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PRESENTATION

Operator

Hi, good morning, everyone. Thank you for joining us today. I'm Karen Sansot. I'm the Senior Director of Investor Relations. And we'd like to welcome all of you to our investor event during Toy Fair Week. And we would also like to welcome those investors who are listening to our presentation on the webcast. Today we have John Barbour, our CEO; Mark Etnyre, our CFO; and Dr. Jody LeVos, the head of our Learning Team who will give a presentation about our company, our vision, and our opportunities.

At the end of their presentation, we'll end the webcast. Then we'll walk you through some of our products coming out in 2012. We'd like to remind all of you to please turn off your cell phones. Also, we will save questions for after we're done with our presentations. Management will be available for you to speak with individually. With that, I would like to introduce John Barbour, who is our CEO. Oh sorry, and happy Valentines Day, everyone. We really appreciate everyone coming out today on Valentines Day. We hope you like your chocolates. Now, the forward-looking statements.

This presentation includes forward-looking statements about management's expectations, including expectations regarding financial results, and planned products, and features. Our actual results may differ materially from those expressed or implied by such forward-looking statements. The risks that could cause our results to differ include highly changeable consumer preferences, and toy trends.

Our ability to achieve anticipated sales levels, particularly with respect to newly launched products, the overall economic environment, and its effect on retail business. Introductions of products that compete with our platforms by a variety of other companies. Our ability to respond quickly and cost effectively to changes in manufacturing costs and in consumer demand for our products. And our ability to provide high quality experiences to consumers with all of our products and services. These risks and others are discussed under risk factors in our most recent Form 10-K and 10-Q filed with the SEC. LeapFrog makes these statements as of February 14, 2012, and disclaims any duty to update them. Now I would like to introduce John Barbour, our CEO.

John Barbour - *LeapFrog Enterprises, Inc - CEO*

Thanks, good morning, everyone. As you guys can tell, I have a bit of a strange accent. Some of you who are local will know it from Brooklyn. But seriously, I have a bit of a cold today. So, if I say anything at all that you don't understand, don't hesitate to come and talk to me at the end. Hopefully we can clarify anything that I've said.

We hope today that you'll be able to leave here with a rich understanding of what makes this a very special and very unique company. It's a company that I personally came out of retirement to run. It's a brand that I have loved in the marketplace since it started. I was very fortunate to actually - the original founder -- when he started the Company. Actually came down to our company in San Jose at the time and talked to me a little bit about starting a company.

It's a company that while I was at Toys R Us; and both Toys R Us dot com, and Toys R Us International, and Toys R Us US. That we had strong relationships, so I've watched this company through its life. I have a deep and rich understanding of what the brand is about and how that brand has a positive impact on children's lives.



I'm hoping today that this is going to be a little bit different. That's another part of the goal. This is going to be different. We're going to do some stuff that pertains to you. You don't usually see. In these meetings we're going to take you right into the richness of our business. The magic sauce that makes us different. Through that hopefully, you'll leave with a belief like we have. That this is a good company to look at in terms of your investment portfolio. But before we go through the presentation, what I'd like to do is start with some perspective.

(VIDEO PLAYING)

John Barbour - *LeapFrog Enterprises, Inc* - CEO

I'm a father of two sons, Jack and James. There's nothing more important in my life than my boys. Right, I'm going to do everything I can like most of you [understand] to help them get the best start in life. We were a LeapFrog family even before I joined the Company. I've watched our products transform children's lives. Right, and I think that's one of the really cool things about this business is. I don't know many of the businesses out there that have had such a positive impact and have a positive impact on millions of children everyday.

So, what's our mission? Our mission is to create significant shareholder value by leveraging 16 years of rich, deep, experience to create unique learning experiences for children. To help them achieve their potential. But none of us would be here today if it wasn't for one man. This man right here. This guy had the guts and the vision, right, to try to create a company to help his son and many other children learn how to read. There's nothing more important in a child's life than teaching a child how to read. And Mike, who was an attorney at [Cooley] in San Francisco with a son Maddy who was having problems to learn to read.

He was classic A Type personality. His answer was quite simple. He would go into the marketplace and he would buy everything that was good there to teach kids how to learn. (Inaudible) his son to learn how to read. And do you know what he found? He found that there wasn't actually much out there. This most important thing in a child's life. There was a total lack of great product, an effective product. How to teach yourselves how to read.

There were products out there where you could recognize letters. There was products out there where you could recognize words. Recognizing words and recognizing letters is not learning to read. So, he took that safe job as an attorney. That had been kind of boring, but hey.

He had the guts to start this company. Right, and the vision he had stands with us today and what we're trying to do within our business. The story from that date has been pretty incredible. Through the years this company has continually created products that have revolutionized educational entertainment.

The first LeapPad was truly revolutionary. It was the best product ever developed before, and other than eBook to teach children phonics. To teach children comprehension. To teach children how to read. We followed that with -- with our FLY, and with our TAG; and with our Leapster products. All of these products here, all focused on making learning fun. If you can make learning fun, it will be dramatically more effective.

