

LEAPFROG REPORTS SECOND QUARTER 2013 NET SALES INCREASED 16%

Operating Results Improved 34%

EMERYVILLE, Calif.—August 1, 2013—LeapFrog Enterprises, Inc. (NYSE:LF) today announced financial results for the second quarter ended June 30, 2013.

Highlights of second quarter 2013 results compared to second quarter 2012 results:

- Consolidated net sales were up 16%.
- U.S. segment net sales were up 19%, and international segment net sales were up 10%.
- Loss from operations improved 34%.
- Net loss per basic and diluted share was \$0.05.
- Normalized net loss per basic and diluted share¹, which includes an effective 37.5% tax rate, was \$0.04, an improvement of \$0.03.
- Adjusted EBITDA¹ was positive in the second quarter for the first time as a public company.

"In a challenging economic environment, we delivered strong net sales growth and improved our bottom line in the quarter while making strategic, long-term investments in the business," said John Barbour, Chief Executive Officer. "Our learning tablets, learn-to-read systems, and learning toys businesses each experienced double-digit net sales growth. Our performance speaks to the exceptional quality and rich educational content of our learning solutions and parents' priority to invest in their children's education.

"We are making great progress towards achieving our 2013 objectives. We recently launched three exciting new learning platforms: The LeapReader Reading and Writing System, LeapPad Ultra, the ultimate kids' learning tablet, and LeapPad2 Power. These platforms, together with our vast selection of top quality educator-approved content, provide the very best in fun learning solutions for children. We are also continuing to make significant long-term investments in content, new business categories, international expansion, online communities and systems, which we believe will enable us to greatly extend our leadership in children's educational entertainment and further strengthen our foundation for continued growth."

Financial Overview for the Second Quarter 2013 Compared to the Second Quarter 2012

Second quarter 2013 net sales were \$83.0 million, up 16% compared to \$71.5 million last year, and were not materially impacted by changes in currency exchange rates. Net sales growth was largely driven by sales of our LeapPad learning tablet line and LeapReader reading-and-writing line which benefitted from new products being shipped to retailers for summer 2013 launches. We experienced double-digit net sales growth in both of our key business categories, multimedia learning (which includes learning tablets, learning game systems and learn-to-read systems) and learning toys. Within our multimedia learning business, content, platforms, and accessories each

¹ Normalized net loss per basic and diluted share and adjusted EBITDA are non-GAAP financial measures. They are described below and reconciled to their comparable GAAP measures in the accompanying financial tables.

delivered solid net sales growth. In the U.S. segment, net sales were \$58.4 million, up 19% compared to \$49.1 million last year. In the International segment, net sales were \$24.6 million, up 10% compared to \$22.3 million last year, and included a 1% negative impact from changes in currency exchange rates.

Loss from operations for the second quarter was \$4.9 million, an improvement of 34% compared to \$7.5 million a year ago. Loss from operations as a percentage of net sales was 5.9%, an improvement of 460 basis points compared to 10.5% a year ago.

Net loss (GAAP) for the second quarter was \$3.3 million, an improvement of 59% compared to \$8.1 million a year ago. Net loss per basic and diluted share (GAAP) was \$0.05, an improvement of \$0.07, or 58%, compared to \$0.12 a year ago.

Normalized net loss² (non-GAAP) for the second quarter, which reflects an effective 37.5% tax rate, was \$2.8 million, an improvement of 44% compared to \$4.9 million a year ago. Normalized net loss per basic and diluted share² (non-GAAP) was \$0.04, an improvement of \$0.03, or 43%, compared to \$0.07 a year ago. We provide normalized net income (loss)² measures, which are non-GAAP measures, to help investors review our performance and performance trends excluding discrete tax items which have historically been significant.

Adjusted EBITDA² for the second quarter was \$2.6 million, up \$3.3 million compared to a year ago, and was positive in the second quarter for the first time as a public company.

"We are pleased with our first half net sales and operating performance, which are up significantly year-over-year, and are tracking slightly ahead of our plan," said Ray Arthur, Chief Financial Officer. "While we are encouraged by this performance, the first half of the year is seasonally small relative to our total annual business. As we look to the back half of the year, we feel good about our leading learning solution portfolio and market position, yet we remain cautious on the overall consumer environment."

