

A P V O U C H E R

e 1 EDMONDS SCHOOL DISTRICT NO. 15
 d ID 1 General Fund
 16800 SEATTLE PIANO GALLERY
 2230 8TH AVE
 SEATTLE WA 98121

Voucher 141
 Warrant 141
 Paydate September 09, 2005
 Board Date September 20, 2005
 Amount 39,748.50

m No	PO No	Bid CT	Inv Date	Invoice Number	Amount	Item Amount
Subsidiary						
	144296 F		08/16/05	100		39,748.50
0 8800-01-27-901-097-777 -					39,748.50	
--Voucher Total -->						39,748.50

Certification

, the undersigned, do hereby certify under penalty of perjury that
 he materials have been furnished, the services rendered or the
 labor performed as described herein and that the claim is a just,
 due and unpaid obligation against EDMONDS SCHOOL DISTRICT NO. 15,
 and that I am authorized to authenticate and certify to said claim.

Signature of Auditing Officer

Date

SEATTLE PIANO GALLERY

2230 8TH Ave
Seattle WA 98121
Phone 206-282-7101 Fax 206-267-2714

RECEIVED
BUSINESS SERVICES
2005 AUG 26 AM 7:30

INVOICE #[100]
DATE: AUGUST 16, 2005

TO:
Edmonds School District NO. 15
20420 - 68th Ave W
Lynnwood, WA 98036-7400
Attn: Accounts Payable

COMMENTS OR SPECIAL INSTRUCTIONS:

SALESPERSON	P.O. NUMBER	REQUISITIONER	SHIPPED VIA	F.O.B. POINT	TERMS
Arnie Tucker	144296	Scott Barnes / Laura Trimble			Due on receipt

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
1	Diapason D171 Serial Number 122644	9,000.00	9,000.00
1	Diapason D171 Serial Number 123219	9,000.00	9,000.00
1	Diapason D171 Serial Number 123277	9,000.00	9,000.00
1	Diapason D171 Serial Number 123317	9,000.00	9,000.00
	Shipping Charges	500.00	500.00
<div>HAS THIS BEEN RECEIVED AND IS THIS OK TO PAY? YES <input checked="" type="checkbox"/> NO <input type="checkbox"/> Date <u>AUG 23 2005</u> IF NO, reason _____ SIGNATURE <u>[Signature]</u> PLEASE RETURN TO ACCOUNTS PAYABLE Thanks, Debbie ext. 7060</div>		SUBTOTAL	36,500.00
		SALES TAX	3,248.50
		TOTAL DUE	39,748.50

Make all checks payable to **Seattle Piano Gallery**
If you have any questions concerning this invoice, contact **Arnie Tucker 206-282-7101**

Thank you for your business!



SEATTLE PIANO GALLERY^{LLC}

Invoice

Bill To:

Edmonds School District No. 15
29429 68th Ave W
Lynnwood, WA 98036

ITEM	AMOUNT	Freight	Sales Tax	Total
Diapason D171 Serial No 122644	\$ 9,000.00	125.00	812.13	\$ 9,937.13
Diapason D171 Serial No 123219	\$ 9,000.00	125.00	812.13	\$ 9,937.13
Diapason D171 Serial No 123277	\$ 9,000.00	125.00	812.13	\$ 9,937.13
Diapason D171 Serial No 123317	\$ 9,000.00	125.00	812.13	\$ 9,937.13

TOTAL DUE**\$ 39,748.52**

Scott,

Arnie Tucker (Seattle Piano Gallery) gave me the invoice indicating the total cost for the four Diapason Grands that we could purchase (see attached). At last conversation, Laura had indicated that you had approx. \$34,565.00 available in accounts (before closing out Purchase Orders). The invoice, as you can see, is for \$39,748.52 (a difference of \$5183.52). Perhaps even less with the POs closed.

We should see Matthew and then Manny about pursuing the final purchase soon.

Tam

A handwritten signature in black ink, appearing to be the name 'Tam'. The signature is written in a cursive style with a long horizontal stroke at the end.