Look at the track record of this company. More than 1,200 education and parenting awards. The Toy Of The Year ceremony, which has now been running in the States for 12 years. We have won Educational Toy Of The Year eight out of 12 years.

Right, for a company our size, I'm not sure that anyone has actually won more TOTYs in the history than we have. This week, for example, of the 12 Toy Of The Year awards voted by retailers. Voted by child experts; voted by consumers, we won, of those 12, not one, not two, but three awards. The Best Education Toy, The Best Preschool Toy, and the ultimate, Toy Of The Year. That's in addition to the other awards we've won as a company.

Now, before I joined the business and being retired. You can do a whole bunch of research. You can spend time really digging into a company. Really trying to understand what our company is about. One of the things I wanted to know was does this company still produce great products? Right, so the ups and downs of this company was that -- that inner strength to create great products is still there.

One of the best ways to do that these days is take a little bit of time. Go to Amazon dot com. Go to Toys R Us dot com. Go to Wal-Mart dot com and go to Target dot com. And list every single product that they sell from LeapFrog. Look at what consumers are saying. Look at the star ratings the



products get. Over 90 percent of the LeapFrog products on those websites with consumer reviews get four stars and above. There's not many companies that have that kind of track record from consumers; and the quality of the products they create.

If you take the time, you can read some amazing comments there about what consumers can see and have felt -- that have experienced how these products have changed their children's lives. Our current line we have more than 4,000 five star reviews out there. Our products are category leaders in virtually every segment we're in.

Whether it's our tablet business. Whether it's our gaming business. Whether it's learn to read or whether it's educational toys. They're leading in their key segments in the marketplace. Because they work. Just look at what we've done in 16 years in terms of having an impact on kids.

We've sold over 100 million books. We sold over 48 million games. We've sold over 100 million educational toys. Pretty incredible results. How has the Company done that? How has the company managed to continually come up with eight of 12 years of educational toys of the year? Well, it's really all about the Magic Sauce. Part of this presentation here today is to give you a sense of truly what makes our business tick. For the first time, part of Magic Sauce is the fact that we have as a company four full time Ph.D.s of Education.

There is not a product. There is not a package. There is very little that we do as a company that one of those Ph.D.s doesn't spend time on. All right, whether it's finding ways to work the curriculum into the product. Whether it's out there talking to experts in education at universities all over the country. In gleaning what's really working out there for kids. Right, and today we brought Jody so that you can get a sense a little bit of what makes us special.

One of the big things that's very different about us versus the competition. Really, what's our Magic Sauce? Well, kids, they're kind of like us. When they finish school. Like when we finish work. We don't want more work, right? We want to play with our friends. We want to go out play sport, we want to listen to music, we want to surf the web, right? Well, kids are kind of like that, too. Well, kids are kind of like that, too. You know what? They want to play with their friends. They want to play with toys. They want to read books. Right, they want to watch TV. They want to play games and they want to play with tablets.

Yes, that's what they want to do. But imagine if they could do that. And while they were doing that and having fun, they could also learn. So, we're not just a toy company. Anyone who thinks we're just an educational toy company, you are missing the richness of this business.

Because we're also a major publisher of books. We also have some of the best DVDs in the business. It's something you should go look at. Something that's truly incredible about our business. Go to Amazon dot com. Go look at the Letter Factory DVDs. Right, so for all of you guys who think we're just a toy company, go look at the ratings on that product. I think there have been something like 970 reviews of the Letter Factory DVD. Of those, over 800, probably about 850 have been five stars.

This little educational toy company, right. They've done a pretty good job at teaching video entertainment as well. They've done a pretty good job of creating books. They've done a pretty good job of creating the number one selling [edge] personal gaming system. It's done recently a pretty good job at creating a kid's tablet. That has taken the market by storm.

We are way more than a toy company, right. How do we do that? We have 16 years of experience. We have 16 years of experience of creating compelling and engaging entertainment for kids. Whether their entertainment is a book. Whether their entertainment is a DVD. Whether their entertainment is a toy.

We create entertainment. It's just as compelling and just as engaging as the other entertainment out there. But what we do is we find a way to wrap education into it. So, it's not school. It's not more school. Those of you who are parents will know exactly what I'm talking about here. Because a lot of the products that are education are like more school. We buy them for our kids and they never play with them.

Because they, like us, don't want more work. They want to be entertained. Many parents, to be frank, just want a product that will engage their child when they can go do something else, right. We also create guilt-free play. Right, so the parent can go cook dinner. The parent can go get stuff



done. Instead of watching some pretty useless TV show or playing some pretty useless video game, they can actually do something while they're learning at the same time.

Our recipes; hopefully by the end of the day you will really see this. We know learning. We know kids. We know parents. We know craftsmanship. We truly sweat the details. I could take you through dozens of examples where we have sweated the details and created things that to be frank, most people in this room wouldn't even notice. That parents notice when they play with their kids. We know innovation and we have the best brand in the space.