Guidance

For the full year 2013, we are reiterating our guidance. We expect:

- Net sales to increase at a high single-digit percentage growth rate compared to 2012.
- Operating margin to be relatively flat to 2012, as we make long-term investments in content, new business categories, international expansion, online communities and systems.
- Net income per diluted share (GAAP) and normalized net income per diluted share² (non-GAAP) to both be in the range of \$0.57 to \$0.60. This assumes an effective 37.5% tax rate which does not include one-time discrete tax items. We may incur some discrete tax items in 2013, but we are not able to estimate or anticipate those discrete tax items at this time, which primarily relate to any adjustment of our remaining valuation allowance against our deferred tax assets. For the full year 2012, net income per diluted share (GAAP) was \$1.24 and normalized net income per diluted share² (non-GAAP) was \$0.56.
- Capital expenditures to be in the range of \$30 million to \$35 million, compared to \$25 million in 2012, as we make long-term investments in our business. Capital expenditures include purchases of property and equipment and capitalization of product costs.

² Normalized net income (loss), normalized net income (loss) per basic and diluted share, and adjusted EBITDA are non-GAAP financial measures. They are described below and reconciled to their comparable GAAP measures in the accompanying financial tables.

For the third quarter of 2013, we are initiating guidance and expect:

- Net sales to increase at a mid-to-high single-digit percentage growth rate compared to the third quarter of 2012.
- Net income per diluted share (GAAP) and normalized net income per diluted share³ (non-GAAP) to both be approximately \$0.32, which is flat to normalized net income per diluted share³ in the third quarter of last year. This guidance assumes an effective 37.5% tax rate which does not include one-time discrete tax items. We may incur some discrete tax items in the third quarter of 2013, but we are not able to estimate or anticipate those discrete tax items at this time, which primarily relate to any adjustment of our remaining valuation allowance against our deferred tax assets. For the third quarter of 2012, net income per diluted share (GAAP) was \$0.60 and normalized net income per diluted share³ (non-GAAP) was \$0.32.

Conference Call and Webcast

LeapFrog will hold a conference call to discuss second quarter 2013 financial results on August 1, 2013, at 2:00 p.m. Pacific Daylight Time (5:00 p.m. Eastern Daylight Time). The conference call will be webcast live and can be accessed at LeapFrog's investor relations web site at www.leapfroginvestor.com. An archive of the webcast will be available on the web site approximately three hours after completion of the call. In addition, more information about LeapFrog, including this press release and other financial and investor information, is also available on the investor relations web site.

To participate in the call, please dial (706) 634-0183 and request conference ID 19914127. A replay of the call will be available for one month. To access the replay, please dial (404) 537-3406 and use conference ID 19914127.

About LeapFrog

LeapFrog Enterprises, Inc. is the leader in educational entertainment for children. LeapFrog's award-winning product portfolio helps millions of children achieve their potential by delivering best-in-class curriculum through engaging content, fun multimedia learning platforms and toys. The Learning Path, LeapFrog's proprietary online destination for parents, provides personalized feedback on a child's learning progress and offers recommendations to enhance each child's learning experience. Through the power of play, LeapFrog's products and curriculum help children of all ages prepare for school and life success. LeapFrog's products are available in more than 45 countries and have been used by teachers in more than 100,000 U.S. classrooms. LeapFrog is based in Emeryville, California, and was founded in 1995 by a father who revolutionized technology-based learning solutions to help his child learn how to read. Come see the learning at www.leapfrog.com.

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³ Normalized net loss per basic and diluted share is a non-GAAP financial measure. It is described below and reconciled to its comparable GAAP measure in the accompanying financial tables.

Use of Non-GAAP Financial Information

This press release includes non-GAAP financial measures, specifically normalized net income (loss), normalized net income (loss) per basic or diluted share, and adjusted EBITDA.

Normalized net income (loss) is calculated as net income (loss) adjusted to reflect an effective 37.5% tax rate. Normalized net income (loss) per basic or diluted share is calculated as normalized net income (loss) divided by weighted-average basic or diluted shares outstanding, as applicable. As required by SEC rules, we have provided a schedule with a reconciliation of normalized net income (loss) and normalized net income (loss) per basic and diluted share to the most directly comparable GAAP measures, net income (loss) and net income (loss) per basic and diluted share.

Management believes that normalized net income and normalized net income per basic or diluted share are some of the appropriate measures for evaluating the operating performance of the Company because of the significant swing in net income (loss) and net income (loss) per share as a result of the deferred tax valuation allowance release and other discrete tax items, and therefore, provides a more comparable measure of year-over-year operating results.

Adjusted EBITDA is defined as earnings (or net income) before interest, income taxes, depreciation and amortization, other expenses (income), and stock-based compensation. As required by SEC rules, we have provided an attached schedule with a reconciliation of adjusted EBITDA to the most directly comparable GAAP measure, net income.