Exhibit "A"**Lease Agreement****Lessor: Seattle Piano Gallery****Lessee: Edmonds School District No. 15****List of "Equipment"**

Make	Model	Serial No.	Description	Unit Price	Freight Cost	Sales Tax	Total Net Price
Diapason	DN-38	123154	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123382	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123389	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123339	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123341	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123191	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123338	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	122637	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	DN-38	123301	48" Vertical Piano	\$ 3,200.00	\$ 40.00	\$ 288.36	\$ 3,528.36
Diapason	D-171	122644	5'7" Grand Piano	\$ 9,000.00	\$ 125.00	\$ 812.13	\$ 9,937.13
Diapason	D-171	123219	5'7" Grand Piano	\$ 9,000.00	\$ 125.00	\$ 812.13	\$ 9,937.13
Diapason	D-171	123277	5'7" Grand Piano	\$ 9,000.00	\$ 125.00	\$ 812.13	\$ 9,937.13
Diapason	D-171	123317	5'7" Grand Piano	\$ 9,000.00	\$ 125.00	\$ 812.13	\$ 9,937.13
Diapason	125MF	118506	49" Vertical Piano	\$ 4,200.00	\$ 40.00	\$ 377.36	\$ 4,617.36
				\$ 69,000.00	\$ 900.00	\$ 6,221.10	\$ 76,121.10



SEATTLE PIANO GALLERY LLC

Scott Barnes
C/O Edmonds School Dist.
20420 68th Ave West
Lynnwood, WA 98036-7400

November 16, 2005

Dear Scott,

I'm writing this letter in response to a phone call from you that I received last week regarding your statement that you understood that the Edmonds School District (the district) may have paid twice for the 4 Diapason grand pianos purchased from Seattle Piano Gallery (SPG) last summer. As you've requested, here are the facts, as I know them. Attached please find supporting documents.

Last summer (2004) I approached Edmonds School District with an opportunity to buy at wholesale, the 14 new Diapason pianos SPG was loaning to the district. The wholesaler, Green Wave International, was closing its office in Washington and going out of business here. They asked for their pianos back but the district had been planning on using them for the 2004/2005 school year. At that time I was faced with either selling them to the district or giving them back to the supplier, as I was not in a position to buy them myself.

The district replied saying that they could not legally buy them, as the law required that a purchase that big must go up for bid. However, to avoid losing these pianos mid year, the district decided to lease the pianos through the following school year. The provisions of the lease that they wrote called for a sale to be held to attempt to liquidate these pianos before August 31, 2005. The proceeds from the "End of School Sale" of any of these pianos loaned to the district, were to be paid to the district to help reimburse some of the lease expense occurred and the balance of any pianos left over from the sale were to remain as the permanent property of the district, free and clear.

The district decided that it did not want to take the chance of losing these 14 pianos at such short notice and generously wrote a lease to cover my wholesale costs so that these pianos could remain in the district for another year. As you can see from the attached lease agreement, these pianos were to be offered for sale to the general public the following summer (2005). Proceeds from the sale of these instruments to the public would be used to either reimburse the district for the costs of the lease of each of these pianos or, if the pianos didn't sell at this sale, the district would retain ownership of these pianos free and clear at the leased (wholesale) price.

About a month before the sale was to happen, I got a call from Tam Osborne to send the district an invoice to purchase the 4 grand pianos. The district wanted these pianos and did not want to take the chance of losing them in the sale to the general public. Following these instructions, I sent the invoice with my retail sales price of these pianos minus the

wholesale price that the district had already paid through their lease agreement. The confusion may have resulted from the fact that the amount invoiced coincidentally equaled the wholesale price already paid. I received payment and the district retained these 4 new grand pianos complete with our 10-year warranty agreement.

I was told that the district also wanted the remaining 10 vertical pianos but didn't have budget to buy them at that time and they were hoping to retain at least some of them through the provisions of the Lease Agreement dated Aug. 4, 2004. To assist the district in their desire to retain these pianos, I instructed my sales staff to hold back these 10 pianos until all the other Diapason verticals that we had in our store stock had been sold.

