EXHIBITS
5-11
EXHIBIT 5
LeapFrog Enterprises, Inc. Announces the Appointment of Mike Wood to Chief Vision and Creative Officer; Tom Kalinske Moves from Chairman to CEO; Jerry Perez Joins as President; Director Steve Fink Appointed Chairman

Emeryville, Calif. – February 10, 2004 – LeapFrog Enterprises, Inc. (NYSE: LF), a leading developer of innovative, technology-based educational products, today reported the appointment of founder Mike Wood to Chief Vision and Creative Officer. The company also announced that Tom Kalinske would resume the role of CEO. Jerry Perez joins LeapFrog as President. Director Steve Fink has been appointed Chairman of the Board of Directors.

“LeapFrog has achieved extraordinary success over the past nine years, starting from a simple belief that learning can be effective and engaging for all ages, and transforming that commitment into a $680 million company,” said Mike Wood. “I believe that going forward I can maximize my contribution to the company and its shareholders by serving as LeapFrog’s Chief Vision and Creative Officer. This new role will enable me to pursue my passion – helping children to learn – while allowing me to continue to develop new products that achieve that goal.”

Since founding the company in 1995, Wood, the outgoing President and CEO, has been named the inventor or co-inventor on over 20 patents issued on educational products for children. “I cannot think of two more ideal individuals to guide this company at this point in its development than Tom Kalinske and Jerry Perez, as CEO and President, respectively. They have the experience, respect and have produced the results to take this company to the next level.” said Wood.

Tom Kalinske, LeapFrog’s Chairman of the board since 1997, resumes his role as LeapFrog’s CEO. Kalinske previously served as LeapFrog’s Chief Executive Officer from September 1997 to April 2002. From 1990 to 1996, Kalinske was President and CEO of Sega of America. In the late 80’s, he was President and CEO of Universal Matchbox Group. Prior to that, he served as President and co-CEO of Mattel.

Since 1996, Tom Kalinske has served as the President of Knowledge Universe, a company that focuses on education and training. Mr. Kalinske has served as Chairman of the Toy Manufacturers’ Association of America, in 1997, he was inducted into the Toy Industry Hall of Fame, and he has served on the RAND Education Board.
“I welcome the opportunity to return to the role of CEO as LeapFrog continues to expand into new categories and geographies as a truly global education company,” said Kalinske. “This move will enable LeapFrog to continue to benefit from Mike’s genius in creative product development, his first love, and it allows me to focus on preparing the company for global education leadership in the consumer and school markets.”

Jerry Perez brings to LeapFrog 22 years of brand marketing and consumer products experience. As Executive Vice-President of Fisher-Price, a division of Mattel, he was responsible for Fisher-Price’s worldwide business including Toys, Juvenile Products, Power Wheels and a broad array of licensed children’s products. He began his career in marketing and brand management at Quaker Oats, and entered the field of children’s products when he joined Hasbro’s Kenner division in 1985. Perez earned a BA from the University of Notre Dame and an MBA from the University of Michigan. During his career, Jerry has led the development of over 3,000 new products as well as leadership marketing initiatives with world-class consumer products companies like Procter & Gamble, Gerber and McDonald’s.

“LeapFrog has a unique brand that is recognized for engaging and effective educational products in both home and schools,” said Perez. “I am honored to join the LeapFrog team at this exciting time and look forward to extending LeapFrog’s brand and innovative product leadership around the world.”

“We feel strongly that Jerry is the right President to lead LeapFrog through our next growth stage,” said Kalinske. “We think Jerry’s proven track record in marketing, design and sales is an excellent match for the opportunities afforded by LeapFrog’s high-quality, technology-based educational products and strong consumer brand.”

Steve Fink, a LeapFrog board member since 1999, has been appointed Chairman of the Board. Fink is the CEO of Lawrence Investments, LLC, a technology and biotechnology private equity investment firm that is controlled by Larry Ellison. Fink also serves as a Vice Chairman of Knowledge Universe. He currently serves as Vice Chairman of Heron International, a European real estate development company, as a director of Nobel Learning Communities, a for-profit provider of education and educational services products for the pre-elementary through 12th grade market, as Non-executive Chairman of the board of Spring Group plc, an information technology services company in the United Kingdom, and of Nextera Enterprises. Fink also serves on the boards of directors of privately held companies, and he is a member of the board of trustees of Barnard College, Columbia University.