Management believes adjusted EBITDA is one of the appropriate measures for evaluating the operating performance of the Company because it reflects the resources available for strategic opportunities including, among others, to invest in the business, strengthen the balance sheet, and make strategic acquisitions.

However, these non-GAAP measures should be considered in addition to, not as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP as more fully discussed in the Company's financial statements and filings with the SEC. As used herein, "GAAP" refers to accounting principles generally accepted in the United States of America.

Forward-Looking Statements

This news release contains forward-looking statements that involve risks and uncertainties, including statements regarding anticipated financial results. 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, without limitation, deterioration of global economic conditions, our ability to correctly predict highly changeable consumer preferences and product trends, our ability to continue to develop new products and services, our reliance on a small group of retailers for the majority of our gross sales, our ability to compete effectively with competitors, the seasonality of our business, our growing focus on online products and services and privacy concerns about our Internet-connected products, consumer acceptance of downloadable content and data collection, system failures in our online services or web store, our dependence on our suppliers for our components and raw materials, our reliance on a limited number of manufacturers, our ability to maintain sufficient inventory levels, our ability to maintain or acquire licenses, third parties who claim we are infringing on their intellectual property rights, errors or defects in our products, the sufficiency of our liquidity, the risk associated with international operations, costs or changes associated with compliance with laws and regulations, negative political developments, natural

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disasters, armed hostilities, terrorism, labor strikes or public health issues, the loss of members of our executive management team, continued ownership by a few stockholders of a significant percentage of voting the power in the company, and the volatility of our stock price. These risks and others are discussed under "Risk Factors" in our filings with the U.S. Securities and Exchange Commission, including our 2012 annual report on Form 10-K filed on March 11, 2013. All information provided in this release is as of the date hereof, and we undertake no obligation to update this information.

Contact Information

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LEAPFROG ENTERPRISES, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share data) (Unaudited)

	Thre	e Months E	Ended	June 30,	Si	x Months Er	ided June 30,		
		2013		2012		2013		2012	
Net sales Cost of sales	\$	82,986 52,084	\$	71,480 42,925	\$	165,923 101,709	\$	143,490 85,203	
Gross profit	•	30,902		28,555		64,214		58,287	
Operating expenses:									
Selling, general and administrative		21,814		20,204		43,719		43,901	
Research and development		8,694		8,849		17,707		17,738	
Advertising		2,692		4,339		6,842		6,753	
Depreciation and amortization		2,615		2,633		5,410		5,913	
Total operating expenses		35,815		36,025		73,678		74,305	
Loss from operations		(4,913)		(7,470)		(9,464)		(16,018)	
Other income (expense):									
Interest income		18		96		42		189	
Other, net		483		(449)		(25)		(1,116)	
Total other income (expense), net		501		(353)		17		(927)	
Loss before income taxes		(4,412)		(7,823)		(9,447)		(16,945)	
(Benefit from) provision for income taxes		(1,122)		287		(3,146)		622	
Net loss	\$	(3,290)	\$	(8,110)	\$	(6,301)	\$	(17,567)	
Net loss per share:									
Class A and B - basic and diluted	\$	(0.05)	\$	(0.12)	\$	(0.09)	\$	(0.26)	
Weighted average shares used to calculate net loss per share:									
Class A and B - basic and diluted		68,199		66,928		68,018		66,662	

CONSOLIDATED BALANCE SHEETS (In thousands, except per share data) (Unaudited)

	June	e 30,		December 31, 2012		
	 2013		2012			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 181,418	\$	126,926	\$	120,000	
Accounts receivable, net of allowances for doubtful accounts of						
\$247, \$3,891 and \$292, respectively	61,919		51,360		180,043	
Inventories	66,601		52,650		40,311	
Prepaid expenses and other current assets	10,195		9,325		8,353	
Deferred income taxes	 10,777		978		9,315	
Total current assets	330,910		241,239		358,022	
Deferred income taxes	15,225		1,281		13,269	
Property and equipment, net	30,056		19,437		23,723	
Capitalized product costs, net	15,151		11,319		12,109	
Goodwill	19,549		19,549		19,549	
Other intangible assets, net	350		2,150		950	
Other assets	 1,178		1,591		1,283	
Total assets	\$ 412,419	\$	296,566	\$	428,905	
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	\$ 45,530	\$	32,200	\$	31,617	
Accrued liabilities	24,492		24,737		51,353	
Deferred revenue	7,930		6,739		8,516	
Income taxes payable	688		379		493	
Total current liabilities	 78,640		64,055		91,979	
Long-term deferred income taxes	3,759		3,713		3,759	
Other long-term liabilities	1,944		8,988		3,224	
Total liabilities	 84,343		76,756		98,962	
Stockholders' equity:	-					
Class A Common Stock, par value \$0.0001;						
Authorized - 139,500 shares; Outstanding: 63,947, 58,230 and						
61,970, respectively	7		6		6	
Class B Common Stock, par value \$0.0001;						
Authorized - 40,500 shares; Outstanding: 4,395, 8,953 and						
5,715, respectively	-		1		1	
Treasury stock	(185)		(185)		(185)	
Additional paid-in capital	411,017		400,193		405,078	
Accumulated other comprehensive (loss) income	(434)		(158)		1,071	
Accumulated deficit	(82,329)		(180,047)		(76,028)	
Total stockholders' equity	 328,076		219,810		329,943	
Total liabilities and stockholders' equity	\$ 412,419	\$	296,566	\$	428,905	

