
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-31396

LeapFrog Enterprises, Inc.
(Exact name of registrant as specified in its charter)



DELAWARE
(State or other jurisdiction of
incorporation or organization)

6401 Hollis Street, Suite 100, Emeryville, California
(Address of principal executive offices)

95-4652013
(I.R.S. Employer
Identification No.)

94608-1463
(Zip Code)

510-420-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2013, 63,970,346 shares of Class A common stock, par value \$0.0001 per share, and 4,395,461 shares of Class B common stock, par value \$0.0001 per share, of the registrant were outstanding.

LEAPFROG ENTERPRISES, INC.
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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LEAPFROG ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	<u>June 30,</u>		<u>December 31,</u>
	<u>2013</u>	<u>2012</u>	<u>2012</u>
	(Unaudited)		
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	<u>330,910</u>	<u>241,239</u>	<u>358,022</u>
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	<u>\$ 412,419</u>	<u>\$ 296,566</u>	<u>\$ 428,905</u>
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	<u>78,640</u>	<u>64,055</u>	<u>91,979</u>
Long-term deferred income taxes	3,759	3,713	3,759
Other long-term liabilities	1,944	8,988	3,224
Total liabilities	<u>84,343</u>	<u>76,756</u>	<u>98,962</u>
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	<u>328,076</u>	<u>219,810</u>	<u>329,943</u>
Total liabilities and stockholders' equity	<u>\$ 412,419</u>	<u>\$ 296,566</u>	<u>\$ 428,905</u>

See accompanying notes

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 82,986	\$ 71,480	\$ 165,923	\$ 143,490
Cost of sales	52,084	42,925	101,709	85,203
Gross profit	<u>30,902</u>	<u>28,555</u>	<u>64,214</u>	<u>58,287</u>
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	<u>35,815</u>	<u>36,025</u>	<u>73,678</u>	<u>74,305</u>
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	<u>501</u>	<u>(353)</u>	<u>17</u>	<u>(927)</u>
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	<u>\$ (3,290)</u>	<u>\$ (8,110)</u>	<u>\$ (6,301)</u>	<u>\$ (17,567)</u>
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

See accompanying notes

LEAPFROG ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net loss	\$ (3,290)	\$ (8,110)	\$ (6,301)	\$ (17,567)
Other comprehensive (loss) income, before tax:				
Currency translation adjustments	(629)	(1,179)	(1,505)	157
Transfer of temporary gain on long-term investments	-	-	-	(241)
Total other comprehensive loss, before tax	<u>(629)</u>	<u>(1,179)</u>	<u>(1,505)</u>	<u>(84)</u>
Transfer of tax expense allocated to temporary gain on long-term investments	-	-	-	151
Other comprehensive (loss) income, net of tax	<u>(629)</u>	<u>(1,179)</u>	<u>(1,505)</u>	<u>67</u>
Comprehensive loss	<u>\$ (3,919)</u>	<u>\$ (9,289)</u>	<u>\$ (7,806)</u>	<u>\$ (17,500)</u>

See accompanying notes

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

	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net loss	\$ (6,301)	\$ (17,567)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
Depreciation and amortization	9,889	11,122
Deferred income taxes	(3,462)	212
Stock-based compensation expense	4,543	3,039
Loss on sale of long-term investments, net of tax	-	91
Loss on disposal of long-term assets	-	2
Provision for doubtful accounts	41	3,252
<i>Other changes in operating assets and liabilities:</i>		
Accounts receivable, net	117,715	102,842
Inventories	(26,868)	(18,293)
Prepaid expenses and other current assets	(2,003)	(1,234)
Other assets	105	(472)
Accounts payable	13,970	(2,435)
Accrued liabilities and deferred revenue	(27,246)	(18,922)
Other long-term liabilities	(1,280)	(372)
Income taxes payable	206	2
Net cash provided by operating activities	79,309	61,267
Investing activities:		
Purchases of property and equipment	(11,966)	(6,392)
Capitalization of product costs	(6,731)	(3,892)
Sales of investments	-	2,500
Net cash used in investing activities	(18,697)	(7,784)
Financing activities:		
Proceeds from stock option exercises and employee stock purchase plan	2,263	2,739
Net cash paid for payroll taxes on restricted stock unit releases	(867)	(1,212)
Net cash provided by financing activities	1,396	1,527
Effect of exchange rate changes on cash	(590)	53
Net change in cash and cash equivalents	61,418	55,063
Cash and cash equivalents, beginning of period	120,000	71,863
Cash and cash equivalents, end of period	\$ 181,418	\$ 126,926

See accompanying notes

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation

In the opinion of management, all normal, recurring adjustments considered necessary for a fair statement of the financial position and interim results of LeapFrog Enterprises, Inc. and its consolidated subsidiaries (collectively, the “Company” or “LeapFrog” unless the context indicates otherwise) as of and for the periods presented have been included. The accompanying unaudited consolidated financial statements and related disclosures have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements include the accounts of LeapFrog and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial information included herein should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2012 Annual Report on Form 10-K filed with the United States (“U.S.”) Securities and Exchange Commission (the “SEC”) on March 11, 2013 (the “2012 Form 10-K”).

The accounting policies used by the Company in its presentation of interim financial results are consistent with those presented in Note 2 to the consolidated financial statements included in the Company’s 2012 Form 10-K.

Due to the seasonality of the Company’s business, the results of operations for interim periods are not necessarily indicative of the operating results for a full year.

Certain amounts in the financial statements for prior periods have been reclassified to conform to the current year presentation.

Accumulated other comprehensive income consists solely of currency translation adjustments.

2. Fair Values of Financial Instruments and Investments

Fair value is defined by authoritative guidance as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets. As of June 30, 2013, the Company’s Level 1 assets consist of money market funds with original maturities of three months or less and recorded in cash and cash equivalents. These assets are considered highly liquid and are stated at cost, which approximates market value.
- Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument. Such inputs could be quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less-active markets), or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and prepayment rates.

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

The Company's Level 2 assets and liabilities consist of outstanding foreign exchange forward contracts used to hedge its exposure to certain foreign currencies, including the British Pound, Canadian Dollar, Euro, and Mexican Peso. The Company's outstanding foreign exchange forward contracts, all with maturities of approximately one month, had notional values of \$11,308, \$53,577 and \$37,626 at June 30, 2013, December 31, 2012 and June 30, 2012, respectively. The fair market values of these instruments as of the same periods were \$(19), \$(255) and \$(299), respectively. The fair value of these contracts was recorded in accrued liabilities as of June 30, 2013, December 31, 2012 and June 30, 2012.

- Level 3 includes financial instruments for which fair value is derived from valuation techniques, including pricing models and discounted cash flow models, in which one or more significant inputs, including the Company's own assumptions, are unobservable. The Company did not hold any Level 3 assets as of June 30, 2013, December 31, 2012 and June 30, 2012.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2013, December 31, 2012 and June 30, 2012:

	Estimated Fair Value Measurements			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:				
<i>Financial Assets:</i>				
Money market funds	\$ 145,009	\$ 145,009	\$ -	\$ -
<i>Financial Liabilities:</i>				
Forward currency contracts	\$ (19)	\$ -	\$ (19)	\$ -
December 31, 2012:				
<i>Financial Assets:</i>				
Money market funds	\$ 85,003	\$ 85,003	\$ -	\$ -
<i>Financial Liabilities:</i>				
Forward currency contracts	\$ (255)	\$ -	\$ (255)	\$ -
June 30, 2012:				
<i>Financial Assets:</i>				
Money market funds and certificates of deposit	\$ 85,479	\$ 85,479	\$ -	\$ -
<i>Financial Liabilities:</i>				
Forward currency contracts	\$ (299)	\$ -	\$ (299)	\$ -

During the three months ended March 31, 2012, the Company divested its remaining auction rate security ("ARS") investments for \$2,500, resulting in a loss of \$181 recorded in other income (expense) in the consolidated statement of operations during the period then ended. The Company also transferred the temporary gain related to ARS valuation of \$241, previously recorded as other comprehensive income in stockholders' equity, to other income (expense) in the consolidated statement of operations during the three months ended March 31, 2012. In addition, the Company transferred the associated income tax of \$151, previously recorded as other comprehensive loss in stockholders' equity, to the provision for income taxes in the consolidated statement of operations during the same quarter. The proceeds of \$2,500 were received by the Company during the second quarter of 2012.

3. Inventories

Inventories consisted of the following as of June 30, 2013 and 2012, and December 31, 2012:

	June 30,		December 31,
	2013	2012	2012
Raw materials	\$ 7,315	\$ 5,329	\$ 1,243
Finished goods	59,286	47,321	39,068
Total	\$ 66,601	\$ 52,650	\$ 40,311

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

4. Other Intangible Assets

The Company's other intangible assets were as follows as of June 30, 2013 and 2012, and December 31, 2012:

	June 30,		December 31,
	2013	2012	2012
Intellectual property, license agreements and other intangibles	\$ 16,755	\$ 16,755	\$ 16,755
Less: accumulated amortization	(16,405)	(14,605)	(15,805)
Total	\$ 350	\$ 2,150	\$ 950

5. Income Taxes

The Company's (benefit from) provision for income taxes and effective tax rates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(Benefit from) provision for income taxes	\$ (1,122)	\$ 287	\$ (3,146)	\$ 622
Loss before income taxes	(4,412)	(7,823)	(9,447)	(16,945)
Effective tax rate	25.4%	(3.7)%	33.3%	(3.7)%

During the fourth quarter of 2012, after considering the relative impact of all evidence, positive and negative, the Company determined, at the required more-likely-than-not level of certainty, that a portion of its domestic deferred tax assets will be realized. Accordingly, for the three and six months ended June 30, 2013, the Company's effective tax rate and income tax benefit included a benefit attributable to its domestic operating losses for the respective periods, offset partially by tax provisions attributable to its foreign operations. The effective tax rate and tax provision for the three and six months ended June 30, 2012 included a non-cash valuation allowance recorded against the Company's domestic deferred tax assets; therefore, no federal or state tax benefits were recorded on its domestic operating loss. The tax provision for the 2012 periods were primarily attributable to certain discrete tax items including amortization of goodwill for tax purposes and an accrual for potential interest and penalties on certain tax positions, offset by tax benefits from the Company's foreign operations.

Current and non-current deferred tax assets were \$10,777 and \$15,225 at June 30, 2013, respectively, as compared to \$978 and \$1,281 at June 30, 2012, respectively. The increase is due to the release of a portion of the deferred tax valuation allowance during the fourth quarter of 2012. The Company maintains a valuation allowance of \$70,385 at June 30, 2013 against its deferred tax assets related to various net operating loss carryforwards, tax credits, and loss carryforwards that are capital in nature. The Company will continue to evaluate the need for a valuation allowance in future periods.

During the three months ended June 30, 2013, the Company did not recognize any previously unrecognized tax benefits. During the six months ended June 30, 2013, the Company recognized \$207 of previously unrecognized tax benefits due to the expiration of the statutes of limitations in one of its foreign jurisdictions, and reduced the balance of gross unrecognized tax benefits accordingly. The tax benefit for the three months ended June 30, 2013 did not include any release of interest and penalties related to uncertain tax positions, while the tax benefit for the six months ended June 30, 2013 included a release of interest and penalties of \$57. As of June 30, 2013 and 2012, and December 31, 2012, the Company had approximately \$622, \$2,572 and \$625, respectively, of accrued interest and penalties related to uncertain tax positions. The recognition of previously unrecognized tax benefits and the release of associated accrued interest and penalties reduced other long-term tax liabilities.

The Company believes it is reasonably possible that the total amount of unrecognized income tax benefit in the future could decrease by up to \$203, excluding potential interest and penalties, related to its foreign operations over the course of the next twelve months ending June 30, 2014 due to expiring statutes of limitations that, if recognized, would affect its effective tax rate.