These management changes are effective immediately.

**About LeapFrog**

LeapFrog Enterprises, Inc. (NYSE: LF) is a leading designer, developer and marketer of innovative, technology-based learning products and related proprietary content, dedicated to making learning effective and engaging for all ages, at home and in schools, around the world. The company was founded in 1995 and is based in Emeryville, California.
LeapFrog has developed a family of learning platforms that come to life with more than 100 interactive software titles, covering important subjects such as phonics, reading, math, music, geography, social studies, spelling, vocabulary and science. In addition, the company has created more than 35 stand-alone educational products for ages from six months to 16 years. LeapFrog’s award-winning U.S. consumer products are available at major retailers in more than 25 countries around the world. The LeapFrog SchoolHouse curriculum programs are currently in classrooms across the U.S. with over 200 interactive books and over 450 skill cards representing more than 6,000 pages of educational content. LeapFrog SchoolHouse products have won numerous awards from the education industry, including the Golden Lamp Award and Distinguished Achievement Award from the Association of Educational Publishers, the Award of Excellence from Technology & Learning magazine and the Teacher’s Choice Award from Learning magazine.

# # #

LEAPFROG and LEAPFROG SCHOOLHOUSE are trademarks of LeapFrog Enterprises, Inc.
LeapFrog Enterprises, Inc. Reports 2003 Net Income Up 67% on Sales Increase of 28%

LeapFrog Becomes Market Leader in Entire US Preschool Category in Critical Fourth Quarter

EMERYVILLE, Calif., Feb. 10 /PRNewswire-FirstCall/ -- LeapFrog Enterprises, Inc. (NYSE: LF), a leading developer of innovative technology-based educational products, today reported financial results for the fourth quarter and year ended December 31, 2003.

Net Income up 67% for Full Year, Up 50% In Fourth Quarter

Net income for 2003 increased 67% to $72.7 million compared with net income of $43.4 million for the year ended December 31, 2002. Net income per fully-diluted share increased to $1.20 compared with $0.86 per fully-diluted share in the prior year.

The company recorded net income for the fourth quarter ended December 31, 2003 of $44.2 million, up 50% compared with net income of $29.4 million for the fourth quarter of 2002. Net income per fully-diluted share was $0.72 in the fourth quarter of 2003, compared with $0.50 per fully-diluted share in the fourth quarter of 2002. The company achieved these results despite a reserve necessitated by the KB Toys bankruptcy and airfreight expenses related to late, stronger-than-expected demand for several key platform products, including the Leapster multimedia handheld learning system.

Net Sales up 28% for Full Year, Up 33% in Fourth Quarter

Net sales for 2003 were $680.0 million, up 28% compared with $531.8 million for 2002. Net sales for the fourth quarter of 2003 were $331.3 million, up 33% compared with $248.4 million in the fourth quarter of 2002.

Market Share Increases from 17.5% to 27.5% in the Fourth Quarter

According to The NPD Group, Inc., LeapFrog was the leading manufacturer of pre-school products in the U.S. market in the fourth quarter of 2003. "We are extremely proud of our market share gains in the U.S. pre-school markets," said Wood. "We hope to build on this success with an expanding line of engaging, educational products for pre-school children in the U.S. and abroad."

Segment Results

For 2003, net sales from the U.S. Consumer segment were $546.0 million, up 19% from 2002. Net sales from the International segment were $96.6 million, up 80% from 2002. Net sales from the Education and Training segment were $37.4 million, up 86% from 2002.

For the fourth quarter of 2003, net sales from the U.S. Consumer segment were $273.4 million, up 25% from the fourth quarter of 2002. Net sales from the International segment were $46.8 million, up 96% from the fourth quarter of 2002. Net sales from the Education and Training segment were $11.1 million, up 85% from the fourth quarter of 2002.