LEAPFROG ENTERPRISES, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands) (Unaudited)

Z013 Z012 Z013 Z012 Operating activities: Net loss \$ (3,290) \$ (8,110) \$ (6,301) \$ (17,50)	567)
·	67)
Net loss \$ (3,290) \$ (8,110) \$ (6,301) \$ (17,5	67)
Adjustments to reconcile net loss to net cash (used in) provided by operating	
activities:	
Depreciation and amortization 4,899 5,133 9,889 11,1	22
Deferred income taxes (1,850) 203 (3,462) 2	212
Stock-based compensation expense 2,588 1,567 4,543 3,0	39
Loss on sale of long-term investments, net of tax	91
Loss on disposal of long-term assets	2
Allowance for doubtful accounts (229) (87) 41 3,2	252
Other changes in operating assets and liabilities:	
Accounts receivable, net (4,633) 5,742 117,715 102,8	342
Inventories (21,731) (14,166) (26,868) (18,2	293)
Prepaid expenses and other current assets (325) (114) (2,003) (1,2	234)
Other assets 52 (514) 105 (4	172)
Accounts payable 26,504 4,248 13,970 (2,4	135)
Accrued liabilities and deferred revenue 182 1,380 (27,246) (18,5	922)
Other long-term liabilities (559) (47) (1,280) (3	372)
Income taxes payable 204 43 206	2
Net cash provided by (used in) operating activities 1,812 (4,722) 79,309 61,2	267
Investing activities:	
Purchases of property and equipment (6,131) (3,672) (11,966) (6,331)	392)
Capitalization of product costs (3,856) (2,030) (6,731) (3,856)	392)
Sale of investments2,500 2,50	00
Net cash used in investing activities (9,987) (3,202) (18,697) (7,7	784)
Financing activities:	
Proceeds from stock option exercises and employee stock purchase plan 627 1,074 2,263 2,7	'39
Net cash paid for payroll taxes on restricted stock unit releases (526) (510) (867) (1,2	212)
Net cash provided by financing activities 101 564 1,396 1,5	527
Effect of exchange rate changes on cash (218) (470) (590)	53
Net change in cash and cash equivalents (8,292) (7,830) 61,418 55,0	063
Cash and cash equivalents, beginning of period 189,710 134,756 120,000 71,8	363_
Cash and cash equivalents, end of period \$ 181,418 \$ 126,926 \$ 181,418 \$ 126,926	26

LEAPFROG ENTERPRISES, INC. SUPPLEMENTAL FINANCIAL INFORMATION (In thousands) (Unaudited)

	Three Months Ended June 30,			l June 30,	s	ix Months E	nded	ded June 30,		
		2013		2012		2013		2012		
Net sales	\$	82,986	\$	71,480	\$	165,923	\$	143,490		
Cost of sales (1)		52,084		42,925		101,709		85,203		
Gross profit		30,902		28,555		64,214		58,287		
Operating expenses: (2)										
Selling, general and administrative		21,814		20,204		43,719		43,901		
Research and development		8,694		8,849		17,707		17,738		
Advertising		2,692		4,339		6,842		6,753		
Depreciation and amortization		2,615		2,633		5,410		5,913		
Total operating expenses		35,815		36,025		73,678		74,305		
Loss from operations		(4,913)		(7,470)		(9,464)		(16,018)		
Other income (expense):										
Interest income		18		96		42		189		
Other, net		483		(449)		(25)		(1,116)		
Total other income (expense), net		501		(353)		17		(927)		
Loss before income taxes		(4,412)		(7,823)		(9,447)		(16,945)		
(Benefit from) provision for income taxes		(1,122)		287		(3,146)		622		
Net loss	\$	(3,290)	\$	(8,110)	\$	(6,301)	\$	(17,567)		
(1) Includes depreciation and amortization		2,284		2,500		4,479		5,209		
(2) Includes stock-based compensation as follows:										
Selling, general and administrative		2,290		1,335		4,041		2,644		
Research and development		298		232		502		395		
Segment data: Net sales:										
U.S. segment		58,358		49,141		116,455		101,359		
International segment		24,628		22,339		49,468		42,131		
(Loss) income from operations*:										
U.S. segment		(10,215)		(11,021)		(19,466)		(22,722)		
International segment		5,302		3,551		10,002		6,704		

