

EDWARD M. CRAMP  
DIRECT DIAL: 619.744.2223  
PERSONAL FAX: 619.744.2201  
E-MAIL: emcramp@duanemorris.com

www.duanemorris.com

January 18, 2008

Ms. Catherine M. Pensanti  
Fidelity Claims Examiner  
Chubb & Son, a Division of Federal Insurance Company  
8801 S. Figueroa Street, Suite 2100  
Los Angeles, CA 90017

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Re: Linspire -- Employee Theft Claim No. 047507063135  
Policy No. 3579-91-96  
Dated: October 25, 2006

Dear Ms. Pensanti:

Please accept this letter as Linspire, Inc.'s ("Linspire") Proof of Loss for Claim No. 3579-91-96. Pursuant to our agreement, the deadline for the Proof of Loss to be submitted was extended until January 18, 2007.

I. Narrative Description of Events

On July 31, 2007, Linspire discovered that several of its former executives conspired to embezzle \$318,816.26. These funds were paid to the executives despite explicit instructions to the contrary to Kevin Carmony, Linspire's former CEO by Michael Robertson, Linspire's Chairman and majority stockholder. Between July 12 and July 31,<sup>1</sup> Mr. Carmony and Mr. Robertson exchanged emails and had several discussions concerning the proper use of Linspire's limited capital funds. Mr. Carmony wanted to use the vast majority of Linspire's capital to pay large, unearned sums to certain employees, including \$1 million to Mr. Carmony and \$500,000 to Linspire's CFO, [REDACTED]. Mr. Robertson maintained that the funds were necessary to finance the company's ongoing operations and, on behalf of the Board of Directors, instructed Mr. Carmony not to pay out any money without the permission of the Board.

During the same period of time, Mr. Carmony held several secret meetings with the following Linspire employees, among others: (i) [REDACTED]; (ii) [REDACTED], former VP of Business Development; (iii) [REDACTED], former Controller; (iv) [REDACTED], former VP

<sup>1</sup> All dates are 2007 unless otherwise noted.

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of OS Engineering; and (v) [REDACTED] former Lead OS Architect. During the secret meetings, Mr. Carmony and the co-conspirators devised a scheme by which Mr. Carmony would "fire" the co-conspirators and pay each of them a large, unearned sum against the instructions of Linspire's Board of Directors and its majority stockholder, Mr. Robertson.

On July 25, Linspire was to receive the second of two substantial payments from a third party. On July 24, in anticipation of the planned embezzlement, [REDACTED] secretly changed wire instructions for the second payment to a corporate operating account at Comerica Bank to enable the co-conspirators to embezzle the funds without Mr. Robertson's knowledge. In connection with the transfer, [REDACTED] admonished Mr. Linnell via email, as follows: "Do not say anything about this wire transfer to anyone other than [Mr. Carmony] or myself."

On July 24, Mr. Carmony and [REDACTED] secretly initiated a wire transfer to Mr. Olson of \$195,742.86. When Mr. Carmony was unable to initiate the wire, [REDACTED] authorized the wire transfer himself with the connivance of the Controller, [REDACTED] who confirmed [REDACTED] wire transfer. From July 24 through July 31, [REDACTED] continued to come to the office as if nothing had happened. Around the same time, Mr. Carmony secretly offered, and [REDACTED] accepted, a sham employment agreement with a six-month severance clause.

On July 31, Mr. Carmony orchestrated the terminations and illegal payments of the remaining co-conspirators. The sham terminations were done against the explicit instructions of the Board of Directors. The co-conspirators received payments in the following amounts: [REDACTED] \$50,814.32; [REDACTED] \$42,675.91; and [REDACTED] \$29,583.17. Each of the wire transfer were initiated and confirmed by [REDACTED] only, in violation of a security agreement between Linspire and Comerica Bank.

At the same time, Mr. Carmony informed [REDACTED] that he would be fired on August 3. This termination would trigger the secret and unauthorized six-month termination agreement entered into with [REDACTED] just days before. [REDACTED] was told that he must stay employed long enough to complete the wire transfers to the other co-conspirators. [REDACTED] knowing that the wire transfers were improper, elected to obtain his severance payment in the form of a check signed by Mr. Carmony days before Mr. Carmony quit his employment.

After orchestrating and concluding the embezzlement, Mr. Carmony abruptly resigned via email on July 31. He did not reveal to the Board that he had dispersed the sums of money against its instructions. He also, prior to leaving, in an obvious attempt to destroy the evidence of his action, deleted his emails from Linspire's servers, including all seven backup copies and erased the hard drives of each of the four computers.

On August 1, [REDACTED] who was still employed with the company, received an instant message from Mr. Carmony telling him, "You may want to deposit your check ASAP, so it has

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time to clear before Friday (his last day of employment).” [REDACTED] later disclosed that he chose to receive the check instead of a wire transfer because he that he knew the wire transfers were chosen so they could not be reversed when they were discovered by Linspire. He said that he knew that the wire transfer was an improper method of paying “severance” to employees who were not bound by legally enforceable releases. In short, [REDACTED] was concerned about his own liability. [REDACTED] returned the check to Linspire.

II. Documentation Regarding Employees

Copies of the employee files of the relevant actors, Kevin Carmony, [REDACTED], [REDACTED], [REDACTED], and [REDACTED], are available for your review. Please let me know if you would like us to provide them.

The company is not aware of any credits due to the employees that may offset the loss. The hire and termination dates of the employees involved are as follows:

Name	Date of Hire	Date of Termination
Kevin Carmony	07/01/2001	07/31/07
[REDACTED]	04/01/2003	07/24/07
[REDACTED]	01/14/2002	07/31/07
[REDACTED]	10/15/2001	07/31/07
[REDACTED]	11/12/2001	07/31/07
[REDACTED]	02/02/2004	08/03/07

III. Amount of Loss

The amount of loss is \$318,816.26. Copies of the wire transfer documents are attached to this correspondence as Exhibit “A.”

IV. The Police Reports


The company filed a police report with the San Diego Police Department. A copy of the report is attached as Exhibit B.

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V. Conclusion

Thank you for your consideration of this claim. If you require additional information, please advise us and we will be happy to provide it to you. I may be reached at the address and telephone number above.

Very truly yours,



Edward M. Cramp

EMC/cdw  
Attachments

cc: Keith Zakarin, Esq.  
Michael S. Umansky, Esq.  
Mr. Michael Robertson, Linspire, Inc.  
Mr. Larry Kettler, Linspire, Inc.