Gross Margin

For 2003, gross profit margin was 50.0%, down 80 basis points compared with 50.8% in 2002. For the fourth quarter of 2003, gross profit margin was 47.9%, down 310 basis points from 51.0% in the fourth quarter of 2002. The gross profit margin decrease for the fourth quarter and all of 2003 can be attributed primarily to the lower margin on the sales of the Leapster platform, which was introduced at the end of October 2003 and which included in its cost of sales the airfreight incurred in the holiday season.

Increased Leverage from Operating Expenses

For 2003, operating expenses were 33.9% of net sales, a 350 basis point improvement in leverage over 37.4% in 2002. For the fourth quarter of 2003, operating expenses were 27.3% of net sales, a 460 basis point improvement in leverage over
LeapFrog Enterprises, Inc. I Press Release

31.9% in the fourth quarter of 2002. The company's 2003 fourth quarter operating expenses reflect improved leverage in selling, general and administration, and research and development expense offset by increased television advertising expense.

We expected, strong holiday sales of our new platform and software learning products produced solid results and growth. "LeapFrog in 2003," said Mike Wood, President and Chief Executive Officer of LeapFrog. "We are very pleased that our fourth quarter results soundly verified what we said on our third quarter conference call. Namely, while the retail toy industry appears to be shifting its ordering practices more toward the back end of the year, consumer demand for our learning products is more vibrant than ever. Parents, teachers and children around the world are eagerly embracing our engaging, effective and fun learning products."

"In the Fall of 2003, we launched three learning platform products, the LittleTouch LeapPad learning system, the LeapPad Plus Writing learning system and the Leapster multimedia handheld. The LittleTouch and the LeapPad Plus Writing platforms are the newest members of the LeapPad family of products. The success of these new platforms, combined with the ongoing success of the continuing LeapPad family platform products resulted in a 27% annual increase in LeapPad family platform and a 33% annual increase in LeapPad family software net retail sell-through in 22 U.S. retail accounts, which accounted for 96% of our total U.S. sales in 2003. We are particularly proud of these accomplishments in light of a challenging retail environment and increased competition."

The Leapster platform, LeapFrog's new animated handheld learning system, received much popular acclaim despite an introduction late in the holiday selling season. In particular, the Leapster was awarded Toy Wishes Magazine's 2003 All Star award in the education and learning category, and was named to the Toy Wishes Hot Dozen list for 2003.

"We have sold more than 23 million platform products from 1998 when we introduced our first learning platform, the LeapPad system, through the end of 2003. This year, we will renew our effort to expand our installed base of platform products," said Wood. "In 2004 and beyond, we also intend to focus on further development of engaging, educational content to offer the broadest line of high quality content for our customers."

Outlook for 2004

LeapFrog offers financial guidance to investors to promote understanding of its business outlook. The company operates in a highly seasonal industry with a significant dependence on a few large customers. Forecasting quarterly performance is subject to a high degree of uncertainty, hence the company will no longer provide full financial guidance on a quarterly basis, but will instead focus its guidance on full-year results. LeapFrog's full-year guidance for 2004 is as follows:

- Net sales of $800 to $850 million
- Effective tax rate of approximately 34% for all of 2004
- Net Income of $88 to $95 million
- Fully diluted share count of approximately 63 million shares
- Diluted net income per share of $1.39 to $1.51

In addition, the company provides the following discussion to assist in understanding the seasonality anticipated during the year:

Consistent with reported trends, the company expects that its 2004 sales growth will be lower in the first half and higher in the second half, as compared to 2003. The company expects 2004 sales seasonality to be about 20% of full year sales in the first half, spread equally between the first two quarters. Gross profit margin is expected to be approximately 50% in each quarter in 2004. Operating expenses are expected to grow approximately 20% to 25% for the full year, but the rate of growth of operating expenses in the first quarter of 2004 is expected to be 10% to 15% over the first quarter of 2003.

LeapFrog's guidance is reflective of the company's current expectations, which are based on information available at the time of this release, and are subject to changing conditions, many of which are outside of the company's control.