Let's go through each of these just one by one. We know learning. We really, truly know learning. Learning comes first in everything we do. I meet with our education team virtually every two weeks in my office. We set down. We talk about what's new in the marketplace. We talk about what's happening across the products. We talk about the richness of what we're trying to do while we're building the curriculum there. Right, one of our products for next year, for example is a science game for girls. Right?

Spectacular, we are not looking at the traditional stereotypes here as a company. We are saying to ourselves, you know what, let's create products that are out there that enrich everyone out there. And develop a product going forward. No one else is doing stuff like this in the space. We know kids. We know that every kid is different. We create products that grow individually with children as individuals. We understand they are [definitely] first. We understand they learn at different rates. We [bid] feedback into the products there. The products grow with the child.

Right, take for example our eBooks, our Ultra eBooks that we sell today. A children's book, a children's eBook, children's book is really a combination of great art and copy. We've created eBooks here that actually grow with the child. We've taken three levels of copy for every page of the book. The book actually grows. Something we've actually applied for a patent for, the book actually grows with the child at their rate of learning.

No one else is doing stuff like this in the marketplace. We know parents. We never take parents trust for granted. We work with parents. Parents actually are the true teachers of children. All right, they're out there everyday trying to make sure their child has the best chance of life. We engage them in the process. Our learning path process allows the parent to actually look in to what the child is learning.

Understand what they're working on. Understand how much time they spent on the products. We know craftsmanship. We select the details. We truly select the details. As Jill will show you later, the screen of our -- of our LeapPad is actually quite different than the screen of any Android tablet out there and any iPad tablet out there. All right, something fundamental about using those tablets to teach kids to read. I mean, it's very difficult to do with a standard screen that's on those products. These are totally different technology on our screens than those other guys do for a very good, fundamentals reasons. Because we sweat the details.

We know innovation. We dream big. We think different. We're continually looking at new ways where we can deliver to children an educational experience that is truly entertaining. We have a great brand. If you look at our brand studies. As you go out there and read the reviews on our product, you can see the advantage of what's out there. Who have seen our products change children's lives.

That's our Magic Sauce. This is what we have that probably no one else in this space is even close to. Let me introduce you to someone who's really special in our business. Someone who has an impact every single day and making sure that we create the best educational entertainment products in the marketplace. Jody.

Jody LeVos - LeapFrog Enterprises, Inc. - Head - Learning Team

Thank you. Hi, my name is Dr. Jody LeVos. I'm a learning designer at LeapFrog. Thank you for time today. I just wanted to start by saying that all children are created equal. But unfortunately, not all children received equal learning opportunities. We know this because some children will know 6,000 words in kindergarten. But others will only know 3,000. In fact, by age five, some children will have heard 30 million fewer words than other kids. Given that vocabulary development is so related to literacy later on, this disparity is extremely significant.

But, it's not just literacy kids need to know about math. We know that the understanding that children have in math when they start school can actually predict their math and literacy skills even years later into middle school. But we know that many kids aren't starting school with the requisite

math skills. But, it's not just ABCs and 1-2-3s. There's so many skills that kids need to learn these days. Kindergarten is becoming more academic than ever. Global awareness is identified as a really important skill that's going to become increasingly more important.

But one study has shown that only 12% of young adults can find Afghanistan on their map. So, I think this is a really critical area to consider also. We know that achievement in kindergarten relates to how well children will do the rest of their academic life. Preparing kids for school is so extremely important. But according to kindergarten teachers, almost half of children are arriving under prepared.

This is why my job at LeapFrog is so exciting. Because I've landed at a company where learning is first and where our job is to help every child reach his or full potential. How do we do that? Well, when would do that is I'm so fortunate to work with this fabulous team in which we are researchers, we're educators, and we're parents. We have masters degrees and Ph.D.s in Child Development, Cognitive Development, Education, and Design and Technology. Our job is to make learning fun and engaging. And to make it so critical in everything we do.

Unlike some companies where there might be an advisory board that looks at a product partway through development and says that's good or that's not good. We as learning designers actually work on every single product every step of the way. Every time we design a new toy, or a new book, or a new game, or a new DVD, one of us learning designers is assigned to that project. From the very start, we will work with the production team to set the learning objectives. So that everybody on the team knows exactly what we need to teach in this product.

From there we actually design and script every instance. If you think of a game, we learning designers actually say what size the font needs to be. Whether there needs to be a sparkle around something. Whether it needs to flash. What question comes next. What happens when they get the question wrong. Every detail is looked at. As we execute the games, we work with the artists, and the audio leads, and the developers to make sure that all those learning instances are as engaging and fun as possible.

We embed those into every experience. We test. We actually go into our on-site Kid Lab. We watch kids. We look at whether they're understanding from the instructions. Whether they need more support. We iterate based on that feedback. Then finally, as the products are released, we work with marketing to make sure that everything we claim on packaging is accurate. That's what kids are actually going to learn from the product. We write extension activities of things that parents can do to reinforce the lessons that their kids are going to get as they interact with those products.