As of June 30, 2013, the Company had long-term deferred tax liabilities of \$3,759 and other long-term tax liabilities of \$977. Both are reported as long-term liabilities on the consolidated balance sheet.

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

6. Defined Contribution Plan

LeapFrog sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code. The 401(k) plan allows employees to defer up to 100% of their eligible compensation, not to exceed the Internal Revenue Service (the “IRS”) maximum contribution limit. The Company provides a matching opportunity of 100% of eligible contributions up to a maximum of \$3.5 per year per employee, which vests over three years. The Company recorded total compensation expense of \$213 and \$1,147, related to the defined contribution plan, for the three and six months ended June 30, 2013, respectively, and \$216 and \$923 for the three and six months ended June 30, 2012, respectively.

7. Stock-Based Compensation

The Company currently has outstanding two types of stock-based compensation awards to its employees and directors: stock options and restricted stock units (“RSUs”). Both stock options and RSUs can be used to acquire shares of the Company’s Class A common stock, are exercisable or convertible, as applicable, over a period not to exceed ten years, and are most commonly assigned four-year vesting periods. The Company also has an employee stock purchase plan (“ESPP”).

Stock plan activity

The table below summarizes award activity for the six months ended June 30, 2013:

	Stock Options	RSUs	Total Awards
Outstanding at December 31, 2012	6,148	1,251	7,399
Grants	1,799	716	2,515
Stock option exercises/vesting RSUs	(385)	(277)	(662)
Retired or forfeited	(48)	(19)	(67)
Outstanding at June 30, 2013	<u>7,514</u>	<u>1,671</u>	<u>9,185</u>
Total shares available for future grant at June 30, 2013			<u>7,000</u>

As of June 30, 2013, the total shares available for future grant under the ESPP were 1,052.

Impact of stock-based compensation

The table below summarizes stock-based compensation expense for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
SG&A:				
Stock options	\$ 1,395	\$ 604	\$ 2,376	\$ 1,128
RSUs	768	634	1,420	1,352
ESPP	127	97	245	164
Total SG&A	<u>2,290</u>	<u>1,335</u>	<u>4,041</u>	<u>2,644</u>
R&D:				
Stock options	196	145	322	238
RSUs	102	87	180	157
Total R&D	<u>298</u>	<u>232</u>	<u>502</u>	<u>395</u>
Total expense	<u>\$ 2,588</u>	<u>\$ 1,567</u>	<u>\$ 4,543</u>	<u>\$ 3,039</u>

Valuation of stock-based compensation

Stock-based compensation expense related to stock options is calculated based on the fair value of each award on the grant date. In general, the fair value for stock option grants is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for the three and six months ended June 30, 2013 and 2012:

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expected term (years)	4.53	4.49	4.54	4.49
Volatility	72.5%	74.3%	72.8%	74.3%
Risk-free interest rate	0.71%	0.77%	0.71%	0.82%
Expected dividend yield	-%	-%	-%	-%

RSUs are payable in shares of the Company's Class A common stock. The fair value of these stock-based awards is equal to the closing market price of the Company's common stock on the date of grant. The grant-date fair value is recognized on a straight-line basis in compensation expense over the vesting period of these stock-based awards, which is generally four years.

Stock-based compensation expense related to the ESPP is estimated using the Black-Scholes option pricing model with the following assumptions for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expected term (years)	0.5	0.5	0.5	0.5
Volatility	57.5%	59.8%	49.9% - 57.5%	44.1% - 59.8%
Risk-free interest rate	0.12%	0.13%	0.12-0.14%	0.05% - 0.13%
Expected dividend yield	-%	-%	-%	-%

8. Derivative Financial Instruments

At June 30, 2013, December 31, 2012 and June 30, 2012, the Company had outstanding foreign exchange forward contracts with notional values of \$11,308, \$53,577 and \$37,626, respectively. The gains and losses on these instruments are recorded in other income (expense) in the consolidated statements of operations. Gains and losses from foreign exchange forward contracts, net of gains and losses on the underlying transactions denominated in foreign currency, for the three and six months ended June 30, 2013 and 2012 are shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gains (losses) on foreign exchange forward contracts	\$ 38	\$ (57)	\$ 1,510	\$ (595)
Losses on underlying transactions denominated in foreign currency	(223)	(182)	(2,077)	(92)
Net losses	\$ (185)	\$ (239)	\$ (567)	\$ (687)

9. Net Loss per Share

Options to purchase shares of common stock and RSUs excluded from the calculation of diluted net loss per share were 7,308 and 3,271 for the three months ended June 30, 2013 and 2012, respectively, and 5,180 and 2,580 for the six months ended June 30, 2013 and 2012, respectively, as the effect would have been antidilutive.

10. Segment Reporting

The Company's business is organized, operated and assessed in two geographic segments: U.S. and International.

The Company attributes sales to non-U.S. countries on the basis of sales billed by each of its foreign subsidiaries to its customers. Additionally, the Company attributes sales to non-U.S. countries if the product is shipped from Asia or one of its leased warehouses in the U.S. to a distributor in a foreign country. The Company charges all of its indirect operating expenses and general corporate overhead to the U.S. segment and does not allocate any of these expenses to the International segment.

The primary business of the two operating segments is as follows:

- The U.S. segment is responsible for the development, design, sales and marketing of the Company's multimedia learning platforms, related content and learning toys, which are sold primarily through retailers, distributors, and directly to consumers via the leapfrog.com online store and the LeapFrog App Center ("App Center") in the U.S.

LEAPFROG ENTERPRISES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

- The International segment is responsible for the localization, sales and marketing of multimedia learning platforms, related content and learning toys, originally developed for the U.S., sold primarily through retailers, distributors and the App Center outside of the U.S.

The table below shows certain information by segment for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales:				
United States	\$ 58,358	\$ 49,141	\$ 116,455	\$ 101,359
International	24,628	22,339	49,468	42,131
Totals	\$ 82,986	\$ 71,480	\$ 165,923	\$ 143,490
(Loss) income from operations:				
United States	\$ (10,215)	\$ (11,021)	\$ (19,466)	\$ (22,722)
International	5,302	3,551	10,002	6,704
Totals	\$ (4,913)	\$ (7,470)	\$ (9,464)	\$ (16,018)

For the three and six months ended June 30, 2013 and 2012, the U.S. and the United Kingdom each accounted for more than 10% of the Company's consolidated net sales, respectively.

11. Commitments and Contingencies

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of patents and other intellectual property rights, claims related to breach of contract, employment matters and a variety of other claims. Unsettled matters are in various stages of litigation and their outcome is currently not determinable. However, in the opinion of management, based on current knowledge, none of the pending legal proceedings or claims is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense costs, diversion of management resources and other factors. In addition, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a particular reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements of the same reporting period could be materially adversely affected.

In addition, as of June 30, 2013, the Company had outstanding off-balance sheet commitments for outsourced manufacturing and component purchases of \$791.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements about management's expectations, including, without limitation, our intention not to repatriate any foreign earnings to the U.S., expectations regarding the effect of our net operating loss or tax credit carryforwards on any tax liability associated with the repatriation of cash held by our foreign subsidiaries, the anticipated impact of our accumulated deficit, the funding, nature and amount of future capital expenditures, the future funding of our working capital needs, and the timing, seasonality and expectations of cash flows from operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "expect," "intend," "plan," "anticipate," "believe," "future," "potential," or the negative of these terms or other comparable terminology. Our actual results, levels of activity, performance, achievements or the timing of events 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, 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 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 the voting power in the company, and the volatility of our stock price. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements or the timing of any events. We make these statements as of the date of this Quarterly Report on Form 10-Q and undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report, except as required by law.

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of LeapFrog Enterprises, Inc. ("LeapFrog," "we," "us" or "our"). This MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Our Business

LeapFrog, founded in 1995 and incorporated in 1997 in the State of Delaware, is a leading developer and distributor of educational entertainment for children. Our product portfolio consists of multimedia learning platforms and related content and learning toys. We have developed a number of learning platforms, including the LeapPad family of learning tablets, the Leapster family of handheld learning game systems, the LeapReader reading and writing systems, and the Tag and Tag Junior reading systems, all of which support a broad library of content titles. We have created hundreds of interactive content titles for our platforms, covering subjects such as phonics, reading, writing and math. In addition, we have a broad line of stand-alone learning toys. Many of our products connect to our proprietary online LeapFrog Learning Path, which provides personalized feedback on a child's learning progress and offers product recommendations to enhance each child's learning experience. Our products are available in four languages and are sold globally through retailers, distributors and directly to consumers via the leapfrog.com online store and LeapFrog App Center.

Due to the seasonality of our business, our results of operations for interim periods are not necessarily indicative of the operating results for a full year.

Consolidated Results of Operations

	<u>Three Months Ended June 30,</u>		<u>Change</u>	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>
			<u>2012</u>			<u>2012</u>
	(Dollars in millions, except per share data)					
Net sales	\$ 83.0	\$ 71.5	16%	\$ 165.9	\$ 143.5	16%
Cost of sales	52.1	42.9	21%	101.7	85.2	19%
Gross margin *	37.2%	39.9%	(2.7)**	38.7%	40.6%	(1.9)**
Operating expenses	35.8	36.0	(1)%	73.7	74.3	(1)%
Operating expenses as a percent of net sales	43%	50%	(7)**	44%	52%	(8)**
Loss from operations	(4.9)	(7.5)	34%	(9.5)	(16.0)	41%
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.12)	\$ 0.07***	\$ (0.09)	\$ (0.26)	\$ 0.17***

* Gross profit as a percentage of net sales

** Percentage point change

*** Dollar change

Net sales for the three months ended June 30, 2013 increased 16% as compared to the same period in 2012, largely driven by sales of multimedia learning platforms, including LeapPad2, which launched in the third quarter of 2012, and LeapPad 2 Power, LeapPad Ultra and LeapReader, which launched in the second quarter of 2013. Net sales for the six months ended June 30, 2013 increased 16% as compared to the same period in 2012, largely driven by higher sales in LeapPad2, LeapReader and learning toys, partially offset by higher trade allowances and discounts as a percentage of net sales, resulting from an increase in claims related to higher sales in the fourth quarter of the prior year. Net sales for the three and six months ended June 30, 2013 were not materially affected by foreign currency exchange rates.

Cost of sales for the three and six months ended June 30, 2013 increased 21% and 19%, respectively, as compared to the same periods in 2012, primarily driven by higher sales volume, higher product costs resulting from a change in the sales mix with proportionally higher sales of hardware, and higher royalty costs resulting from an increase in sales of licensed content.

Consolidated gross margin for the three and six months ended June 30, 2013 was 37.2% and 38.7%, respectively, a decrease of 2.7 and 1.9 percentage points, respectively, as compared to the same periods of 2012, primarily driven by changes in product mix with proportionally higher sales of lower-margin hardware, and higher freight costs, partially offset by lower inventory allowances, and higher sales volume which reduced the impact of fixed logistic costs. The gross margin for the six months ended June 30, 2013 was also negatively impacted by higher trade allowances and discounts as a percentage of net sales.

Operating expenses for the three months ended June 30, 2013 decreased 1% as compared to the same period of 2012, primarily driven by a planned reduction in television commercial spending in the current period as compared to the prior year period, and a decrease in incentive compensation expense. The decreases were largely offset by higher expenses due to an increase in headcount to support our strategic initiatives. Operating expenses for the six months ended June 30, 2013 decreased 1% as compared to the same period of 2012, primarily due to bad debt expense of \$3.1 million in the prior year period related to an isolated customer bankruptcy, and a decrease in incentive compensation expense, largely offset by higher expenses due to an increase in headcount to support our strategic initiatives. Operating expenses as a percentage of net sales declined by 7 percentage points and 8 percentage points for the three and six months ended June 30, 2013, respectively, as higher sales volume reduced the impact of fixed costs.

