have resulted in holdups in fiber installation. 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) -(Signed contract as of June 30, 2012, will drop off project in following quarter)  
 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 third party operates (600 words or less).**

We anticipate sub recipients will participate in this "condo" build. Each sub recipient 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 ( ACD has a signed contract with Merit at the time this quarter ended. They will be dropping off the project next quarter)

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. At this time agreements are in place, but no access is being granted. Merit anticipates aligning with our Baseline in the following quarters.
	Providers with signed agreements receiving improved access	0	The projection for agreements for this quarter was dependent upon acquiring leased fiber. At this time agreements are in place, but no access is being granted. Merit anticipates aligning with our Baseline in the following quarters.
	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. At this time agreements are in place, but no access is being granted. Merit anticipates aligning with our Baseline in the following quarters.
Community Anchor Institutions (including Government institutions)	Total subscribers served	4	Delays in some of our milestone categories have resulted in holdups in fiber installation. However, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
	Subscribers receiving new access	0	Delays in some of our milestone categories have resulted in holdups in fiber installation. However, once construction is fully underway we anticipate closing the gap between our Baseline Report and the reported totals.
	Subscribers receiving improved access	4	Delays in some of our milestone categories have resulted in holdups in fiber installation. 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	1	1 CAI is served at 1 Gbps; the remaining CAIs did not subscribe to service during the reporting quarter.
Residential / Households	Entities passed	0	N/A
	Total subscribers served	0	N/A
	Subscribers receiving new 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)
	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).**

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).**

**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
Mackinaw City Public Library	Mackinaw City, MI	Library	Yes	This institution is connected to BTOP funded infrastructure for broadband service.
Portage Lake District Library	Houghton, MI	Library	Yes	This institution is connected to BTOP funded infrastructure for broadband service.
Mackinaw City Public Schools	Mackinaw City, MI	K12	Yes	This institution is connected to BTOP funded infrastructure for broadband service.

**Project Indicators (Next Quarter)**

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

Merit will continue with construction at an aggressive pace before winter weather sets in and slows or halts progress. Merit expects to complete equipment procurement during the following quarter. In addition, Merit will have at least one (1) fiber hut placed in Escanaba, Michigan and hopes to place additional huts in the fourth quarter. Merit anticipates being able to connect additional Community Anchor Institution sites once main line construction is completed in the area, including fifteen (15) Community Anchor Institution sites during the fourth quarter of 2012 with five (5) of those receiving service during that time period.

Additional estimated miles to deploy for Q4 2012

Strand: 15

Conduit: 115

Total Miles with Fiber: 150

Merit does not anticipate signing any broadband/wholesaler last mile agreements during the reporting quarter.

**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	58	Merit expects construction to continue at full speed. The Finding of No Significant Impact was received approximately two (2) quarters behind the projected date thus many of our key indicators are also two (2) quarters behind.
2b.	Environmental Assessment	100	Merit has exceeded our Environmental Assessment costs. We are currently at 556% of original budget. This overage is due to the underestimated line item based on Request For Proposal responses to Merit and unexpected challenges in obtaining clearances 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.	Network Design	100	While most of the field engineering is completed Merit anticipates continued costs for incorporating redlines and final CADs.
2d.	Rights of Way	96	Merit has prepped and submitted most permits for approval as construction crews are deployed. Since receiving the Finding of No Significant Impact Merit has finalized the route and completed the necessary engineering work.
2e.	Construction Permits and Other Approvals	71	Merit has prepped and submitted most permits for approval as construction crews are deployed. Since receiving the Finding of No Significant Impact Merit has finalized the route and completed the necessary engineering work.
2f.	Site Preparation	44	Merit anticipates being invoiced for site preparation work performed in the previous quarter. Merit will have increased the number of staff working on site preparation from one (1) individual to four (4). 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	39	Merit is ordering additional optical equipment. The procurement process for routers and switches will be completed and router and switch equipment will be ordered. Merit anticipates being at budget by project completion.
2h.	Network Build (all components - owned, leased, IRU, etc.)	65	Merit has contracts with seven (7) 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	47	Merit has been behind our Baseline Report due to delays in the start of construction. However, with construction actively underway, our engineers will be field testing completed fiber, and spending in this category will increase. Merit will be at or close to budget by project completion.
2j.	Network Testing	34	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	55	The project is now fully staffed and Merit anticipates a gradual alignment 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).

Merit will continue to work on resolution of approval issues in Wisconsin but this should not result in significant delays to this quarter. The weather will begin to be a factor as winter gets closer. Merit will be working to get as much infrastructure and construction completed before the weather impacts the build. Merit does not expect to encounter any other significant delay challenges in the coming quarter. The length of time it took to get the Finding of No Significant Impact and environmental permits continues to impact the project's schedule; however, we anticipate making up this time in the fourth quarter of 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	\$173,948	\$34,790	\$139,158	\$399,626	\$79,925	\$319,701
b. Land, structures, right-of-ways, appraisals, etc.	\$1,116,000	\$223,200	\$892,800	\$82,111	\$16,422	\$65,689	\$718,959	\$143,792	\$575,167
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	\$3,449,620	\$689,924	\$2,759,696	\$3,692,021	\$738,404	\$2,953,617
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	\$7,540	\$1,508	\$6,032
g. Site work	\$723,009	\$144,602	\$578,407	\$11,226	\$2,245	\$8,981	\$319,824	\$63,965	\$255,859
h. Demolition and removal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
i. Construction	\$51,151,342	\$10,230,268	\$40,921,074	\$24,928,290	\$4,985,658	\$19,942,632	\$33,571,501	\$6,714,300	\$26,857,201
j. Equipment	\$28,244,599	\$5,648,920	\$22,595,679	\$2,197,701	\$439,540	\$1,758,161	\$10,919,411	\$2,183,882	\$8,735,528
k. Miscellaneous	\$158,396	\$31,679	\$126,717	\$599,523	\$119,905	\$479,618	\$666,043	\$133,209	\$532,835
<b>l. SUBTOTAL (add a through k)</b>	\$87,049,114	\$17,409,823	\$69,639,291	\$31,442,419	\$6,288,484	\$25,153,935	\$50,294,925	\$10,058,985	\$40,235,940
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	\$31,442,419	\$6,288,484	\$25,153,935	\$50,294,925	\$10,058,985	\$40,235,940

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