Everything we teach comes from our propriety scope and sequence, which is a set of over 2,500 skills, which are aligned to state standards. These skills cover approximately 100 categories, including things like comprehension, vocabulary, measurements, and music. What's really exciting is we also work with, as J.B. mentioned, external experts outside of our company around the world. To make sure that what we're doing is as broad of a curricular offering as possible. That it's as accurate and credible as possible. We even work with them to address research questions, which is extremely exciting.

I wanted to give you an example of how our curriculum isn't just broad. It's based on the latest and best research. It's very innovative. Here's an example of a recent study that came out in Child Development, A highly regarded journal. Showing that children will benefit when they learn math equations that are prevented in a non-standard format. Where the answer actually comes on the left-side of the equal sign. This forces children to think on both sides of the equal sign and have relational thinking.

When I design math games, I deliberately ensure that almost all of our games include these non-standard formats. Here's an example of some of our upcoming games, which again, helps support this type of understanding for early Algebra; which we know is important for higher mathematics. Now, what's exciting about these types of questions is that they aren't ever done by our competitors in this age range. They're almost never done in the classrooms. You can seldom find these in textbooks. Although, here's an example where LeapFrog is really on the cutting edge.

As mentioned, learning is a foundation for everything we do at LeapFrog. We have our curriculum that is extensive. As we mentioned, the huge scope and sequence. But, it's not just what we teach, it's also how we teach it. We believe that learning happens best through play. We also bake in so many under the hood things that help children. When you consider our games, for example. If a child is doing well, the questions will actually auto-level up. They become more sophisticated. They become a little bit more challenging for the child.



If the child isn't doing well, he or she won't know it. But the questions will actually level down and become simpler for the child. He or she will gain the understanding they need to move up through the levels. If they still have trouble, they can press the hint button and they will receive tutorials that will actually teach them the concepts behind the questions, which is really unique. When you look at some of our competitors, they'll have wrong answer sound effects, or they'll have correct answer feedback. But they won't actually teach children the concepts. We make sure that's in our product.

As I said before, we also do extensive testing. We have an on-site Kid Lab with access to over 1,200 families. There's kids at our company all the time, which is truly magical. Our products also go into preschools and go into homes. We get feedback based on actual usage. We know how kids are interacting with the products in a more natural environment also.

I also wanted to walk you through an example of what we were thinking as we designed our TOTY nominated TAG Solar System products. We knew as we setting the learning objectives, we didn't just want to teach children the name of the planets. But that we really wanted to take a child's perspective. Children in this four to seven age range are very what's called egocentric. They view the world very much from their own perspective.

Knowing that, we designed the product that really is from a child's perspective. One of the modules on the back show children on one half of the world where they're playing and the other half where they're sleeping. Because often kids wonder how can I be awake when other kids are sleeping. We explained the rotation of the earth from a child's perspective. This is also an example as we executed the products. Where we reached out to an Astronomy professor at a local university who reviewed all of the art and the script for every single audio line to make sure that what we were speaking was as accurate as possible. It was a fantastic learning experience for us. It was great.

As I said before, it's not just what we teach, it's also how we teach it. This is what makes LeapFrog truly magical. J.B. mentioned before, we have Ultra eBooks with three levels. These levels automatically adjust to a child's reading level. As a child answers assessment questions, the game will know whether the reading levels should remain where it is. Whether it should level down. Or, whether it should level up. A child in level three, for instance, will have much more sophisticated vocabulary and longer sentences. And smaller fonts than a child in level one or two. Where they'll have more familiar words and shorter sentences.

We also have games in which children; and this case this is a game designed for girls. Will learn about science in a truly contextual and embedded way. While they're playing an exploration game, they will navigate the main player through beautiful scenes. And touch on plants and animals that they're seeing on the screen. Then they'll learn about those creatures and those plants in the state that they would actually occur in. This mirrors best practices. We know that kids learn about science best through discovery and experimentation so, we bake that into our design.

We also have our Visual Say-It Sound-It. So, for decodable words, or words that can be sounded out, children will see the words highlighted and hear them while they're seeing the words. This is -- but, it mirrors best practices done in the classroom and at home. While a child is interacting with the device on their own, they're actually receiving the same type of support that they would receive in a classroom with a really great teacher. Of course, LeapFrog is very well known for teaching kids how to read. That is our heritage and that's where we come from. But we don't just teach children how to read words on a page.

We teach them to understand the text and to comprehend what they're reading. That's really a crucial difference. In this example, the child will have read the text on the tag book, or have heard the text read to him or her. If they touch the activity button, they'll be prompted with questions that require the child to reflect on their own experiences, or make inferences based on the text. Really, calling the child to not just read the words on the page. But to truly understand what those words are saying.