Loss from operations for the three and six months ended June 30, 2013 improved 34% and 41%, respectively, as compared to the same periods in 2012, due to the increase in net sales, partially offset by lower gross margin.

Basic and diluted net loss per share for the three and six months ended June 30, 2013 improved by \$0.07 and \$0.17, respectively, as compared to the same periods of 2012. The improvements include \$0.03 and \$0.05, respectively, due to the recognition of U.S. tax benefits unrecognized in prior periods due to the valuation allowance.

Operating Expenses

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses consist primarily of salaries and related employee benefits, including stock-based compensation expense and other headcount-related expenses associated with executive management, finance, information technology, supply chain, facilities, human resources, other administrative headcount, legal and other professional fees, indirect selling expenses, systems costs, rent, office equipment and supplies.

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>
	(Dollars in millions)					
SG&A expenses	\$ 21.8	\$ 20.2	8%	\$ 43.7	\$ 43.9	-%
As a percent of net sales	26%	28%	(2)*	26%	31%	(5)*

* Percentage point change

SG&A expenses for the three months ended June 30, 2013 increased 8% as compared to the same period in 2012, primarily driven by higher expenses due to an increase in headcount to support our strategic initiatives, partially offset by a decrease in incentive compensation expense. SG&A expenses for the six months ended June 30, 2013 remained relatively flat as compared to the same period in 2012, primarily due to bad debt expense of \$3.1 million in 2012 related to an isolated customer bankruptcy, and a decrease in incentive compensation expense, offset by higher expenses due to an increase in headcount.

Research and Development Expenses

Research and development (“R&D”) expenses consist primarily of salaries, employee benefits, stock-based compensation and other headcount-related expenses associated with content development, product development, product engineering, third-party development and programming and localization costs to translate content for international markets. We capitalize external third-party costs related to content development, which are subsequently amortized into cost of sales in the statements of operations.

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>
	(Dollars in millions)					
R&D expenses	\$ 8.7	\$ 8.8	(2)%	\$ 17.7	\$ 17.7	-%
As a percent of net sales	10%	12%	(2)*	11%	12%	(1)*

* Percentage point change

R&D expenses for the three and six months ended June 30, 2013 remained relatively flat as compared to the same periods in 2012, with a decrease in incentive compensation expense, offset by higher expenses due to an increase in headcount to support our strategic initiatives.

Advertising Expense

Advertising expense consists of costs associated with marketing, advertising and promoting our products, including customer-related discounts and promotional allowances.

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>
	(Dollars in millions)					
Advertising expenses	\$ 2.7	\$ 4.3	(38)%	\$ 6.8	\$ 6.8	-%
As a percent of net sales	3%	6%	(3)*	4%	5%	(1)*

* Percentage point change

Advertising expense for the three months ended June 30, 2013 decreased 38% as compared to the same period in 2012, primarily due to a planned reduction in television commercial spending in the current period as compared to the prior year period, and expenses related to the Easter holiday which occurred during the first quarter of the current year versus the second quarter of the prior year. Advertising expense for the six months ended June 30, 2013 remained flat as compared to the same period in 2012, with a planned reduction in television commercial spend in the current period offset by an increase in cooperative print advertising to drive higher retail sales.

Depreciation and Amortization Expenses

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>
	(Dollars in millions)					
Depreciation and amortization	\$ 2.6	\$ 2.6	(1)%	\$ 5.4	\$ 5.9	(9)%
As a percent of net sales	3%	4%	(1)*	3%	4%	(1)*

* Percentage point change

Depreciation and amortization expenses for the six months ended June 30, 2013 decreased 9% as compared to the same period in 2012, primarily due to a reduction in amortization of other intangible assets as a result of certain assets reaching their full amortization during the first quarter of 2012, partially offset by an increase in depreciation of property and equipment as a result of an increase in capital expenditure in the current year period.

Other income (expense), net

Other income (expense) for the three and six months ended June 30, 2013 improved \$0.9 million as compared to the same periods in 2012, primarily due to the one-time settlement of a dispute with a supplier.

Income Taxes

See Note 5—"Income Taxes" in our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Results of Operations by Segment

We organize, operate and assess our business in two primary operating segments: U.S. and International. This presentation is consistent with how our chief operating decision maker reviews performance, allocates resources and manages the business.

U.S. Segment

The U.S. segment includes net sales and related expenses directly associated with selling our products to national and regional mass-market and specialty retailers, other retail stores, distributors, resellers, and online channels including our online store and App Center. Certain corporate-level operating expenses associated with sales and marketing, product support, human resources, legal, finance, information technology, corporate development, procurement activities, R&D, legal settlements and other corporate costs are charged entirely to our U.S. segment.

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>
	(Dollars in millions)					
Net sales	\$ 58.4	\$ 49.1	19%	\$ 116.5	\$ 101.4	15%
Cost of sales	36.9	28.8	28%	72.0	59.7	20%
Gross margin *	36.8%	41.4%	(4.6)**	38.2%	41.1%	(2.9)**
Operating expenses	31.7	31.4	1%	64.0	64.3	(1)%
Operating expenses as a percent of net sales	54%	64%	(10)**	55%	63%	(8)**
Loss from operations	\$ (10.2)	\$ (11.0)	7%	\$ (19.5)	\$ (22.7)	14%

* Gross profit as a percentage of net sales

** Percentage point change

Net sales for the three months ended June 30, 2013 increased 19% as compared to the same period in 2012, largely driven by sales of multimedia learning platforms, including LeapPad2, which launched in the third quarter of 2012, and LeapPad 2 Power, LeapPad Ultra and LeapReader, which launched in the second quarter of 2013. Net sales for the six months ended June 30, 2013 increased 15% as compared to the same period in 2012, largely driven by sales of multimedia learning platforms, partially offset by higher trade allowances and discounts resulting from an increase in claims related to higher sales in the fourth quarter of the prior year.

Cost of sales for the three and six months ended June 30, 2013 increased 28% and 20%, respectively, as compared to the same periods in 2012, primarily driven by higher sales volume, higher product costs resulting from a change in the sales mix with proportionally higher sales of hardware, and higher royalty costs resulting from an increase in sales of licensed content.

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Gross margin for the three and six months ended June 30, 2013 decreased 4.6 and 2.9 percentage points, respectively, as compared to the same periods of 2012, primarily driven by changes in product mix with proportionally higher sales of lower-margin hardware, and higher freight costs, partially offset by lower inventory allowances, and higher sales volume which reduced the impact of fixed logistic costs. The gross margin for the six months ended June 30, 2013, was also negatively impacted by higher trade allowances and discounts as a percentage of net sales.

Operating expenses for the three months ended June 30, 2013 increased 1% as compared to the same period of 2012, primarily driven by higher expenses due to increased headcount to support our strategic initiatives, largely offset by and a decrease in incentive compensation expense and a planned reduction in television commercial spending in the current period as compared to the prior year period. Operating expenses for the six months ended June 30, 2013 decreased 1% as compared to the same period of 2012, primarily due to bad debt expense of \$3.1 million in the prior year period related to an isolated customer bankruptcy, and a decrease in incentive compensation expense, largely offset by higher expenses due to increased headcount in 2013 to support our strategic initiatives. Operating expenses as a percentage of net sales declined by 10 percentage points and 8 percentage points for the three and six months periods, respectively, as higher sales volume leveraged costs.

Loss from operations for the three and six months ended June 30, 2013 improved 7% and 14% as compared to the same periods in 2012, respectively, due to the increase in net sales, partially offset by lower gross margin.

International Segment

The International segment includes the net sales and related expenses directly associated with selling our products to national and regional mass-market and specialty retailers and other outlets through our offices in the United Kingdom, France, Canada and Mexico and through distributors in markets such as Australia, South Africa and Spain, as well as through our online store. 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 allocated to our U.S. segment and not allocated to our International segment.

	<u>Three Months Ended June 30,</u>		<u>% Change</u>	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>
			<u>2012</u>			<u>2012</u>
	(Dollars in millions)					
Net sales	\$ 24.6	\$ 22.3	10%	\$ 49.5	\$ 42.1	17%
Cost of sales	15.2	14.1	8%	29.7	25.5	17%
Gross margin *	38.2%	36.8%	1.4**	39.9%	39.5%	0.4**
Operating expenses	4.1	4.7	(12)%	9.7	10.0	(2)%
Operating expenses as a percent of net sales	17%	21%	(4)**	20%	24%	(4)**
Income from operations	\$ 5.3	\$ 3.6	49%	\$ 10.0	\$ 6.7	49%

* Gross profit as a percentage of net sales

** Percentage point change

Net sales for the three months ended June 30, 2013 increased 10% as compared to the same period in 2012, largely driven by sales of multimedia learning platforms, including LeapPad2, which launched in major markets in the third quarter of 2012, and LeapPad 2 Power, LeapPad Ultra and LeapReader, which launched in the second quarter of 2013. Net sales for the six months ended June 30, 2013 increased 17% as compared to the same period in 2012, largely driven by sales of multimedia learning platforms and learning toys, partially offset by higher trade allowances and discounts resulting from an increase in claims related to higher sales in the fourth quarter of the prior year. Net sales for the three months ended June 30, 2013 included a 1% negative impact from changes in currency exchange rates. Net sales for the six months ended June 30, 2013 were not materially affected by foreign currency exchange rates.

Cost of sales for the three and six months ended June 30, 2013 increased 8% and 17%, respectively, as compared to the same periods in 2012, primarily driven by higher sales volume, offset by lower inventory allowances and logistic costs. Cost of sales for the six months ended June 30, 2013 also included higher royalty costs resulting from an increase in sales of licensed content.

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Gross margin for the three and six months ended June 30, 2013 increased 1.4 and 0.4 percentage points, respectively, as compared to the same periods of 2012, primarily driven by lower inventory allowances, and higher sales volume which reduced the impact of fixed logistic costs, partially offset by higher royalty costs resulting from proportionally higher sales of licensed content.

Operating expenses for the three and six months ended June 30, 2013 decreased 12% and 2%, respectively, as compared to the same periods in 2012, primarily driven by a planned reduction in television commercial spending in the current period as compared to the prior year period. Operating expenses as a percentage of net sales declined by 4 percentage points for both the three and six months ended June 30, 2013, as higher sales volume reduced the impact of fixed costs.

Income from operations for both the three and six months ended June 30, 2013 increased 49% as compared to the same periods in 2012, primarily due to the increase in net sales and improved gross margin percentage.

Liquidity and Capital Resources

Financial Condition

Cash and cash equivalents totaled \$181.4 million and \$126.9 million at June 30, 2013 and 2012, respectively. The increase in cash and cash equivalents was primarily due to an increase in cash provided by accounts receivable collection and improved operating results. Cash and cash equivalents held by our foreign subsidiaries totaled \$18.2 million and \$19.2 million at June 30, 2013 and 2012, respectively. In line with our investment policy, all cash equivalents were invested in high-grade short-term money market funds, including Treasury money market funds, as of June 30, 2013.

We consider the undistributed earnings of our foreign subsidiaries as of June 30, 2013 to be indefinitely reinvested, and accordingly, no U.S. income taxes have been provided thereon. We do not currently intend to repatriate any foreign earnings to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business. However, if we were to repatriate these amounts, any associated tax liability would be fully offset by our net operating loss or tax credit carryforwards for the foreseeable future.

We have an asset-based revolving credit facility (the “revolving credit facility”) with a potential borrowing availability of \$75.0 million for the months of September through December and \$50.0 million for the remaining months. The borrowing availability varies according to the levels of our accounts receivable and cash and investment securities deposited in secured accounts with the lenders. Borrowing availability under this revolving credit facility was \$35.9 million as of June 30, 2013. There were no borrowings outstanding on our revolving credit facility at June 30, 2013.