^{*} Certain corporate-level operating expenses associated with sales and marketing, product support, human resources, legal, finance, information technology, corporate development, procurement activities, research and development, legal settlements and other corporate costs are charged entirely to our U.S. segment, rather than being allocated between the U.S. and International segments.

LEAPFROG ENTERPRISES, INC.

SUPPLEMENTAL DISCLOSURE REGARDING NON-GAAP FINANCIAL INFORMATION RECONCILIATION OF GAAP NET (LOSS) INCOME TO NORMALIZED NET (LOSS) INCOME, GAAP NET (LOSS) INCOME PER SHARE TO NORMALIZED NET (LOSS) INCOME PER SHARE, AND GAAP NET LOSS TO ADJUSTED EBITDA

(In thousands) (Unaudited)

The following table presents a reconciliation of net (loss) income, a GAAP measure, to normalized net (loss) income, a non-GAAP measure, where available. Normalized net (loss) income is defined as net (loss) income adjusted to reflect an effective 37.5% tax rate. Normalized net (loss) income per share is calculated as normalized net (loss) income divided by weighted-average basic or diluted shares outstanding, as applicable.

	Thr	ee Months I	Ende	ed June 30,	Si	x Months Ei	nder	Llune 30		ee Months Ended tember 30,	Mor	Twelve oths Ended eember 31,
		2013		2012			2012		2012			2012
Net (loss) income - GAAP (Benefit from) provision for income taxes	\$	(3,290) (1,122)	\$	(8,110) 287	\$	(6,301) (3,146)	\$	(17,567) 622	\$	41,738 (5,785)	\$	86,452 (24,504)
(Loss) income before income taxes Effective tax (benefit) expense at 37.5% rate		(4,412) (1,655)		(7,823) (2,934)		(9,447) (3,543)		(16,945) (6,354)		35,953 13,482		61,948 23,231
Normalized net (loss) income - Non-GAAP	\$	(2,757)	\$	(4,889)	\$	(5,904)	\$	(10,591)	\$	22,471	\$	38,717
Net (loss) income per share - GAAP:												
Class A and B - basic	\$	(0.05)	\$	(0.12)	\$	(0.09)	\$	(0.26)	\$	0.62	\$	1.29
Class A and B - diluted	\$	(0.05)	\$	(0.12)	\$	(0.09)	\$	(0.26)	\$	0.60	\$	1.24
Normalized net (loss) income per share - Non-GAAP	:											
Class A and B - basic	\$	(0.04)	\$	(0.07)	\$	(0.09)	\$	(0.16)	\$	0.33	\$	0.58
Class A and B - diluted	\$	(0.04)	\$	(0.07)	\$	(0.09)	\$	(0.16)	\$	0.32	\$	0.56
Weighted-average shares used to calculate net income (loss) per share:												
Class A and B - basic		68,199		66,928		68,018		66,662		67,400		67,100
Class A and B - diluted		68,199		66,928		68,018		66,662		69,512		69,720

The following table presents a reconciliation of net loss, a GAAP measure, to adjusted EBITDA, a non-GAAP measure. Adjusted EBITDA is defined as earnings (or net loss) before interest, taxes, depreciation and amortization, other expenses (income), and stock-based compensation.

	Three Months Ended June 30,						Six Months Ended June 30,				
	2013			2012		2013		2012			
Net loss - GAAP	\$	(3,290)	\$	(8,110)	\$	(6,301)	\$	(17,567)			
(Less) add:											
Interest income		(18)		(96)		(42)		(189)			
(Benefit from) provision for income taxes		(1,122)		287		(3,146)		622			
Depreciation and amortization		4,899		5,133		9,889		11,122			
Other, net		(483)		449		25		1,116			
Stock-based compensation		2,588		1,567		4,543		3,039			
Adjusted EBITDA - Non-GAAP	\$	2,574	\$	(770)	\$	4,968	\$	(1,857)			