I also wanted to show an example of the child who is so engaged with his LeapFrog toy that he has mastered some truly remarkable feats regarding Geo-Literacy. I would like to point out that he is three years old. Thank you. Wow, right, he's three years old. That's remarkable. Another thing on our radar, of course, we can't ignore the influx of apps today available on the online markets. We look at them a lot. When we calculated this a couple of weeks ago, there were approximately 53,000 educational apps available in one of the main mass market online app stores.

Approximately 62 educational apps are being added to this market everyday. We subscribe to all the different lists that tell you what the best apps are. There's a lot of lists and they don't always jibe, which is confusing in and of itself. But when we look at the top rated apps that are claims to the



educational, unfortunately what we find is that many of them are actually really limited in educational value. A lot of them aren't designed by curricular experts. They don't know how kids learn about a particular topic. They are often age inappropriate.

The intended audience will be much wider than the actual benefiting audience for instance. So that they really hit the -- miss the mark that way. Also, many of these apps are just one small piece of the puzzle. There's just one lesson. They're not part of a larger solution. Parents may buy an app that teach children a couple of shapes, but those shapes won't be in the context of patterns or spacial relationships, or three dimensional shapes. They're really just one piece. Then parents would have to sort through all of those apps to find what to buy next.

The most disturbing thing of all is that there's no educational gatekeepers. There's no criteria for what is to be considered educational. Anyone can design an app, and submit it, and call it educational. No one is there to keep out the bad stuff and only let in the good stuff. And this all really makes it difficult for parents to find the best content for their children.

LeapFrog has a solution. We have our App Center which everything in that App Center has been careful designed or curated to make sure that it's the best educational content possible. That it works together for solutions. One example is kindergarten readiness. You can find exactly what you need to help kids get ready for kindergarten, for instance. Finally, we know that parents are our children's first teachers. We are so passionate to help support parents as they educate their children.

One example is if you look at our recent DVDs, parents can go to the bonus content in the menu and access curriculum commentaries. Where [Dr. Gaines], or myself have described to parents why we designed the lessons the way we did. The research behind those lessons and what they can do as parents to get up off the couch and play with their kids to reinforce the lessons that are found in the DVDs.

Parents can also go online and access all kinds of parent materials, including blogs and articles. And printables, so they can print off activities and work with their kids to again reinforce the lessons and expand the learning. Of course, we have the learning path. Where parents can log on, find out how their kids are actually doing as they interact with the products. Find out areas that they need to work on. Find areas that their kids are really excelling at. Then celebrate that together. Thank you very much.

John Barbour - LeapFrog Enterprises, Inc - CEO

Wow, how do you follow that? Seriously, doesn't that excite you? I get to work with this lady everyday. In all sincerity, talk about changing children's lives. Talk about richness. Talk about sweating the details. I truly hope that today you see the real LeapFrog. All these awards, all these write ups for consumers, they're not luck. They're really not luck. There's an incredible richness to what we deliver here. I believe that's what makes us as a company incredibly special.

That's why I came here. That's why I love working here. The fact that we have a positive impact and millions of children's everyday. We get to do products that are true innovators, and create new markets, and new businesses. This company is a company in transition. It's developed from an educational toy company to a developer of educational entertainment. As we go forward, we will be both a developer and a distributor of education entertainment.

We have a vision. We have a drive to take everything that is great and educational entertainment. And be there for parents. We're not going to be about a million apps. Half of them are filled with mistakes. Most of them, they don't have any education in them at all. I mean, I sat with a major studio recently who showed me the latest and greatest educational app they had. As the person was taking me through that, inside I was jumping for joy. Because there was no education in the product at all.

That's why we have a job. That's why we have four full time educators that touch everything we do. That's why Jody is here today. Because I wanted you guys to really have an understanding of the richness of what we do everyday. Because that's what makes us special as a company. Where do the opportunities to grow in this company? Well, you know, as you sit down, I'm sure all of us could list them. More educational toys. Right, isn't it shocking that nearly 50% of children start kindergarten today and have difficulties. Now that's a stat that just blew me away when I came into this company.



Nearly half of our children come up to kindergarten and have difficulties. That's why consumers are spending more money in supplemental education products. That's why this has become an important factor, parents are looking -- for any of you guys who live in Manhattan, what's it like trying to get your kids into a kindergarten these days? Seriously, they've got to pass ACTs now to get out of kindergarten.

Unidentified Audience Member

Yes.

John Barbour - LeapFrog Enterprises, Inc - CEO

I mean, you got to get in line, like. You're like, before their born to even be considered. Right, do you -- don't want your kids to have the best chance in life here by helping kids. Right, and that's what their toys and education toys are really all about. They're the first handshake with our consumers into our brand. There's lots of opportunity for us to take what we do in toys like our scout. Add innovation and add great learning to it; and grow our toy business.

Our multimedia platforms; we have the best line of multimedia platforms in the world. From our TAG, to our Leapster Explorer, and our LeapPad. All of these products, we can deliver digital entertainment and education, too. Delivering more content. We all get really excited about the LeapPad. We all get really excited about the TAG. We all get really excited about every product we do.