Our accumulated deficit of \$82.3 million at June 30, 2013 is not expected to have an impact on our future ability to operate, given our anticipated cash flows from operations, strong cash position and the availability of our revolving credit facility.

Future capital expenditures are primarily planned for new product development and purchases related to the upgrading of our information technology capabilities. We expect that capital expenditures for the remainder of 2013, including those for capitalized content and website development costs, will be funded with cash flows generated by operations. Capital expenditures were \$18.7 million for the six months ended June 30, 2013 and \$10.3 million for the same period of 2012. We expect capital expenditures to be in the range of \$30.0 million to \$35.0 million for the year ending December 31, 2013.

We believe that cash on hand, cash flow from operations and amounts available under our revolving credit facility will provide adequate funds for our working capital needs and planned capital expenditures over the next twelve months. Our ability to fund our working capital needs and planned capital expenditures, as well as our ability to comply with all of the financial covenants of our revolving credit facility, depend on our future operating performance and cash flows, which in turn are subject to prevailing economic conditions.

Cash Sources and Uses

The table below shows our sources and uses of cash for the six months ended June 30, 2013 as compared to the same period in 2012:

	<u>Six Months Ended June 30,</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013 vs.</u>
	<u>(Dollars in millions)</u>		<u>2012</u>
Cash flows provided by (used in):			
Operating activities	\$ 79.3	\$ 61.3	29%
Investing activities	(18.7)	(7.8)	(140)%
Financing activities	1.4	1.5	(9)%
Effect of exchange rate fluctuations on cash	(0.6)	0.1	N/M
Increase in cash and cash equivalents	<u>\$ 61.4</u>	<u>\$ 55.1</u>	12%

Cash flow provided by operations for the six months ended June 30, 2013 increased \$18.0 million as compared to the same period in 2012, primarily due to an increase in cash provided by accounts receivable collection, higher accounts payable, and improved net loss reconciled to operating activities, partially offset by increases in inventory purchase and bonus payouts.

Net cash used in investing activities for the six months ended June 30, 2013 increased \$10.9 million as compared to the same period of 2012, primarily due to an increase in computer hardware and software purchases to upgrade our information technology capabilities.

Net cash provided by financing activities for the six months ended June 30, 2013 decreased \$0.1 million as compared to the same period of 2012, primarily due to lower payroll taxes related to a decrease in employee RSUs released, largely offset by an increase in proceeds from stock option exercises and employee stock purchase plan.

Seasonal Patterns of Cash Provided By or Used in Operations

Generally, our cash flow provided by operations is highest in the first quarter of the year when we collect the majority of our accounts receivable booked in the fourth quarter of the prior year. Cash flow used in operations tends to be highest in our third quarter and early fourth quarter, as collections from prior accounts receivables taper off and we invest heavily in inventory in preparation for the fourth quarter holiday season. Cash flow generally turns positive again late in the fourth quarter as we start to collect on the accounts receivables associated with the holiday season. However, these seasonal patterns may vary depending upon general economic conditions and other factors.

Contractual Obligations and Commitments

We have had no material changes outside the ordinary course of our business in our contractual obligations during the three and six months ended June 30, 2013.

In addition, as of June 30, 2013, we had outstanding off-balance sheet commitments for outsourced manufacturing and component purchases of \$0.8 million.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ significantly from those estimates under different assumptions and conditions. We included in our 2012 Form 10-K a discussion of our critical accounting policies that are particularly important to the portrayal of our financial position and results of operations and that require the use of our management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We have made no material changes to any of our critical accounting policies through June 30, 2013.

Recently Adopted Accounting Guidance

In February 2013, the FASB issued ASU 2012-02, *Comprehensive Income (Topic 220)*. The objective of this guidance is to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. This guidance became effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance on January 1, 2013. The adoption of this guidance did not result in any material impact to our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350)*. The objective of this guidance is to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This guidance became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this guidance on January 1, 2013. The adoption of this guidance did not result in any material impact to our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk disclosures set forth in Item 7A of our 2012 Form 10-K have not changed materially for our quarter ended June 30, 2013.

We develop products in the U.S. and market our products primarily in North America and, to a lesser extent, in Europe and the rest of the world. We are billed by and pay our third-party manufacturers in U.S. dollars. Sales to our international customers are transacted primarily in the country’s local currency. As a result, our financial results could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets.

We manage our foreign currency transaction exposure by entering into short-term forward contracts. The purpose of this hedging program is to minimize the foreign currency exchange gain or loss reported in our financial statements, but the program, when properly executed, may not always eliminate our exposure to movements of currency exchange rates. The results of our hedging program for the three and six months ended June 30, 2013 and 2012 are summarized in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(Dollars in thousands)				
Gains (losses) on foreign exchange forward contracts	\$ 38	\$ (57)	\$ 1,510	\$ (595)
Losses on underlying transactions denominated in foreign currency	(223)	(182)	(2,077)	(92)
Net losses	\$ (185)	\$ (239)	\$ (567)	\$ (687)

Our foreign exchange forward contracts generally have original maturities of one month or less. A summary of all foreign exchange forward contracts outstanding as of June 30, 2013 is as follows:

	As of June 30, 2013		
	Average Forward Exchange Rate	Notional Amount in Local Currency	Fair Value of Instruments in USD
		(1)	(2)
Currencies:			
British Pound (GBP/USD)	1.516	7,739	\$ (8)
Euro (Euro/USD)	1.298	3,569	(11)
Total fair value of instruments in USD			\$ (19)

(1) In thousands of local currency

(2) In thousands of USD

Cash equivalents are presented at fair value on our consolidated balance sheet. We invest our excess cash in accordance with our investment policy. As of June 30, 2013 and December 31, 2012 and June 30, 2012, our excess cash was invested in high-grade money market funds. Any adverse changes in interest rates or securities prices may decrease the value of our investments and operating results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported, within the time periods specified in the U.S. SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls and procedures included a review of the controls’ objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in our reports. In the course of the controls evaluation, we reviewed any identified data errors and control problems and sought to confirm that appropriate corrective actions, including process improvements, were undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including our CEO and CFO, concerning the effectiveness of the disclosure controls and procedures can be reported in our periodic reports filed with the U.S. SEC on Forms 10-Q, 10-K, and others as may be required from time to time.

Based upon the evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of June 30, 2013.

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure system are met.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the three months ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 11—"Commitments and Contingencies" in our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Part I, Item 1A. "Risk Factors" in our 2012 Form 10-K.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Original Exhibit Number	Filing Date	
3.01	Amended and Restated Certificate of Incorporation	S-1/A	333-86898	3.03	7/22/2002	
3.02	Amended and Restated Bylaws	8-K	001-31396	3.01	11/20/2012	
4.01	Form of Specimen Class A Common Stock Certificate	10-Q	001-31396	4.01	11/3/2011	
4.02	Fourth Amended and Restated Stockholders Agreement, dated as of May 30, 2003, by and among LeapFrog Enterprises, Inc. and the other persons named therein	10-Q	001-31396	4.02	8/12/2003	
10.01	Amended and Restated 2002 Non-Employee Directors' Stock Award Plan					X
10.02	Form of Non-Employee Director Stock Option Agreement under the Amended and Restated 2011 Equity and Incentive Plan					X
10.03	Form of Non-Employee Director Restricted Stock Unit Agreement under the Amended and Restated 2011 Equity and Incentive Plan					X
10.04	Amendment No. 1 to Employment Agreement, dated as of May 21, 2013, between LeapFrog Enterprises, Inc. and John Barbour					X
31.01	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.02	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.01	Certification of the Chief Executive Officer and the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following materials from the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in eXtensible Business Reporting Language (XBRL), include: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements (furnished herewith)					X

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LeapFrog Enterprises, Inc.
(Registrant)

/s/ John Barbour

John Barbour

Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2013

/s/ Raymond L. Arthur

Raymond L. Arthur

Chief Financial Officer
(Principal Financial Officer)

Date: August 7, 2013

LEAPFROG ENTERPRISES, INC.

2002 NON-EMPLOYEE DIRECTORS' STOCK AWARD PLAN

ADOPTED: JULY 2, 2002

APPROVED BY STOCKHOLDERS: JULY 19, 2002

AMENDED AND RESTATED: APRIL 20, 2004

AMENDMENT AND RESTATEMENT APPROVED BY STOCKHOLDERS: JUNE 10, 2004

AMENDED AND RESTATED: MARCH 27, 2006

AMENDMENT AND RESTATEMENT APPROVED BY STOCKHOLDERS: JUNE 16, 2006

AMENDED AND RESTATED: APRIL 29, 2009

AMENDED AND RESTATED: JUNE 29, 2011

AMENDED APRIL 30, 2013

TERMINATION DATE: NONE

1. PURPOSES.

(A) **ELIGIBLE RECIPIENTS.** The persons eligible to receive Stock Awards are the Non-Employee Directors of the Company.

(B) **AVAILABLE STOCK AWARDS.** The purpose of the Plan is to provide a means by which Non-Employee Directors may be given an opportunity to benefit from increases in value of the Class A Common Stock through the granting of (i) Nonstatutory Stock Options, (ii) Restricted Stock Awards, (iii) Restricted Stock Unit Awards, (iv) Stock Appreciation Rights, and (v) Performance Stock Awards.

(C) **GENERAL PURPOSE.** The Company, by means of the Plan, seeks to retain the services of its Non-Employee Directors, to secure and retain the services of new Non-Employee Directors and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Controlled Corporations.

2. DEFINITIONS.

(A) **"Accountant"** means the independent public accountants of the Company.

(B) **"Affiliate"** means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(C) **"Annual Grant"** means a Stock Award granted annually to a Non-Employee Director who meets the specified criteria pursuant to Section 6(b) of the Plan.

(D) **"Annual Meeting"** means the annual meeting of the stockholders of the Company.

(E) **"Board"** means the Board of Directors of the Company.

(f) **“Change in Control”** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events after the IPO Date:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction;

(iii) there is consummated a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the Company immediately prior to such sale, lease, license or other disposition; or

Notwithstanding the foregoing or any other provision of this Plan, the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Controlled Corporation and the Participant shall supersede the foregoing definition with respect to Stock Awards subject to such agreement (it being understood, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply).

(g) **“Class A Common Stock”** means the Class A common stock of the Company.

(h) **“Code”** means the Internal Revenue Code of 1986, as amended.

(i) **“Company”** means LeapFrog Enterprises, Inc., a Delaware corporation.

(j) **“Consultant”** means any person, including an advisor, (i) engaged by the Company or a Controlled Corporation to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of a Controlled Corporation. However, the term “Consultant” shall not include either Directors of the Company who are not compensated by the Company for their services as Directors or Directors of the Company who are merely paid a director’s fee by the Company for their services as Directors.

(K) **“Continuous Service”** means that the Participant’s service with the Company or a Controlled Corporation, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or a Controlled Corporation as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or Controlled Corporation, shall not terminate a Participant’s Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of a Controlled Corporation or a Director shall not constitute an interruption of Continuous Service. Notwithstanding the foregoing or anything in the Plan to the contrary, unless (i) otherwise provided in a Stock Award Agreement or (ii) following the date of grant of a Stock Award, determined otherwise by the Board with respect to any Participant who is then an officer of the Company within the meaning of Section 16 of the Exchange Act or by the chief executive officer of the Company with respect to any other Participant, in the event that a Participant terminates his or her subsequent service with the Company or a Controlled Corporation as an Employee, the Participant shall cease vesting in any of his or her Stock Awards as of such date of termination, regardless of whether the Participant continues his or her service in the capacity of a Director or Consultant without interruption or termination. The Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company’s leave of absence policy or in the written terms of the Participant’s leave of absence.