SPG sold 6 Diapason pianos in our sale through Aug. 26-28, 2005. Only one of them belonged to the district. A check for that one piano sold (serial number 118506) was mailed promptly on Aug. 31st to the district per our lease agreement and the remaining 9 pianos were left behind as property of the district free and clear.

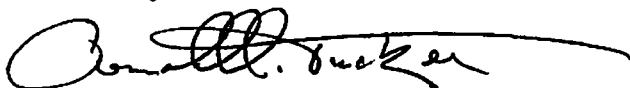
I respectfully submit this as the final result: The district received use of 14 new pianos for over a year through a lease that equaled my cost of acquiring them. The district then paid full sales price on the 4 grand pianos so they would not take the chance of losing them. The district was reimbursed in full for the lease amount paid on the one piano that did sell in the public sale. The district then received the remaining 9 pianos at cost.

Those high quality Diapason 6 foot grand pianos that you purchased were built in Japan in the Kawai Factory on the same assembly line using the same materials and craftsmen used in constructing the high end Kawai RX series grand pianos and the Boston GP series designed and owned by Steinway & Sons. Current prices on these pianos FOB factory range between \$24,300 (5'10") and \$30,900 (6'4") for the Bostons and at \$29,390 for the RX3 (6'1") Kawai. These prices are from the Ancott Music Product Directory, a copy of which I've enclosed.

From the 2003-2004 Annual Supplement to The Piano Book by Larry Fine I've enclosed the prices FOB factory from two years ago when these Diapasons were actually produced. The RX3 by Kawai then sold for \$27,990 and the Bostons sold for \$22,240 to \$28,280. You purchased these comparable Diapasons with a full 10-year warranty from time of purchase for \$18,000. The district did not pay twice.

From the above explanation I hope that you agree that the district received a fair sales price on 4 grand pianos purchased and received 9 vertical pianos at cost.

Sincerely,



Arnold D Tucker, CEO
Seattle Piano Gallery
Attachments



LASHER
HOLZAPFEL
SPERRY &
EBBERSON

ATTORNEYS AT LAW 2000 TWO DINWIDDIE SQUARE 601 UNION STREET
SEATTLE, WA 98101-4200 / TELEPHONE 206 654-1230 / FAX 206 643-0641
WWW.LASHER.COM

February 3, 2006

DIRECT LINE: (206) 654-5631
EMAIL: henry@lasher.com

Mr. Manuel G. Juzon
Manager of Business Operations
Edmonds School District
20420 68th Avenue W.
Lynnwood, WA 98036

Re: Seattle Piano Gallery

Dear Mr. Juzon:

This law firm represents the Seattle Piano Gallery. My client has furnished me with your letter dated December 28, 2005 regarding transactions over the past two years regarding new Diapason pianos. My client believes that your letter fundamentally misunderstands or misconstrues the nature of the relationship and the transactions between Seattle Piano Gallery and the Edmonds School District and has asked me to respond. My client further believes that your letter substantially misunderstands or misconstrues your recent discussion with Mr. Arnie Tucker regarding these issues.

Over the past several years, Arnie Tucker of the Seattle Piano Gallery has developed a good relationship with several of the administrators at the Edmonds School District, including Ms. Marla Miller and Mr. Tam Osborne. Mr. Tucker met Ms. Miller and Mr. Osborne through a Rotary organization in Edmonds. Mr. Tucker and the Seattle Piano Gallery have been very active in the Edmonds Jazz Connection musical events and has frequently encountered both Ms. Miller and Mr. Osborne in connection with those musical events. Over these past several years, both Ms. Miller and Mr. Osborne on occasion bemoaned the extremely sad state of the pianos in the various Edmonds schools. It is with regard to this problem that Mr. Tucker and the Seattle Piano Gallery have attempted to help the District and its administrators, with little or no corresponding benefit for the Seattle Piano Gallery.

The transactions in question began when Mr. Tucker became aware of a program whereby school districts could purchase high quality Diapason pianos made by the Kawai Company in Japan in container-load quantities at very attractive prices. When he mentioned this opportunity to his contacts at the Edmonds School District, Mr. Tucker was told that the school district badly needed to replace its pianos but had no money to do so.