But, it's the content that changes children's lives. It's the content that delivers the education and the entertainment. It's all about content. Whether it's a game or whether it's a book. Whether it's an app. Whether it's a video. It's about the content. It's about the fact that the child watches the Letter Factory video. Not once, not twice, but sometimes 30 or 40 times.

It's not just content now that we developed. But, it's content that we now distribute from other great partners. Partners like HIT Entertainment with the Thomas The Tank Engine; partners like Hasbro. Partners like [Wood Words] and PBS. Partners like Kidz Bop that we now have on our platform. As we go through this year, you're going to see other developers. I've been so busy this week talking to people who want to put their great content on our platform. The great thing it is, there is not a piece of content that goes on our platform without being signed off by one of our educators. If it does not meet our standards in terms of educational entertainment, it doesn't get on the platform. That's how serious we are about saving parents' time to get the best -- the best in educational entertainment. Not a million apps out there with no gatekeeper at all.

That's what's going to make us special. International growth, right; look at our performance last year at international marketplaces. Look at the fact that LeapPad was also number one in the UK. It won Lifestyle Toy Of The Year in the UK; and it won Toy Of The Year in the UK as well.

All right, we are delivering our educational entertainment experiences beyond the boundaries of the US. Leveraging our customer base. You'll have noticed this year that we spent. Last year -- sorry -- that we spent less money in advertising. Because we're now starting to find ways to use those millions of consumers to tack into our systems on a regular basis to tell them about what's new.

To talk to them not just about the single product they bought. But about the learning solution we offer. You're at book. We think your child will like this book. They allowed this. We think your kid would like this. You have a LeapPad -- a Leapster Explorer. Have you seen the new Leap's LeapPad? This is an incredible asset for our business that we've been talking about for some time. But we are now everyday finding new ways to leverage that customer base in a more cost effective way than just blamming something out there on TV.

Last but not least as we balance our business. If you look at where our balance sheet sits this year versus last year, you'll see that we're spending a lot of time here making sure that we are driving the benefits of our scale and our OpEx management. With that, I would like to introduce you to Mark Etryre.



Mark Etnyre - LeapFrog Enterprises, Inc. - CFO

Thank you, J.B., and good morning, everybody. On the heels of our last week's earnings call. I'm going to spend a bit of time today talking about 2011, then the balance on 2012 and beyond.

Let's jump right into 2011 to give some perspective on our performance; which, when we take a critical look at the years, we believe it was strong across virtually all of the performance metrics. We delivered very solid top-line sales growth. J.B. alluded to the fact, we managed our operating expenses very tightly this year as well. That leverage, part of that OpEx management was that leverage from our connected customer base. Those million of consumers allowing us to drive further efficiencies into our advertising spend.

We significantly increased our profitability by all measures. As profit was up, operating income was up, and net income up significantly. We streamlined inventories, both the LeapFrog inventories and our channel partner inventories were down considerably on a year-over-year basis. Finally, we generated meaningful cash flow growth this year. If you look at that numerically, a couple of points to call out here. Our sales growth for the year, we turn in \$455 million. That's 5% up on a year-over-year basis.

It's important to recognize though, we started the year with relatively high retail inventory levels. Through the first half of the year, we are actually down on a year-over-year basis with growth accelerating sequentially through the year. Finishing the fourth quarter with sales up 11%.

Our operating income, \$24 million that was up three-fold on a year-over-year basis. It's an interesting point. Our sales growth was [20]. Our operating income growth was \$16 million. Significant growth at the operating income level. Our net income and diluted earnings per share were both up nearly four-fold on a year-over-year basis. Both high water marks for the company since 2003.

Of course, our cash flow; operating cash flow up \$70 million on a year-over-year -- \$70 million. That's up \$93 million. A significant growth in our cash flow. There's been a lot of focus company wide, not only on drive in our sales but managing our balance sheet very tightly. There's also been a lot of focus driving consistency in our top-line. If you look at our growth over the last three years from a net sales perspective, we've turned in almost a 10% compound annual growth rate across the board. That sales growth has come from a number of factors. We talked about the heritage of innovation and the rich platforms that we have developed.

Leapster Explorer was the Toy Of The Year, educational Toy Of The Year. This year, J.B. mentioned, LeapPads. But, it's beyond just the platforms, the Magic Sauce, and the content that we developed. Clearly our gross drivers for the business as well. Our international segment has turned in very, very solid growth the last three years. Nowhere is that more evident than looking at the segment results. If we look at the results from a segment perspective, our international business has turned in roughly 24% growth on a compounded growth rate over the last three years.

We've recognized that our international business was under index compared to the US. If you go back to 2009, you'll see that international represented about 20% of our consolidated net sales. Whereas in 2011, that percentage is 25%. We also recognize that at the peak of LeapFrog sales in 2003, our international segment was about 30% of sales. We believe there still is a fair amount of runway ahead of us to continue to grow that international business. That business, the growth international is really attributed to a couple of factors. We've made increased investments, both in people and advertising in the major markets we play in.