(L) **“Controlled Corporation”** means any subsidiary corporation of the Company, whether now or hereafter existing, as such term is defined in Section 424(f) of the Code.

(M) **“Director”** means a member of the Board of Directors of the Company.

(N) **“Disability”** means the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person’s position with the Company or a Controlled Corporation of the Company because of the sickness or injury of the person.

(O) **“Employee”** means any person employed by the Company or a Controlled Corporation. Mere service as a Director or payment of a director’s fee by the Company or a Controlled Corporation shall not be sufficient to constitute “employment” by the Company or a Controlled Corporation.

(P) **“Entity”** means a corporation, partnership or other entity.

(Q) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended.

(R) **“Exchange Act Person”** means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” shall not include (A) the Company or any Subsidiary of the Company, (B) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company.

(s) **“Fair Market Value”** means, as of any date, the value of the Class A Common Stock determined as follows:

(i) If the Class A Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Class A Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Class A Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Class A Common Stock, the Fair Market Value shall be determined by the Board based upon an independent appraisal in compliance with Section 409A of the Code or, in the case of an Incentive Stock Option, in compliance with Section 422 of the Code.

(t) **“Initial Grant”** means a Stock Award granted to a Non-Employee Director who meets the specified criteria pursuant to Section 6(a) of the Plan.

(u) **“IPO Date”** means the date the Company’s Class A Common Stock is first offered to the public under a registration statement declared effective under the Securities Act.

(v) **“Non-Employee Director”** means a Director who is not an Employee of the Company or a Controlled Corporation.

(w) **“Nonstatutory Stock Option”** means an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(x) **“Officer”** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) **“Option”** means a Nonstatutory Stock Option granted pursuant to the Plan.

(z) **“Option Agreement”** means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(AA) **“Optionholder”** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(BB) **“Own,” “Owned,” “Owner,” “Ownership”** A person or Entity shall be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

- (cc) **“Performance Stock Award”** means a Stock Award granted under the terms and conditions of Section 8(d).
- (dd) **“Plan”** means this LeapFrog Enterprises, Inc. 2002 Non-Employee Directors' Stock Award Plan.
- (ee) **“Restricted Stock Award”** means an award of shares of Class A Common Stock which is granted pursuant to the terms and conditions of Section 8(a).
- (ff) **“Restricted Stock Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.
- (gg) **“Restricted Stock Unit Award”** means a right to receive shares of Class A Common Stock which is granted pursuant to the terms and conditions of Section 8(b).
- (hh) **“Restricted Stock Unit Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.
- (ii) **“Rule 16b-3”** means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.
- (jj) **“Securities Act”** means the Securities Act of 1933, as amended.
- (kk) **“Stock Appreciation Right”** means a right to receive the appreciation on Class A Common Stock that is granted pursuant to the terms and conditions of Section 8(c).
- (ll) **“Stock Appreciation Right Agreement”** means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.
- (mm) **“Stock Award”** means any right to receive Class A Common Stock granted under the Plan, including a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right or a Performance Stock Award.
- (nn) **“Stock Award Agreement”** means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(oo) **“Subsidiary”** means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

3. ADMINISTRATION.

(A) **ADMINISTRATION BY BOARD.** The Board shall administer the Plan. The Board may not delegate administration of the Plan to a committee; *provided, however*, that the Board may delegate to a committee the authority to determine the type of Stock Awards and the number of shares subject to such Stock Awards with respect to Initial and Annual Grants.

(B) **POWERS OF BOARD.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine the recipients and provisions of Stock Awards to the extent not specified in the Plan.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 13.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) **EFFECT OF BOARD’S DECISION.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(A) **SHARE RESERVE.** Subject to the provisions of Section 12 relating to adjustments upon changes in the Class A Common Stock, the Class A Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate One Million Two Hundred Fifty Thousand (1,250,000) shares of Class A Common Stock. Effective as of June 16, 2006, subject to Section 4(b), the number of shares available for issuance under the Plan shall be reduced by: (i) one (1) share for each share of Class A Common Stock issued pursuant to an Option granted under Section 7 or a Stock Appreciation Right granted under Section 8(c); and (ii) two (2) shares for each share of Class A Common Stock issued pursuant to a Restricted Stock Award granted under Section 8(a) or a Restricted Stock Unit Award granted under Section 8(b). Shares may be issued in connection with a merger or acquisition as permitted by NYSE Listed Company Manual Section 303A.08 or, if applicable, NASD Rule 4350(i)(1)(A)(iii) or AMEX Company Guide Section 711 and such issuance shall not reduce the number of shares available for issuance under the Plan.

(B) **REVERSION OF SHARES TO THE SHARE RESERVE.**

(i) **SHARES AVAILABLE FOR SUBSEQUENT ISSUANCE.** If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, or if any shares of Class A Common Stock issued to a Participant pursuant to a Stock Award are forfeited back to or repurchased by the Company because of or in connection with the failure to meet a contingency or condition required to vest such shares in the Participant, the shares of Class A Common Stock not acquired, forfeited or repurchased under such Stock Award shall revert to and again become available for issuance under the Plan.

(ii) **OTHER SHARES AVAILABLE FOR SUBSEQUENT ISSUANCE.** If any shares subject to a Stock Award are not delivered to a Participant because the Stock Award is exercised through a reduction of shares subject to the Stock Award (*i.e.*, “net exercised”) or an appreciation distribution in respect of a Stock Appreciation Right is paid in shares of Class A Common Stock, the number of shares subject to the Stock Award that are not delivered to the Participant shall remain available for subsequent issuance under the Plan. If any shares subject to a Stock Award are not delivered to a Participant because such shares are withheld in satisfaction of the withholding of taxes incurred in connection with the exercise of an Option, Stock Appreciation Right, or the issuance of shares under a Restricted Stock Award or Restricted Stock Unit Award, the number of shares that are not delivered to the Participant shall remain available for subsequent issuance under the Plan. If the exercise price of any Stock Award is satisfied by tendering shares of Class A Common Stock held by the Participant (either by actual delivery or attestation), then the number of shares so tendered shall remain available for subsequent issuance under the Plan.

To the extent there is issued a share of Class A Common Stock pursuant to a Stock Award that counted as two (2) shares against the number of shares available for issuance under the Plan pursuant to Section 4(a) and such share of Common Stock again becomes available for issuance under the Plan pursuant to this Section 4(b), then the number of shares of Class A Common Stock available for issuance under the Plan shall increase by two (2) shares.

(c) **SOURCE OF SHARES.** The shares of Class A Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise. If the aggregate number of shares of Class A Common Stock issuable as Initial and Annual Grants pursuant to Sections 6(a) and 6(b) would exceed the number of shares remaining in the share reserve under Section 4(a) at such time of grant, then, in the absence of any Board action otherwise, a pro rata allocation of the shares of Class A Common Stock available shall be made in as nearly a uniform manner as shall be practicable and equitable.

5. ELIGIBILITY.

The Initial and Annual Grants as set forth in Sections 6(a) and 6(b) automatically shall be granted under the Plan to all Non-Employee Directors. Stock Awards may also be granted as discretionary grants as set forth in Section 6(c).

6. NON-DISCRETIONARY AND DISCRETIONARY GRANTS.

(A) **INITIAL GRANTS.** Without any further action of the Board, each person who is elected or appointed for the first time to be a Non-Employee Director automatically shall be granted an Initial Grant, in such form and amount as determined by the Board by written resolution, from time to time. The grant date for the Initial Grant (“Initial Grant Date”) shall be the 15th day of the month following the date of such Non-Employee Director’s initial election or appointment to be a Non-Employee Director.

(B) **ANNUAL GRANTS.** Without any further action of the Board, each year, on the first day of the month following the annual meeting of stockholders of the Company (“*Annual Grant Date*”), each person who is then a Non-Employee Director automatically shall be granted an Annual Grant in such form and amount as determined by the Board by written resolution, from time to time; *provided, however*, that the value of the grant to a particular Non-Employee Director shall be reduced, on a pro rata basis, for each month such person did not serve as a Non-Employee Director during the twelve-month period from the prior Annual Grant Date until the current Annual Grant Date.

(C) **DISCRETIONARY GRANTS.** In addition to non-discretionary grants pursuant to Sections 6(a) and 6(b), the Board, in its sole discretion, may grant Stock Awards to one or more Non-Employee Directors in such numbers and subject to such other provisions as it shall determine. The numbers and other provisions of such Stock Awards need not be identical.

7. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as required by the Plan. Each Option shall contain such additional terms and conditions, not inconsistent with the Plan, as the Board shall deem appropriate. Each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(A) **TERM.** No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(B) **EXERCISE PRICE.** The exercise price of each Option shall be one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) **CONSIDERATION.** The purchase price of Class A Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The methods of payment permitted by this Section 7(c) are:

- (i) by cash, check, bank draft or money order payable to the Company;
- (ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;
- (iii) by delivery to the Company (either by actual delivery or attestation) of shares of Class A Common Stock;
- (iv) by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Class A Common Stock issued upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; *provided, further*, that shares of Class A Common Stock will no longer be outstanding under an Option and will not be exercisable thereafter to the extent that (A) shares are used to pay the exercise price pursuant to the “net exercise,” (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or
- (v) in any other form of legal consideration that may be acceptable to the Board.

Unless otherwise specifically provided in the Option, the purchase price of Class A Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Class A Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Class A Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Class A Common Stock’s “par value,” as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(d) **TRANSFERABILITY.** An Option is transferable by will or by the laws of descent and distribution. An Option also may be transferable upon written consent of the Company if, at the time of transfer, a Form S-8 registration statement under the Securities Act is available for the exercise of the Option and the subsequent resale of the underlying securities. In addition, an Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(E) **VESTING.** At the time of grant of an Option, the Board may impose such restrictions or conditions to the vesting of the Options as it, in its sole discretion, deems appropriate.

(F) **EARLY EXERCISE.** The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Class A Common Stock subject to the Option prior to the full vesting of the Option. Any unvested shares of Class A Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

(G) **TERMINATION OF CONTINUOUS SERVICE.** In the event an Optionholder's Continuous Service terminates, the Optionholder (or, in the event of the Optionholder's death, the Optionholder's estate, a person who acquired the right to exercise the Option by bequest or inheritance, or a person designated to exercise the Option upon the Optionholder's death) may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of the expiration of the term of the Option as set forth in the Option Agreement or the date following the termination of the Optionholder's Continuous Service set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(H) **EXTENSION OF TERMINATION DATE.** If the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in Section 7(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

8. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(A) **RESTRICTED STOCK AWARDS.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company's Bylaws, at the Board's election, shares of Class A Common Stock may be (x) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (y) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical, *provided, however,* that each Restricted Stock Award Agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **CONSIDERATION.** A Restricted Stock Award may be awarded in consideration for (A) past or future services actually or to be rendered to the Company or an Affiliate, or (B) any other form of legal consideration that may be acceptable to the Board in its sole discretion and permissible under applicable law.

(ii) **VESTING.** Shares of Class A Common Stock awarded under a Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

(iii) **TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE.** In the event a Participant's Continuous Service terminates, the Company may receive pursuant to a forfeiture condition, any or all of the shares of Class A Common Stock held by the Participant which have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

(iv) **TRANSFERABILITY.** Rights to acquire shares of Class A Common Stock under a Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Class A Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(B) **RESTRICTED STOCK UNIT AWARDS.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical, *provided, however*, that each Restricted Stock Unit Award Agreement shall include (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) **CONSIDERATION.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Class A Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Class A Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board in its sole discretion and permissible under applicable law.