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Subsequently, Mr. Tucker learned that a local distributor of Kawai products named Greenwave might be willing to deliver a container of new Diapason pianos to a school district in Washington on approval, in order to introduce these high quality pianos to the marketplace.

My client's contacts at the Edmonds School District reacted with a great deal of enthusiasm to this proposal and Mr. Tucker spent a great deal of his time and energy (with no return to him or Seattle Piano Gallery) in putting together this sale on approval. A total of 14 brand new Diapason pianos, four of them grand pianos and ten of them uprights, were delivered to the Edmonds School District in 2003 at no cost to the Edmonds School District. It was anticipated that the pianos would remain in the various Edmonds schools for approximately a year and a half while the administration figured out how to find the money to purchase those pianos. My client received nothing for helping the Edmonds School District receive these pianos on approval, but it did expect to make a commission when the pianos were eventually purchased.

This program cost the Edmonds School District absolutely nothing. The District could have simply returned the pianos at the end of the approval period. However, during the approval period, the distributor Greenwave unexpectedly shut down their Washington facility and Kawai insisted that it either receive payment for the pianos out on approval at the Edmonds School District or that the pianos be returned. Rather than simply return the pianos, the school district approached Seattle Piano Gallery with an unusual scheme intended to allow the school district to keep the pianos and to eventually to own the pianos, but without going through the normal purchasing procedures required of the school district.

Specifically, it was proposed to Mr. Tucker that Seattle Piano Gallery enter into a one-year written lease agreement with the Edmonds School District. The purpose of the lease agreement was to provide the funds (\$76,121.10) needed to pay off Kawai for the container load of pianos, but without the school district actually purchasing them. Someone at the Edmonds School District drafted a complicated lease agreement, and the Seattle Piano Gallery signed it. The full amount of the lease payment given to Seattle Piano Gallery was immediately turned over to Kawai; my client retained no portion of the "lease" payment.

Thus, for a second time my client cooperated with and assisted the Edmonds School District to accomplish its goals, and received no recompense. In fact, because the lease payment intended to accomplish the purchase of the pianos passed through my client's books, Seattle Piano Gallery had to pay income and B&O tax upon it. My client received no reimbursement for this unexpected outlay. As they say, no good deed goes unpunished.

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The terms and conditions of the lease drafted by the District are extremely unusual. It is somewhat difficult to discern the intent of the parties, and it is quite likely that this lease was not drafted by an attorney, because of the several confusions contained therein. However, it is undisputed that this piano lease was drafted entirely by the Edmonds School District and thus would undoubtedly be construed against the District.

In its terms, the lease agreement drafted by the District and signed by Seattle Piano Gallery is extremely one-sided. The primary intent of the lease appears to be to allow the District to purchase the pianos without going through a competitive bidding process, or in the alternative to receive back all the money paid to lease the pianos. It is difficult to see any benefit at all for the Seattle Piano Gallery in this lease agreement, with the sole exception of the provisions of paragraph 9.

By that paragraph, Seattle Piano Gallery retained the right to hold a piano sale within the one-year term of the lease, at a time, date and location approved by the Edmonds School District. At this sale, my client had the right to sell the 14 Diapason pianos, as well as other pianos that it would bring to the site for the sale. At the conclusion of the sale, any of the 14 pianos that were not sold to the public would become the property of the Edmonds School District. For any pianos that were sold, the district would receive a pro rated portion of the lease payment back. Thus, if all 14 pianos were sold to the general public at the sale, the school district would receive its \$76,121.10 lease payment back and thus would have had another free year's use of the Diapason pianos.

This sale arrangement offered my client the possibility of making a profit on the 14 pianos, over and above the price noted in Exhibit A to the lease, plus profits on any other pianos that it could sell at the sale. All costs of the sale would be borne entirely by Seattle Piano Gallery. Notwithstanding this one-sided arrangement, which left all of the risk with Seattle Piano Gallery and most of the potential benefit with the school district, my client agreed to this arrangement, signed the lease, and was fully willing to carry out its side of the agreement between the parties.