We've done more coordinated launch activities. We've launched products. We've launched more of those projects and more markets than we've done in the past simultaneously. But more importantly, we've continued to take share gains in each of the major markets that we participate in. Besides the top-line growth -- technical difficulties here. Besides the top-line growth, we've spent a fair amount of time on our operating expenses as J.B. mentioned. Our operating expenses on a relative basis have improved considerably. Could we get the slides back up? Yes. How about those Giants?

Great, we're back up and running. Our operating expenses have also been managed very well the last couple of years. On an absolute basis, you can see operating expenses are actually down over the three year period. Relatively operating expenses have decreased as a percentage of sales from 44% in 2009 to 36% in 2011. Great progress and that progress has really come across all the avenues within our OpEx. Advertising expense, we've gotten more leverage out of our connected customer base. In R&D, we're getting much more bang for our buck and our spend. While we're spending roughly the same amount of dollars in R&D, we're getting a lot more titles and efficiency out of our spend.



Within SG&A, we've stabilized our headcount. Much of the growth we've had prior to 2009 came from headcount reductions. Our headcount is relatively flat. Within SG&A we continue to get leverage in that space. As a result of delivering very solid top-line growth coupled with OpEx management, you can see that in our EPS growth, which is accelerating on a year-over-year basis. Our EPS has been up each of the last five years. The EPS of \$0.30 a share return in 2011 is the high water mark for the company since 2003.

Importantly as well, our cash balance and the way we've managed the balance sheet. Our cash balance improved on a year-over-year basis by over \$50 million. Certainly part of that has been due to stronger top-line performance. But you don't have to look down the balance sheet very far to see we've made incredible progress in our accounts receivables, which was flat on a year-over-year basis. When sales in the fourth quarter increased 11%. As a result, our day sales outstanding had decreased five, seven days.

In the inventory line, our inventories on our balance sheet were down almost 30% on a year-over-year basis, or \$13 million. When we look at the top-line sales growth coupled with our working capital management, you can see that impact in our free cash flow. We delivered \$50 million in free cash flow for the year, which is up almost \$90 million from where we were last year.

If I kind of change and now turn to 2012, and give you some perspective of how we think the business is set up for 2012, last week during the conference call we gave guidance that we see topline growth for the year of 6% to 8%, and our earnings per share growth between \$0.40 and \$0.45 for the full year. That compares to \$0.30 in 2011. The color we gave behind our net sales growth is largely -- we look at the year, not expecting dramatic changes in seasonality. Certainly from at least a takeaway perspective at retail. But, we look at it kind of as a tale of two halves. The first half of the year we're going to be comparing to a year where 2011 quite candidly had high retail inventory levels entering the year. Plus we have the LeapPad products for the first half of the year, which wasn't on shelf.

We expect fairly solid growth in the first half of the year. The second half, however, it's still a little bit early to give a high level of confidence at gross rates on the back half of the year. We don't know yet. We're still only a couple of months removed from the holiday season. We also, while we have a great product line up that you'll see later today, we also don't have that gauge on how consumer confidence in the economy will hold up.

We're looking at the back half somewhat conservatively. As that changes and as we get more visibility to the year, we'll certainly share that information. But, from a top-line perspective, we expect growth in 2012 to be driven by continued strong product momentum, not only with LeapPad, but with the other products we offer. We have an expanded app store presence, which will also drive growth. That's our content and third party content. Of course, continued growth in our international markets will be a continued pillar of growth. We expect international markets to continue to outpace growth domestically.

We look below net sales at a gross margin percentage perspective. We're expecting modest growth on a year-over-year basis. In 2011, we had modest contractions; 2012, we're expecting modest growth. The key drivers of that, we do expect to have a relatively high percentage of hardware sales in 2012. Again, much like we did in 2011. There are a fair amount of input cost pressures. I think you read about those relatively frequently. We see currency appreciation, labor rates in China. Tightness in some of the supply markets. All as potential headwinds going into 2012. But on the flip side, we expect that we'll ship a higher [percent] -- a higher amount of content this year. And that's content delivered both physically on our cartridges and books. Also, digitally through our App Center.

From an operating expense perspective, we're expecting modest growth. We have over the years stabilized our headcount growth. We compete for talent in major markets. We'll ensure our people are compensated accordingly. We are going to continue to invest in R&D. That's growth really focused on providing more content, enhancing our eco-system, and also looking at next generation of platforms. Of course, in advertising, we're going to continue to advertise leverage some our eco-systems. Our advertising as a percentage of sales, we expect a slight increase on a year-over-year basis.

Below the line looking at non-operating income to provide a little bit of perspective here. There are a number of items that roll through this line. Ranging from our interest income and expense, some of our [FX] activity, and also commitment fees on our borrowing. We're expecting modest improvements on a year-over-year basis below the lines. Finally, income taxes; income taxes, a lot of puts and takes going through this line. We have over \$200 million of NOLs domestically. We don't anticipate paying taxes on our US income for quite a while. But we do anticipate continuing to pay taxes on our foreign earnings.