(ii) **VESTING.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) **PAYMENT.** A Restricted Stock Unit Award may be settled by the delivery of shares of Class A Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) **ADDITIONAL RESTRICTIONS.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Class A Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) **DIVIDEND EQUIVALENTS.** Dividend equivalents may be credited in respect of shares of Class A Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Class A Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all the terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) **TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(vii) **COMPLIANCE WITH SECTION 409A OF THE CODE.** Notwithstanding anything to the contrary set forth herein, any Restricted Stock Unit Award granted under the Plan that is not exempt from the requirements of Section 409A of the Code shall contain such provisions so that such Restricted Stock Unit Award will comply with the requirements of Section 409A of the Code. Such restrictions, if any, shall be determined by the Board and contained in the Restricted Stock Unit Award Agreement evidencing such Restricted Stock Unit Award. For example, such restrictions may include, without limitation, a requirement that any Class A Common Stock that is to be issued in a year following the year in which the Restricted Stock Unit Award vests must be issued in accordance with a fixed pre-determined schedule.

(c) **STOCK APPRECIATION RIGHTS.** Each Stock Appreciation Right Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. Stock Appreciation Rights may be granted as stand-alone Stock Awards or in tandem with other Stock Awards. The terms and conditions of Stock Appreciation Right Agreements may change from time to time, and the terms and conditions of separate Stock Appreciation Right Agreements need not be identical; *provided, however*, that each Stock Appreciation Right Agreement shall include (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) **TERM.** No Stock Appreciation Right shall be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Stock Appreciation Right Agreement.

(ii) **STRIKE PRICE.** Each Stock Appreciation Right will be denominated in shares of Class A Common Stock equivalents. The strike price of each Stock Appreciation Right shall not be less than one hundred percent (100%) of the Fair Market Value of the Class A Common Stock equivalents subject to the Stock Appreciation Right on the date of grant.

(iii) **CALCULATION OF APPRECIATION.** The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of shares of Class A Common Stock equal to the number of shares of Class A Common Stock equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (B) the strike price that will be determined by the Board at the time of grant of the Stock Appreciation Right.

(iv) **VESTING.** At the time of the grant of a Stock Appreciation Right, the Board may impose such restrictions or conditions to the vesting of such Stock Appreciation Right as it, in its sole discretion, deems appropriate.

(v) **EXERCISE.** To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

(vi) **PAYMENT.** The appreciation distribution in respect of a Stock Appreciation Right may be paid in Class A Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

(vii) **TERMINATION OF CONTINUOUS SERVICE.** In the event that a Participant's Continuous Service terminates, the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination) but only within such period of time ending on the earlier of (A) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (B) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after termination, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(viii) **COMPLIANCE WITH SECTION 409A OF THE CODE.** Notwithstanding anything to the contrary set forth herein, any Stock Appreciation Rights granted under the Plan that are not exempt from the requirements of Section 409A of the Code shall contain such provisions so that such Stock Appreciation Rights will comply with the requirements of Section 409A of the Code. Such restrictions, if any, shall be determined by the Board and contained in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right. For example, such restrictions may include, without limitation, a requirement that a Stock Appreciation Right that is to be paid wholly or partly in cash must be exercised and paid in accordance with a fixed pre-determined schedule.

(b) **PERFORMANCE STOCK AWARDS.** A Performance Stock Award is a Stock Award that may be granted, may vest, or may be exercised based upon the attainment during one or more periods of time of certain performance goals. Such performance goals may be determined by the Board in its sole discretion or may be based on the Performance Goals selected by the Committee under the Company's 2002 Equity Incentive Plan (as such terms are defined in the Company's 2002 Equity Incentive Plan). A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any performance period, the performance goals to be achieved during such performance period, and the measure of whether and to what degree such performance goals have been attained shall be conclusively determined by the Board in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

9. COVENANTS OF THE COMPANY.

(A) **AVAILABILITY OF SHARES.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Class A Common Stock required to satisfy such Stock Awards.

(B) **SECURITIES LAW COMPLIANCE.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Class A Common Stock upon exercise of the Stock Awards; *provided, however,* that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Stock Awards unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Stock Awards shall constitute general funds of the Company.

11. MISCELLANEOUS.

(A) **STOCKHOLDER RIGHTS.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to a Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(B) **NO SERVICE RIGHTS.** Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company as a Non-Employee Director or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(c) **INVESTMENT ASSURANCES.** The Company may require a Participant, as a condition of exercising or acquiring stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring the stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares upon the exercise or acquisition of stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(d) **WITHHOLDING OBLIGATIONS.** The Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Class A Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of stock under the Stock Award, *provided, however,* that no shares of Class A Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of the Class A Common Stock.

(e) **LOCK-UP PERIOD.** Upon exercise of any Stock Award, a Participant may not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any shares of Class A Common Stock or other securities of the Company held by the Participant, for a period of time specified by the managing underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of a registration statement of the Company filed under the Securities Act, other than a Form S-8 registration statement, (the "Lock Up Period"); *provided, however,* that nothing contained in this section shall prevent the exercise of a repurchase option, if any, in favor of the Company during the Lock Up Period. A Participant may be required to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) that are consistent with the foregoing or that are necessary to give further effect thereto. In order to enforce the foregoing, the Company may impose stop-transfer instructions with respect to such shares of Class A Common Stock until the end of such period. The underwriters of the Company's stock are intended third party beneficiaries of this Section 11(e) and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

12. ADJUSTMENTS UPON CHANGES IN CLASS A COMMON STOCK.

(A) **CAPITALIZATION ADJUSTMENTS.** If any change is made in the stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the nature, class(es) and maximum number of securities subject both to the Plan pursuant to Section 4 and to the nondiscretionary Stock Awards specified in Section 6, and the outstanding Stock Awards will be appropriately adjusted in the nature, class(es) and number of securities and price per share of stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction “without receipt of consideration” by the Company.)

(B) **DISSOLUTION OR LIQUIDATION.** In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to such event.

(C) **CHANGE IN CONTROL.** If a Change in Control occurs and as of, or within twelve (12) months after, the effective time of such Change in Control, a Participant’s Continuous Service terminates, then his or her Stock Awards will accelerate and become fully vested and immediately exercisable (to the extent applicable), unless the termination was a result of the Participant’s resignation (other than any resignation contemplated by the terms of the Change in Control or required by the Company or the acquiring entity pursuant to the Change in Control).

(D) **PARACHUTE PAYMENTS.** In the event that the acceleration of the vesting and exercisability of the Stock Awards provided for in Section 12(c) and benefits otherwise payable to a Participant (“Payment”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “Excise Tax”), then such Payment shall be equal to the Reduced Amount. The “Reduced Amount” shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Participant’s receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting “parachute payments” is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order unless the Participant elects in writing a different order (*provided, however*, that such election shall be subject to Company approval if made on or after the effective date of the event that triggers the Payment): reduction of cash payments; cancellation of accelerated vesting of Stock Awards; reduction of employee benefits. In the event that acceleration of vesting of Stock Award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Participant’s Stock Awards (*i.e.*, earliest granted Stock Award cancelled last) unless the Participant elects in writing a different order for cancellation.

The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Participant and the Company within fifteen (15) calendar days after the date on which the Participant's right to a Payment is triggered (if requested at that time by the Participant or the Company) or such other time as requested by the Participant or the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish the Participant and the Company with an opinion reasonably acceptable to the Participant that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Participant and the Company.

13. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(A) **AMENDMENT OF PLAN.** The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 12 relating to adjustments upon changes in Class A Common Stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(B) **STOCKHOLDER APPROVAL.** The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval.

(C) **NO IMPAIRMENT OF RIGHTS.** Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(D) **AMENDMENT OF STOCK AWARDS.** The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; *provided, however*, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

14. TERMINATION OR SUSPENSION OF THE PLAN.

(A) **PLAN TERM.** The Board may suspend or terminate the Plan at any time. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(B) **NO IMPAIRMENT OF RIGHTS.** Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

15. CHOICE OF LAW.

All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of Delaware, without regard to such state's conflict of laws rules.

**LEAPFROG ENTERPRISES, INC.
NON-EMPLOYEE DIRECTOR
STOCK OPTION GRANT NOTICE
(2011 EQUITY AND INCENTIVE PLAN)**

LeapFrog Enterprises, Inc. (the “*Company*”), pursuant to its 2011 Equity and Incentive Plan (the “*Plan*”), hereby grants to Optionholder an option to purchase the number of shares of the Company’s Common Stock set forth below. This option is subject to all of the terms and conditions as set forth herein and in the Option Agreement, the Plan, and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety.

Optionholder:	_____
Date of Grant:	_____
Grant Number:	_____
Vesting Commencement Date:	_____
Number of Shares Subject to Option:	_____
Exercise Price (Per Share):	\$ _____
Total Exercise Price:	\$ _____
Expiration Date:	_____

TYPE OF GRANT: Nonstatutory Stock Option

EXERCISE SCHEDULE: Same as Vesting Schedule

VESTING SCHEDULE:

PAYMENT: By one or a combination of the following items (described in the Option Agreement):

- By cash or check
- By bank draft or money order payable to the Company
- Pursuant to a Regulation T Program if the Shares are publicly traded
- By delivery of already-owned shares if the Shares are publicly traded
- By a “net exercise” arrangement if and only to the extent this option is a Nonstatutory Stock Option, and subject to the Company’s consent at the time of exercise,

ADDITIONAL TERMS/ACKNOWLEDGEMENTS: The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Stock Option Grant Notice, the Option Agreement and the Plan. Optionholder further acknowledges that as of the Date of Grant, this Stock Option Grant Notice, the Option Agreement, and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) equity awards previously granted and delivered to Optionholder by the Company under the Plan or any other equity incentive plan sponsored by the Company and (ii) the following agreements only:

OTHER AGREEMENTS: _____ None _____

OPTIONHOLDER: _____

Date: _____

ATTACHMENTS: Option Agreement, 2011 Equity and Incentive Plan and Notice of Exercise

ATTACHMENT I

LEAPFROG ENTERPRISES, INC.
2011 EQUITY AND INCENTIVE PLAN

NON-EMPLOYEE DIRECTOR STOCK OPTION AGREEMENT
(INCENTIVE STOCK OPTION OR NONSTATUTORY STOCK OPTION)

Pursuant to your Stock Option Grant Notice (“*Grant Notice*”) and this Option Agreement (“*Option Agreement*”), LeapFrog Enterprises, Inc. (the “*Company*”) has granted you an option under its 2011 Equity and Incentive Plan (the “*Plan*”) to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. Defined terms not explicitly defined in this Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. VESTING. Subject to the limitations contained herein, your option will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of Common Stock subject to your option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments.

3. EXERCISE PRIOR TO VESTING (“EARLY EXERCISE”). If permitted in your Grant Notice (*i.e.*, the “Exercise Schedule” indicates “Early Exercise Permitted”) and subject to the provisions of your option, you may elect at any time that is both (i) during the period of your Continuous Service and (ii) during the term of your option, to exercise all or part of your option, including the unvested portion of your option; *provided, however*, that:

(A) a partial exercise of your option shall be deemed to cover first vested shares of Common Stock and then the earliest vesting installment of unvested shares of Common Stock;

(B) any shares of Common Stock so purchased from installments that have not vested as of the date of exercise shall be subject to the purchase option in favor of the Company as described in the Company’s form of Early Exercise Stock Purchase Agreement; and

(C) you shall enter into the Company’s form of Early Exercise Stock Purchase Agreement with a vesting schedule that will result in the same vesting as if no early exercise had occurred.

4. METHOD OF PAYMENT. Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner *permitted by your Grant Notice*, which may include one or more of the following:

(A) Bank draft or money order payable to the Company.