However, for reasons that are not entirely clear to Mr. Tucker and the Seattle Piano Gallery, the Edmonds School District was not willing to carry out the original plan reflected in the lease. Instead, my client was approached with a new proposal. In retrospect, it appears that the intent of the new proposal was to allow the Edmonds School District to come into ownership of all 14 pianos without ever purchasing them and without any risk of any of them being sold to the general public.

My client understands that there is a cap or lid of \$40,000 on purchases that the school district can make without competitive bidding. Perhaps by coincidence, the school district proposed to my client that it purchase the four grand pianos before the

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public sale for a total of approximately \$36,000. This purchase, including tax, would fall below the \$40,000 cap. It would also leave the school district with full ownership of those four grand pianos at a price well below what it would cost to replace them, and would preclude the risk that someone else would buy the pianos at the public sale.

In order to effectuate this plan, the school district asked Mr. Tucker to provide an invoice, and the school district generated a purchase order. Copies of both are enclosed. Ultimately, a check was cut by Edmonds School District and delivered to my client, in the face amount of \$39,748, representing the invoice price for the four grand pianos, including tax.

Your letter suggests that somehow this entire process, involving an invoice, a purchase order and a check signed by the Secretary of the school board was all an "erroneous payment." It is your assertion rather than the payment which is erroneous. In order to see the error of your conclusion, we all need to understand what the Edmonds School District was trying to accomplish when it asked Mr. Tucker and Seattle Piano Gallery to alter the terms of the lease.

Mr. Tucker anticipated that he would be able to sell some or all of the Diapason pianos at the intended sale, for a price well above the amount he would need to refund to the District. Since the Seattle Piano Gallery had received no commission, no profit and indeed no payment whatsoever in any of the previous transactions involved in providing these new pianos to the Edmonds School District, this was my client's only opportunity to make any money to cover its work and overhead. In exchange for the opportunity to sell these pianos at a profit, Mr. Tucker was willing to guarantee that the school district would either receive back the lease payment it previously paid on each piano, or the piano itself.

However, when the school district decided to change the terms of the lease, its proposal would deprive Seattle Piano Gallery of the opportunity to make money on this transaction. As to the four grand pianos, my client anticipated that it could sell each for at least \$14,000, which is \$5,000 more than the lease price in Exhibit A for those grand pianos. (This in fact turned out to be true, because Seattle Piano Gallery was able to sell two other Diapason grand pianos at the sale, both for well over the \$14,000 anticipated price.)

Therefore, by asking Mr. Tucker to take those four grand pianos out of the sale, the school district was knowingly asking my client to give up the opportunity to generate as much as \$20,000 of income, over and above what would be necessary to reimburse the school district for its lease payment on those pianos.

Furthermore, the school district also asked Mr. Tucker to manage the on-site sale

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in such a way as to avoid selling the other 10 upright pianos if he could. Mr. Tucker agreed to do this as well. However, this forbearance on the part of Seattle Piano Gallery also cost it potential revenue. Mr. Tucker anticipated that each of the uprights could have been sold for as much as \$1,600 more than the reimbursement owed to the school district under the lease.

Furthermore, by reducing the number of pianos available for sale, the District's request made it less likely that the profits of the sale would exceed the costs of the sale, such as wages, advertising and moving the pianos. In fact, my client lost money on the sale.

The reason that the school district made these requests of Seattle Piano Gallery is obvious. If all 14 pianos were sold to the public, the school district would get its entire lease payment back, but it would then have to replace the pianos. The replacement cost of these pianos would be considerably higher than the \$76,121 paid for them through the lease program. In other words, my client was asked to forebear from selling the 14 Diapason pianos, despite the financial cost to my client, so that the District would not need to purchase replacement pianos.

This forbearance explains the willingness of the District to pay my client the \$36,000 plus tax last September. Five thousand dollars of anticipated profit on the four grand pianos is \$20,000 and \$1,600 anticipated profit on the 10 upright pianos is \$16,000. Mr. Tucker and Seattle Piano Gallery carried out their part of this bargain, to the full benefit of the Edmonds School District. All four grand pianos were taken out of the sale so that the district would not have to replace them. Furthermore, Mr. Tucker and his salespeople were successful in steering people away from the 10 upright pianos that the District had been using. Only one of the ten was sold to the public, and that occurred at the very end of the sale, when Seattle Piano Gallery ran out of other Diapason upright pianos to sell.

