



### **To Our Shareholders:**

LeapFrog is a very unique company. We create products that deliver fun experiences for children that are filled with life-changing education and have a positive impact on millions of children every day. Our products help children get a better start in life.

During our 16-year heritage, we have developed extraordinary platforms that deliver rich educational content. We are the leader in children's educational entertainment. Over our history, we have sold 100 million books, 48 million games, 50 million learning platforms, and more than 100 million educational toys and videos.

With this extensive experience, we have developed a deep understanding of learning, kids, parents, craftsmanship, and innovation.

- **We know learning.** Learning comes first in everything we do. We have more than 16 years' experience in creating powerful and lasting educational experiences that have the power to transform children's lives, and we have a dedicated in-house team of professional educators that are involved with every product, every step of the way.
- **We know kids.** Every child is unique, with different interests, needs, and learning styles. We orchestrate play experiences that keep each child uniquely engaged and challenged.
- **We know parents.** We never take parents' trust for granted. We partner with them to provide simple solutions that work for their lifestyles and offer ways to engage them in their child's learning.
- **We know craftsmanship.** We sweat the details. We have passion and pride for crafting personalized learning solutions that adapt to each child's journey and build a love of learning.
- **We know innovation.** We dream big. We dream different. We leverage new technologies and learning techniques to ignite the power of learning through play.

Over the years, our products have won more than 1,200 educational and parenting awards and have received high praise from parents, teachers, and industry experts. Most importantly, children and parents love our products and our brand.

### **2011 Performance**

In 2011, we extended our leadership in educational entertainment. We launched a major new platform, introduced lots of new content, and opened our extensive consumer platform to quality third-party content. We also delivered solid financial results reflecting growth across critical performance metrics and positioned ourselves well to continue to build on our performance in 2012 and beyond.

This was accomplished under the leadership of John Barbour, our chief executive officer, who joined us in March 2011. John has a proven track record of success in building global consumer and Internet businesses for traditional retail, online retailing, mobile gaming, and branded toy companies. Since joining LeapFrog, John has swiftly reenergized the organization and built a positive culture rooted in innovation and performance.

In the summer of 2011, we launched the LeapPad Explorer™, a breakthrough, multifunctional learning tablet that introduces the next generation of learning, digital reading, and personal creativity for children ages four to nine. LeapPad quickly took the market by storm. It rapidly became the "must have" product for kids. It was clear we had a winner, and it is easy to understand why. LeapPad's design is similar to an adult tablet computer but with endless fun experiences for kids that can ignite their imaginations and learning while also handling

rough-and-tumble play. LeapPad offers more than 150 learning games, videos, eBooks, Ultra eBooks, music, creativity studios, and flash cards as well as a built-in camera, video recorder, and microphone.

We are honored that LeapPad won many prominent awards around the globe, including the “Educational Toy of the Year,” “Preschool Toy of the Year,” and the highly prestigious “Toy of the Year” by the U.S. Toy Industry Association, as well as the “Toy of the Year” and “Lifestyle Toy of the Year” from the British Toy & Hobby Association. These recent accolades continue a rich history of critical acclaim for LeapFrog. Over the years, LeapFrog has received more than 20 awards from the U.S. Toy Industry Association in a variety of categories. In fact, LeapFrog has won “Educational Toy of the Year” eight times in the twelve year history of the award.

Along with the launch of LeapPad, we launched our App Center to provide downloadable content for our LeapPad and Leapster Explorer™ platforms. The App Center is an important extension of our connected strategy and enables parents to download new and personalized content for our connected multimedia platforms and toys. It also provides parents with personalized feedback about their child’s learning experiences with our products.

We continue to grow our base of millions of connected consumers which is proving to be a very valuable asset in helping us to better understand customer needs, behaviors, and usage trends. This information is used to improve our products and help us deliver more effective learning experiences. These relationships also offer us a more cost effective route to market and communicate directly to our customer base.

In December, we took another big step in the strategic expansion of our company by opening our platform to include quality educational entertainment content created by outside companies and studios. This is a step in transforming LeapFrog from a company that develops and sells its own products into one that curates, aggregates, and distributes all that is best in children’s educational entertainment. We announced deals with six major networks and studios in December and had content from all of them available in our App Center prior to the holiday tidal wave of platform connections.