(B) Provided that at the time of exercise the Common Stock is publicly traded, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

(c) Provided that at the time of exercise the Common Stock is publicly traded, by delivery to the Company (either by actual delivery or attestation) of already-owned shares of Common Stock that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your option, shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, you may not exercise your option by tender to the Company of Common Stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(d) Provided the Option is a Nonstatutory Stock Option, *subject to the consent of the Company at the time of exercise*, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issued upon exercise of your option by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company shall accept a cash or other payment from you to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; provided further, however, that shares of Common Stock will no longer be outstanding under your option and will not be exercisable thereafter to the extent that (1) shares are used to pay the exercise price pursuant to the "net exercise," (2) shares are delivered to you as a result of such exercise, and (3) shares are withheld to satisfy tax withholding obligations.

5. WHOLE SHARES. You may exercise your option only for whole shares of Common Stock.

6. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not exercise your option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option also must comply with other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

7. TERM. You may not exercise your option before the commencement or after the expiration of its term. The term of your option commences on the Date of Grant and expires, subject to the provisions of Section 5(h) of the Plan, upon the earliest of the following:

- (A) one (1) year after the termination of your Continuous Service;
- (B) the Expiration Date indicated in your Grant Notice; or
- (C) the day before the tenth (10th) anniversary of the Date of Grant.

8. EXERCISE.

(A) You may exercise the vested portion of your option (and the unvested portion of your option if your Grant Notice so permits) during its term by transacting an exercise using the online brokerage account reserved for you by the Company or by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(B) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

9. TRANSFERABILITY. Except as otherwise provided in this Section 9, your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you.

(A) **CERTAIN TRUSTS.** Upon receiving written permission from the Board or its duly authorized designee, you may transfer your option to a trust if you are considered to be the sole beneficial owner (determined under Section 671 of the Code and applicable state law) while the option is held in the trust, provided that you and the trustee enter into transfer and other agreements required by the Company.

(B) **DOMESTIC RELATIONS ORDERS.** Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your option pursuant to a domestic relations order that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of this option with the Company prior to finalizing the domestic relations order to help ensure the required information is contained within the domestic relations order. If this option is an Incentive Stock Option, this option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(C) **BENEFICIARY DESIGNATION.** Upon receiving written permission from the Board or its duly authorized designee, you may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect option exercises, designate a third party who, in the event of your death, shall thereafter be entitled to exercise this option and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, your executor or administrator of your estate shall be entitled to exercise this option and receive, on behalf of your estate, the Common Stock or other consideration resulting from such exercise.

10. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective stockholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

11. WITHHOLDING OBLIGATIONS.

(A) At the time you exercise your option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a “cashless exercise” pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your option.

(B) Upon your request and subject to approval by the Company, in its sole discretion, and in compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid classification of your option as a liability for financial accounting purposes). If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock unless such obligations are satisfied.

12. CHANGE IN CONTROL.

(A) If a Change in Control (as defined in the Plan) occurs and as of, or within twelve (12) months after, the effective time of such Change in Control, your Continuous Service terminates, then your options will accelerate and become fully vested and immediately exercisable, unless the termination was a result of your resignation (other than any resignation contemplated by the terms of the Change in Control or required by the Company or the acquiring entity pursuant to the Change in Control).

(B) In the event that the acceleration of the vesting and exercisability of the Options provided for in paragraph (a) of this Section entitled "Change in Control" and benefits otherwise payable to you ("Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then such Payment shall be equal to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in your receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order with the intention of maximizing the value delivered to you: reduction of cash payments; cancellation of accelerated vesting of restricted stock units and Options; reduction of employee benefits. In the event that acceleration of vesting of Option or restricted stock unit compensation is to be reduced, such acceleration of vesting shall be cancelled in the order of grant that maximizes the value delivered to you.

The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to you and the Company within fifteen (15) calendar days after the date on which your right to a Payment is triggered (if requested at that time by you or the Company) or such other time as requested by you or the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish you and the Company with an opinion reasonably acceptable to you that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon you and the Company.

13. TAX CONSEQUENCES. You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You shall not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from your option or your other compensation. In particular, you acknowledge that this option is exempt from Section 409A of the Code only if the exercise price per share specified in the Grant Notice is at least equal to the "fair market value" per share of the Common Stock on the Date of Grant and there is no other impermissible deferral of compensation associated with the option.

14. OTHER DOCUMENTS. You hereby acknowledge receipt or the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act, which includes the Plan prospectus. In addition, you acknowledge receipt of the Company's policy permitting certain individuals to sell shares only during certain "window" periods and the Company's insider trading policy, in effect from time to time.

15. NOTICES. Any notices provided for in your option or the Plan shall be given in writing or shall be delivered electronically, and shall be deemed effectively given or delivered upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

16. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

ATTACHMENT II

2011 EQUITY AND INCENTIVE PLAN

BROKERAGE INFORMATION:

Brokerage Firm: _____
Contact Person: _____
Phone: _____ Fax: _____
Account Number: _____ DTC#: _____
Account in name of: _____

FOR TAX REPORTING PURPOSES, PLEASE PROVIDE:

CURRENT ADDRESS:

SOCIAL SECURITY NUMBER:

LEAPFROG ENTERPRISES, INC.
NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT GRANT NOTICE
(2011 EQUITY AND INCENTIVE PLAN)

LeapFrog Enterprises, Inc. (the "**Company**"), pursuant to its 2011 Equity and Incentive Plan (the "**Plan**"), hereby awards to Participant a Restricted Stock Unit Award for the number of stock units set forth below (the "**Award**"). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Restricted Stock Unit Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Restricted Stock Unit Agreement. Except as explicitly provided herein, in the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant: _____
Date of Grant: _____
Grant Number: _____
Vesting Commencement Date: _____
Number of Stock Units Subject to Award: _____
Consideration: Participant's Services

Vesting Schedule: _____
Notwithstanding the foregoing, vesting shall terminate upon the Participant's termination of Continuous Service.

Issuance Schedule: The shares of Common Stock to be issued in respect of the Award will be issued in accordance with the issuance schedule set forth in Section 7 of the Restricted Stock Unit Agreement.

Taxes: The Participant understands and agrees that the Participant is solely responsible for any and all income, excise or other taxes imposed on the Participant with respect to the Award.

Additional Terms/Acknowledgements: The undersigned Participant acknowledges receipt of, and understands and agrees to, this Restricted Stock Unit Grant Notice, the Restricted Stock Unit Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Restricted Stock Unit Grant Notice, the Restricted Stock Unit Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersedes all prior oral and written agreements on that subject, with the exception of any employment or severance arrangement that would provide for vesting acceleration of the Award upon the terms and conditions set forth therein.

LeapFrog Enterprises, Inc.	Participant:
By: _____ Signature	_____ Signature
Title: _____	Date: _____
Date: _____	

Attachments: Restricted Stock Unit Agreement, 2011 Equity and Incentive Plan

LEAPFROG ENTERPRISES, INC.
2011 EQUITY AND INCENTIVE PLAN

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AGREEMENT

Pursuant to the Restricted Stock Unit Grant Notice (“*Grant Notice*”) and this Restricted Stock Unit Agreement and in consideration of your services, LeapFrog Enterprises, Inc. (the “*Company*”) has awarded you a Restricted Stock Unit Award (the “*Award*”) under its 2011 Equity and Incentive Plan (the “*Plan*”). Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. This Restricted Stock Unit Award Agreement shall be deemed to be agreed to by the Company and you upon the electronic acceptance or signing by you of the Restricted Stock Unit Grant Notice to which it is attached. Capitalized terms not explicitly defined in this Restricted Stock Unit Agreement shall have the same meanings given to them in the Plan or the Grant Notice, as applicable. Except as otherwise explicitly provided herein, in the event of any conflict between the terms in this Restricted Stock Unit Agreement and the Plan, the terms of the Plan shall control. The details of your Award, in addition to those set forth in the Grant Notice and the Plan, are as follows.

1. Grant of the Award. This Award represents the right to be issued on a future date the number of shares of the Company’s Class A Common Stock that is equal to the number of stock units indicated in the Grant Notice (the “*Stock Units*”). This Award was granted in consideration of your services to the Company. Except as otherwise provided herein, you will not be required to make any payment to the Company (other than past and future services to the Company) with respect to your receipt of the Award, the vesting of the Stock Units or the delivery of the Common Stock to be issued in respect of the Award.

2. Vesting. Subject to the limitations contained herein, your Award will vest, if at all, in accordance with the vesting schedule provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service. Upon such termination of your Continuous Service, the unvested Stock Units as of the date of such termination will be forfeited at no cost to the Company and you will have no further right, title or interest in the Stock Units or the shares of Common Stock to be issued in respect of the Award.

3. Change in Control. If a Change in Control (as defined in the Plan) occurs and as of, or within twelve (12) months after, the effective time of such Change in Control, your Continuous Service is involuntarily terminated by the Company or you are required to resign by the terms of the Change in Control, the Company or the acquiring entity pursuant to the Change in Control, then any unvested Stock Units will accelerate and become fully vested on the date of your termination.

4. Number of Shares.

(a) The number of Stock Units subject to your Award may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan.

(b) Any additional Stock Units that become subject to the Award pursuant to this Section 3 and Section 7, if any, shall be subject, in a manner determined by the Board, to the same forfeiture restrictions, restrictions on transferability, and time and manner of delivery as applicable to the other Stock Units covered by your Award.

(c) Notwithstanding the provisions of this Section 3, no fractional shares or rights for fractional shares of Common Stock shall be created pursuant to this Section 3. The Board shall, in its discretion, determine an equivalent benefit for any fractional shares or fractional shares that might be created by the adjustments referred to in this Section 3.

5. Securities Law Compliance. You may not be issued any shares in respect of your Award unless either (i) the shares are registered under the Securities Act; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

6. Transfer Restrictions. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Common Stock subject to the Award until the shares are issued to you in accordance with Section 7 of this Agreement. After the shares have been issued to you, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to receive any distribution of Common Stock to which you were entitled at the time of your death pursuant to this Agreement.

7. Date of Issuance.

(a) If the Award is exempt from application of Section 409A of the Code and any state law of similar effect (collectively "**Section 409A**"), the Company will deliver to you a number of shares of the Company's Common Stock equal to the number of vested Stock Units subject to your Award, including any additional Stock Units received pursuant to Section 3 above that relate to those vested Stock Units on the applicable vesting date(s).

(b) The provisions of this Section 7(b) are intended to apply if the Award is subject to Section 409A because of the acceleration of vesting of the Award upon your separation from service (as such term is defined in Section 409A(a)(2)(A)(i) of the Code ("**Separation from Service**") and does not satisfy the requirements for an exemption from application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(4) or 1.409A-1(b)(9) ("**Non-Exempt Severance Arrangement**"). If the Award is subject to and not exempt from application of Section 409A due to application of a Non-Exempt Severance Arrangement, the following provisions in this Section 7(b) shall supersede anything to the contrary in Section 7(a).

(i) If the Award vests in the ordinary course during your Continuous Service in accordance with the vesting schedule set forth in the Grant Notice, without accelerating vesting under the terms of a Non-Exempt Severance Arrangement, in no event will the shares to be issued in respect of your Award be issued any later than the later of: (i) December 31st of the calendar year that includes the applicable vesting date and (ii) the 60th day that follows the applicable vesting date.

(ii) If vesting of the Award accelerates under the terms of a Non-Exempt Severance Arrangement in connection with your Separation from Service, and such vesting acceleration provisions were in effect as of the date of grant of the Award and, therefore, are part of the terms of the Award as of the date of grant, then the shares will be earlier issued in respect of your Award upon your Separation from Service in accordance with the terms of the Non-Exempt Severance Arrangement, but in no event later than the 60th day that follows the date of your Separation from Service. However, if at the time the shares would otherwise be issued you are subject to the distribution limitations contained in Section 409A applicable to "specified employees," as defined in Section 409A(a)(2)(B)(i) of the Code, such shares shall not be issued before the date that is six (6) months following the date of your Separation from Service, or, if earlier, the date of your death that occurs within such six month period.