Thus, the result of this transaction was extremely favorable to the District. The District was able to retain 13 of the 14 pianos it had initially received on approval from Greenwave. The lease payment for the 10th upright piano (\$4,617.36) was promptly reimbursed to the District after the sale. For the initial lease payment of \$76,121, plus the additional payment of \$36,000 plus tax, the Edmonds School District received far greater value in pianos and avoided the difficulties of putting the entire purchase out to bid.

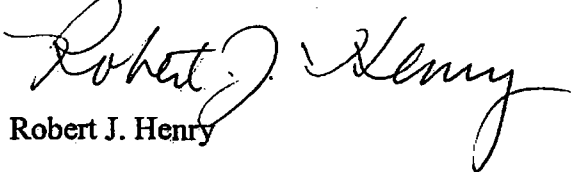
Upon a complete review of this transaction with its counsel, occasioned by your letter, Seattle Piano Gallery has concluded that it is entitled to keep the full amount of the September 9, 2005 payment, with one exception. Since one of the ten upright pianos was sold to the public, despite the best efforts of Seattle Piano Gallery, my client feels it would be equitable, although not required, to return to the Edmonds School District the

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\$1,600 of anticipated profit which the district paid to Seattle Piano Gallery. Enclosed herewith is my client's check in the amount of \$1,740.80, representing the \$1,600 of anticipated profit on the 10th Diapason upright piano, together with the sales tax on that amount. Negotiation of this check will constitute an accord and satisfaction regarding the claim set forth in your letter and a release of any claims against Seattle Piano Gallery.

Finally, it is regrettable that the failure of the various administrative personnel at the Edmonds School District to candidly and straightforwardly explain to you the nature of this transaction led you to reach inappropriate conclusions regarding Seattle Piano Gallery. Mr. Tucker and Seattle Piano Gallery have worked hard to assist your district with its music program needs and its financial difficulties for these past several years, and as noted above, my client received nothing from any of these transactions until the District chose to change the terms of the lease to my client's detriment and willingly and voluntarily paid my client \$39,748.50 for that purpose. If your district wishes to do business with my client in the future, we believe that a letter of apology would be appropriate.

Very truly yours,



Robert J. Henry

RJH/alb
Enclosures
cc: Client

Description		Unit Price per lease agreement with SPG	Upper-End comparable	School Pricing	Lower-End comparable	School Pricing
Diapason D-171	5'7" grand piano	\$ 9,000.00	5'8" Yamaha	\$ 19,000.00	5'8" China-built Steck or Falcone 5'5 China-built Nordiska 165G 5'7" Wyman WV170 Hazelton Grand	\$ 7,100.00 \$ 6,716.00 \$ 5,586.00 \$ 5,400.00
Diapason DN-38	48" vertical piano	\$ 3,200.00	T-121 Yamaha	\$ 5,370.00	48" China-built Steck or Falcone 48" China-built Nordiska 120 48" Wyman Upright 120 Hazelton Upright	\$ 2,200.00 \$ 2,825.00 \$ 2,147.00 \$ 2,450.00
Diapason 125MF	49" vertical piano	\$ 4,200.00	T-121 Yamaha	\$ 5,370.00	48" China-built Steck or Falcone	\$ 2,200.00

If we were to purchase 4 of the least expensive grands (\$5,400x4= \$ 21,600.00
 If we were to purchase 9 of the least expensive uprightss (\$2,147x9= \$ 19,323.00
 \$ 40,923.00

Quoted by

Classic Pianos, Portland, OR

Prosser Pianos, Seattle, WA

Prosser Pianos, Seattle, WA

Kennelley Keys, Seattle, WA

Classic Pianos, Portland, OR

Prosser Pianos, Seattle, WA

Prosser Pianos, Seattle, WA

Kennelley Keys, Seattle, WA

Classic Pianos, Portland, OR