We'll be -- we look at our expectations for income tax expense next year. We do expect on a normalized basis to exclude in any [FIN 48] or unusual items, to have a couple of million dollars of income tax expense. Looking forward to what I call our mid-term financial objectives. And mid-term is really looking out two years. We've made great progress in '11. We look at '12 as another year of continual progress down that path of transforming LeapFrog from a good to great company. When we take a step and think through some of those financial metrics that we plan to achieve during that time frame. I thought we'd share those with you.

From a net sales perspective, it's continuing to outgrow the market. We expect that we deliver net sales growth continue in the double digits over that time frame. Our profitability measures; so, in the margin perspective, we deliver gross margin in the mid 40% range. That's coming on the heels of a rich install based on our platforms with the opportunity to continue to sell content to all those platforms out in the marketplace. Of course, driving a double digit operating margin improvement.

2009, we were just about 2%. At 2010, we were at 2%; 2011, our operating margin was 5%. We're on that track record. We expect we'll achieve double digits in the near-term. From an earnings per share perspective that's continued to grow our earnings per share slightly faster than our net income growth with the leveraged. Or, the net sales growth with the leverage that we'd get. Lastly, continuing on that pace of driving significant cash flow growth.

At the end of the day, we recognize you have choices. You personally, your portfolio managers, your clients on where to invest. Why do we think LeapFrog is a great place to invest? We have that. If there's one thing you leave with today, I hope it's that strong brand. Our leading product portfolio. Not that just exists today. That will continue to innovate and drive future growth.

We're clearly the market leader. It's always good to invest with market leaders. If you look at all of the indexes and certainly the NPD information and market research customer testimonies. The Toy Of The Year awards I think are just representative of the leadership that we bring in this space.

J.B. talked about the growing demand for supplemental education. Parents are looking for ways to augment their children's learning experiences. Our products have been in thousands of classrooms and have testimonies from teachers validating the effectiveness. We believe we could play a big role in that supplemental educational space.

Of course, the financial turnaround is upon us. We are expecting to continue to deliver solid top-line and profitability growth along with strong cash flow for the foreseeable future. Finally, we think we're at an inflection point. We've talked about our eco-system somewhat. Having a rich platform base to leverage the millions of connected customers in an application center to allow the convenience for consumers to download product when they have the desire. With that rich, learning feedback, we think of the game changer.

Lastly, while we love the commercial success that we've continued to provide the last few years. I can't think of any other company where you have the ability to help millions of children achieve their potential each and everyday. With that, I'm going to turn it back over to J.B.

John Barbour - *LeapFrog Enterprises, Inc - CEO*

When we started this morning, I told everyone that we've really two clear goals; two clear hopes of today. One, that you would have a deep and rich understanding of what makes us different as a company. That you would really leave here understanding what our Magic Sauce was. And secondly, that you would see what we see in terms of an opportunity for the future and in investments. I can tell you, I joined this team in March. I'm incredibly happy to be here. I'm having more fun everyday than I've had for a long while. I got a chance to work with people who are truly spectacular -- truly spectacular.

I really, really love working with them. But like any CEO who comes out of retirement into a job, you kind of have a plan. Right, you kind of come here and you have a plan. For this journey that we are on, taking this company. And driving it come around, while we're also growing it at the same time. I can tell you we are ahead of where I thought we'd be at this time. We're beyond where I dreamed we would be at this time. But it's important to recognize we still have a way to go, right.

We still have a lot of things that we -- what opportunities we can go attack. Lots of stuff that we could do better as a company. But we're improving. Our execution in store, which has been one of our Achilles' heel in the past is getting better everyday. All of our retailers saw this [merchandising] here. We'll take you through it a little bit more. Many of them are looking to try and find ways to execute this in store. While we're not at the end game. While we still have a long way to go.

While we're still far from perfect, I do believe that we're making the right moves and the right directions. Hopefully, as we continue to develop this company, we can share with you the things that we're doing. But I want to finish with prospective. Because to me, it's still about that. It's still about that beautiful little baby. Right, that's what drives us every single day. That's what makes this experience just so incredibly special.

If any of you have the time to come and see our office, you will see we have a lab in our offices. We actually can sit through a mirror and watch children playing with our products. We can see the things that engage them. We can see the things that they love. They can watch how the mothers react with those children in every single product we develop.

The impact we're having as a company beyond just an investment standpoint is about children. Over 16 years, we've sold over 100 million books; [40 million] games; over 100 million toys and products out there. It helped my children. It's helped Jack and James' [girl]. I'm sure they've helped many of your kids grow, too. But every year, everyday, there's more kids who need our help. That's what really is exciting about our business. We can help children, millions of children achieve their potential. So, for those of you who are listening in the webcast to all of you here, I want to thank you for your time. We're going to start in about five minutes.

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