(iii) If vesting of the Award accelerates under the terms of a Non-Exempt Severance Arrangement in connection with your Separation from Service, and such vesting acceleration provisions were not in effect as of the date of grant of the Award and, therefore, are not a part of the terms of the Award on the date of grant, then such acceleration of vesting of the Award shall not accelerate the issuance date of the shares, but the shares shall instead be issued on the same schedule as set forth in the Grant Notice as if they had vested in the ordinary course during your Continuous Service, notwithstanding the vesting acceleration of the Award. Such issuance schedule is intended to satisfy the requirements of payment on a specified date or pursuant to a fixed schedule, as provided under Treasury Regulations Section 1.409A-3(a)(4).

(c) If the Award is subject to Section 409A because of application of a Non-Exempt Severance Arrangement or a provision for deferral of the delivery of shares in respect of the Award (a “*Non-Exempt Award*”), then the following provisions in this Section shall apply and shall supersede anything to the contrary that may be set forth in the Plan that would provide for accelerated issuance of the shares in respect of your Award in connection with a Corporate Transaction that is not also a 409A Change of Control (a “*Non-Qualifying Transaction*”). For such purposes, a “*409A Change in Control*” is a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the Company’s assets, as provided in Section 409A(a)(2)(A)(v) of the Code. In the event of a Non-Qualifying Transaction, then with respect to a Non-Exempt Award, the surviving or acquiring corporation (or its parent company) (the “*Acquiring Entity*”) must either assume, continue or substitute your Non-Exempt Award, and shares to be issued in respect of your Non-Exempt Award, to the extent vested, shall be issued to you by the Acquiring Entity on the same schedule that the shares would have been issued to you if the Non-Qualifying Transaction had not occurred.

(d) Notwithstanding anything to the contrary set forth herein, the Company explicitly reserves the right to earlier issue the shares in respect of any Non-Exempt Award to the extent permitted and in compliance with the requirements of Section 409A, including pursuant to any of the exemptions available in Treasury Regulations Section 1.409A-3(j)(4)(ix).

(e) The provisions in this Agreement for delivery of the shares in respect of the Award are intended either to comply with the requirements of Section 409A or to provide a basis for exemption from such requirements so that the delivery of the shares will not trigger the additional tax imposed under Section 409A, and any ambiguities herein will be so interpreted.

8. Dividends. You may become entitled to receive payments equal to any cash dividends and other distributions paid with respect to a corresponding number of shares to be issued in respect of the Stock Units covered by your Award, which cash payments shall be subject to the same forfeiture restrictions as apply to the Stock Units and shall be paid at the same time that the corresponding shares are issued in respect of your vested Stock Units, provided that if any such dividends or distributions are paid in shares, then you will automatically be granted a corresponding number of additional Stock Units subject to the Award (the “*Dividend Units*”), and further provided that such Dividend Units shall be subject to the same forfeiture restrictions and restrictions on transferability, and same timing requirements for issuance of shares, as apply to the Stock Units subject to the Award with respect to which the Dividend Units relate.

9. Restrictive Legends. The shares issued in respect of your Award shall be endorsed with appropriate legends determined by the Company.

10. Award not a Service Contract. Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Restricted Stock Unit Agreement (including, but not limited to, the vesting of your Award pursuant to the schedule set forth in Section 2 herein or the issuance of the shares in respect of your Award), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Restricted Stock Unit Agreement or the Plan shall: (i) confer upon you any right to continue in affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; or (iii) confer any right or benefit under this Restricted Stock Unit Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan.

11. Taxes. The Participant understands and agrees that the Participant is solely responsible for any and all income, excise or other taxes imposed on the Participant with respect to the Award.

12. Unsecured Obligation. Your Award is unfunded, and as a holder of a vested Award, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares pursuant to this Agreement. You shall not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Agreement until such shares are issued to you pursuant to Section 7 of this Agreement. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

13. Other Documents. You hereby acknowledge receipt or the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act, which includes the Plan prospectus. In addition, you acknowledge receipt of the Company's policy permitting officers and directors to sell shares only during certain "window" periods and the Company's insider trading policy, in effect from time to time.

14. Notices. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. Notwithstanding the foregoing, the Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this Award by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

15. Miscellaneous.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns. Your rights and obligations under your Award may only be assigned with the prior written consent of the Company.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

16. Governing Plan Document. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Except as expressly provided herein, in the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

17. Severability. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

18. Amendment. This Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

This **AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT** (“**AMENDMENT**”), is entered into by and between **LEAPFROG ENTERPRISES, INC.**, a Delaware corporation (the “**COMPANY**”), and **JOHN BARBOUR** (“**EXECUTIVE**”) as of May 21, 2013 (the “**AMENDMENT EFFECTIVE DATE**”). The Company and Executive are each separately referred to as a “**PARTY**” and collectively as the “**PARTIES**.”

RECITALS:

WHEREAS, the Company and Executive are parties to that certain employment agreement (the “**EMPLOYMENT AGREEMENT**”), effective as of March 7, 2011, which sets forth the terms of Executive’s employment as the Company’s Chief Executive Officer; and

WHEREAS, The Company and Executive desire to amend the Employment Agreement to extend the term of certain relocation benefits, as described in this Amendment.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual promises and subject to the terms and conditions set forth herein, the Parties agree as follows:

1. AMENDMENT TO SECTION 2.3.4. Effective as of the Amendment Effective Date, Section 2.3.4 of the Employment Agreement is hereby replaced in its entirety with the following:

2.3.4 RELOCATION BENEFITS. In addition to the Travel/Housing Subsidy, Executive shall be entitled to a relocation package that includes the following:

2.3.4.1 TRAVEL: The Company will reimburse Executive for the reasonable hotel expenses, coach airfare from New York, New York, meals and transportation incurred by his wife for purposes of making three (3) house-hunting trips to the San Francisco Bay Area.

2.3.4.2 SHIPMENT OF GOODS: Executive’s household goods in Rye, New York plus three cars will be packed, loaded and transported to the San Francisco Bay Area via the Company’s standard carrier. Executive will also be provided with up to ninety (90) days of storage of the shipped goods, if needed. The Company will be billed directly for the foregoing services.

2.3.4.3 CLOSING COSTS: If Executive sells his home in Rye, New York within three (3) years following the Effective Date, the Company will pay standard closing costs on the sale of such home, including any real estate transfer taxes, title fees and customary real estate broker commissions. The Company will also pay the standard closing costs, including any real estate transfer taxes, title fees, customary real estate broker commissions and up to two (2) mortgage rate discount points, on the purchase of a residence (apartment or house) in the San Francisco Bay Area. The amount paid by the Company under this Section 2.3.4.3 shall not exceed \$150,000.

2.3.4.4 TAX GROSS UP: To the extent that any Company reimbursement of or payment for the relocation benefits described in Sections 2.3.4.1 and 2.3.4.2 above is taxable to Executive, the Company shall pay to him an additional amount that is intended to offset such taxes, which amount shall be equal to forty-five percent (45%) of such reimbursement or payment.

2.3.4.5 MORTGAGE INTEREST DIFFERENTIAL: Upon Executive's purchase of a primary residence in the Bay Area within three (3) years following the Effective Date, the Company shall pay to Executive a monthly reimbursement equal to the Mortgage Interest Payments (as hereinafter defined) until the Company's obligation to make such payments terminates as provided below. As used herein, the term "Mortgage Interest Payments" shall mean the lower of: (a) the amount of Executive's monthly interest portion of the Stipulated Mortgage Amount after offsetting the value of any tax deduction that Executive would receive for such interest payments, and (b) the amount resulting from the calculation in clause (a) above, assuming that Executive's mortgage interest rate is 4.25% per annum. The Mortgage Interest Payments shall continue until and then terminate on the earliest to occur of (A) the termination of Executive's employment with the Company, (B) Executive ceasing to make payments on a mortgage on his primary residence in the San Francisco Bay Area, and (C) the second anniversary of the date of Executive's purchase of a residence in the San Francisco Bay Area. If Executive refinances or sells one San Francisco Bay Area residence and purchases another in the San Francisco Bay Area, the amount of the Mortgage Interest Payments shall not be recalculated and shall continue unaffected by such transaction. Executive will also receive an amount that is intended to offset his tax on any reimbursement of Mortgage Interest Payments pursuant to this Section 2.3.4.5, which amount shall be equal to forty-five percent (45%) of such reimbursement of Mortgage Interest Payments. Notwithstanding the foregoing, the Company's reimbursement of Mortgage Interest Payments, including any related tax gross-up payments, under this Section 2.3.4.5 shall not exceed \$20,000 per year.

As used herein, the following terms shall have the following meanings: "Stipulated Mortgage Amount" shall mean a mortgage principal amount equal to the lesser of: (a) difference between the Purchase Price and the Net Sales Proceeds and (b) \$750,000. "Purchase Price" shall mean the purchase price of Executive's San Francisco Bay Area residence and "Net Sales Proceeds" shall mean (i) the net sales proceeds from the sale of Executive's primary residence in Rye, New York if Executive's residence in Rye, New York is sold prior to the purchase of a primary residence in the San Francisco Bay Area or (ii) if Executive's Rye, New York residence is not sold prior to the purchase of a primary residence in the San Francisco Bay Area, the appraised value of Executive's residence in Rye, New York less the mortgage principle amount owed at the time of the San Francisco Bay Area purchase; with such appraisal to be performed by a professional appraiser reasonably acceptable to the Company within a reasonable period of time from the purchase of a primary residence in the San Francisco Bay Area.

If Executive receives any of the relocation benefits set forth in this Section 2.3.4, including tax gross-up amounts, and resigns without Good Reason prior to the third anniversary of the Effective Date, he will be required to reimburse the Company for all such prior reimbursements on a pro rata basis determined by multiplying the amount of such prior reimbursements by a fraction, the numerator of which is thirty-six (36) minus the number of months worked prior to Executive's resignation and the denominator of which is thirty-six (36).

2. EFFECT OF AMENDMENT. Except as specifically amended by this Amendment, the Employment Agreement remains in full force and effect according to its terms. Except as specifically provided in this Amendment, nothing contained in this Amendment is intended to affect the Parties' existing or continuing rights or obligations under the Employment Agreement, as modified hereby.

3. COUNTERPARTS. This Amendment may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be duly executed and delivered as of the date first above written.

EXECUTIVE:

/s/ John Barbour
John Barbour

Date: 5/21/13

COMPANY:

LEAPFROG ENTERPRISES, INC.

/s/ Randall O. Rissman
By: Randall O. Rissman
Chairman, Compensation Committee

Date: 5-15-2013

CERTIFICATION

I, John Barbour, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LeapFrog Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2013

/s/ John Barbour

John Barbour
Chief Executive Officer

CERTIFICATION

I, Raymond L. Arthur, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LeapFrog Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2013

/s/ Raymond L. Arthur
Raymond L. Arthur
Chief Financial Officer

**Certifications of Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350**

Pursuant to the requirements set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, John Barbour, the Chief Executive Officer of LeapFrog Enterprises, Inc. (the "Company"), and Raymond L. Arthur, the Chief Financial Officer of the Company, each hereby certifies as of the date hereof and solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, to which this Certification is attached as Exhibit 32.01 (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, as applicable; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Quarterly Report and results of operations of the Company for the periods covered in the financial statements in the Quarterly Report.

Dated: August 7, 2013

/s/ John Barbour

/s/ Raymond L. Arthur

John Barbour
Chief Executive Officer

Raymond L. Arthur
Chief Financial Officer

Note: This certification accompanies the Quarterly Report pursuant to 18 U.S.C. Section 1350 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing of the Company under the Exchange Act or the Securities Act of 1933, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.