As a result of these, and several other, key accomplishments, we delivered solid financial results in 2011. Net sales increased 5% compared to the prior year. Sales in our international segment were particularly strong, increasing 28% compared to the prior year, stemming from our investments in key regions. Retail point-of-sale dollars<sup>1</sup> increased 10% in the U.S. for the year and was even higher in international markets. Profitability improved significantly. Operating income increased threefold and net income increased fourfold compared to 2010. Cash flow also improved significantly. Our cash balance at the end of the year improved by \$52 million and our free cash flow improved by \$90 million compared to the prior year. We are especially pleased with these results given the continued volatile global economy.

## **2012 and Beyond**

We are well-positioned to continue to build on our strong performance.

We have an exciting pipeline of new products, in both the U.S. and international markets. We will introduce innovative new educational toys, which are typically the “first handshake” with consumers into our brand. We will also build on our base of multimedia learning platforms, such as LeapPad, Leapster Explorer, Tag™, and Tag™ Junior, by launching new learning tablets and a new game system. And importantly, we will deliver substantially more life-changing content in the form of game cartridges and apps, books, maps, eBooks, Ultra eBooks, music, flash cards and more. We will do this by creating our own content and teaming up with the very best third party content developers.

While we clearly have good momentum, we are aware that continued execution on our vision is a key to our continued success. In addition, we are preparing for expected challenges, including difficult global economic conditions, some platform transitions, and the inevitability of increased competitive entrants. Nonetheless, we have several important strategic assets that position us well for continued growth and innovation, and as a result, we are excited about our prospects for 2012 and beyond.

<sup>1</sup>Please see Description of Retail Point-of-Sale Dollars at the end of this letter for an explanation of this operating metric.

We have:

- A strong and proven team, with top talent in entertainment, technology, and education;
- An exceptional brand and leading product portfolio;
- Market leadership in educational entertainment;
- Millions of connected consumers that we communicate directly with; and
- A game-changing opportunity as we transform to being both a creator and a distributor of educational entertainment.

But what makes LeapFrog stand apart from others is that we are **helping millions of children achieve their potential every day!** To demonstrate what this means, allow me to share a recent comment we received from a parent:

*"My daughter was held back in 1st grade. I was a single mom working nights. We were told she had zero reading comprehension. I took leave from my job. I was hunting for learning aids and found the Tag Pen. She was reading in a month, and knew what she was reading.*

*"She has since exceeded our expectations in school. She was chosen for the school spelling bee and won a writing award. I am not a teacher at all, so we want to thank you from the bottom of our heart for being the tool through which my daughter excelled. Thank You."*

In closing, I'd like to recognize the highly engaged and talented employees of LeapFrog. They are committed to making a real difference in the lives of children every day. Thank you for your continued support on our journey to help every child achieve their potential.

Sincerely,



William B. Chiasson  
Chairman  
April 19, 2012

This letter to stockholders contains forward-looking statements, including statements about being well positioned for future financial performance, anticipated product launches, and the anticipated effects of current strategic assets on our future prospects. Please see the special note on forward-looking statements on page i of the enclosed LeapFrog Enterprises, Inc. 2011 Annual Report on Form 10-K.

#### **Description of Retail Point-of-Sale Dollars**

Retail point-of-sale, or POS, dollars is a non-audited operating metric that represents a measure of U.S. retailers' sales of LeapFrog products to consumers. Retail point-of-sale dollars differs significantly from LeapFrog's reported net sales, which reflect all products sold by LeapFrog to its retailer customers in all markets and also includes other sources of revenue. The point-of-sale data, based on retail prices, is provided to LeapFrog by retailers and also includes sales through online retailers and our online retail store at LeapFrog.com. LeapFrog believes this represents approximately 95% of our U.S. retailers' dollar sales of LeapFrog products to consumers, based on historical shipments by us to such retailers. LeapFrog management uses point-of-sale data to evaluate the retail channel sales environment and develop net sales forecasts. Results for retail point-of-sale dollars are for the 52 weeks ended December 31, 2011 and the 52 weeks ended January 1, 2011.