Conference Call

A conference call will be held tomorrow, Wednesday, February 11 at 9:00 a.m. Eastern time (6:00 a.m. Pacific time) to discuss these announcements and to provide further discussion of results for the 2003 fourth quarter and outlook for 2004. A live web cast of the conference call will be offered on LeapFrog's investor relations website at www.leapfroginvestor.com and on www.ccbn.com. A replay of the web cast will be available on these websites through April 30, 2004. To participate in the call, please dial 706-634-0183.

Out LeapFrog

LeapFrog Enterprises, Inc. is a leading designer, developer and marketer of innovative, technology-based learning products

LeapFrog Enterprises, Inc. | Press Release

and related proprietary content, dedicated to making learning effective and engaging for all ages, at home and in schools, around the world. The company was founded in 1995 and is based in Emeryville, California. LeapFrog has developed a family of learning platforms that come to life with more than 100 interactive software titles, covering important subjects such as phonics, reading, math, music, geography, social studies, spelling, vocabulary and science. In addition, the company has created more than 35 stand-alone educational products for ages from six months to 16 years. LeapFrog’s award-winning U.S. consumer products are available at major retailers in more than 25 countries around the world. The LeapFrog SchoolHouse curriculum programs are currently in classrooms across the U.S. with over 200 interactive books and over 450 skill cards representing more than 6,000 pages of educational content. LeapFrog SchoolHouse products have won numerous awards from the education industry, including the Golden Lamp Award and Distinguished Achievement Award from the Association of Educational Publishers, the Award of Excellence from Technology & Learning magazine and the Teacher’s Choice Award from Learning magazine.

NOTE: LEAPFROG, The LeapFrog Logo, LEAPPAD, LEAPSTER, LEAPFROG SCHOOLHOUSE and LITTLETOUCH are trademarks of LeapFrog Enterprises, Inc.

Forward-Looking Statements

Cautionary Statement Under The Private Securities Litigation Reform Act Of 1995:

The statements in the section entitled “Outlook for 2004” and elsewhere in this release constitute forward-looking information, and actual results could differ materially. Among the factors that could cause results to differ from the guidance are the following: consumer demand for the company’s products, both in the aggregate and in relation to competitive product offerings; the company’s ability to adjust manufacturing and shipments to meet customer demand, particularly late in a quarter; expenses incurred by the company in expediting shipments to customers late in a quarter; the company’s ongoing ability to develop, produce, and market new products that appeal to consumers; the company’s success in penetrating the educational market; the shelf-space made available for the company’s products by retailers; seasonal variability in the various markets for the company’s products; resellers’ changes in their own inventory and stocking models, and health epidemics affecting the regions in which our products are manufactured. These and other factors that could affect the Company’s actual financial performance during 2004 are discussed in greater detail in the company’s SEC filings, particularly its 2002 annual report on Form 10-K filed on March 28, 2003, and its quarterly report on Form 10-Q filed on November 10, 2003. The guidance in this release represents the company’s targets as of the date of this release. The company disclaims any obligation to update this guidance prior to the completion of the first quarter of 2004.

CONTACT: Jim Curley, Chief Financial Officer, +1-510-420-5000, or Christopher Bunn, Director, Investor Relations, +1-510-420-5150, both of LeapFrog Enterprises, Inc.

LEAPFROG ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except per share data)
December 31,
2003 2002

ASSETS
Current assets:
Cash and cash equivalents $69,844 $70,827
Short term investments 42,759 2,500
Accounts receivable, net 281,792 169,670
Inventories, net 90,897 84,460
Prepaid expenses and other current assets 8,370 4,065
Notes receivable due from related parties -- 595
Deferred income taxes 11,735 16,783
Total current assets 505,397 348,900

Property and equipment, net 20,547 20,239
Other long term assets 1,048 484
Deferred income taxes 619 4,857
Intangible assets, net 25,048 23,192
Total assets $552,659 $397,682

LIABILITIES AND STOCKHOLDERS’ EQUITY
Current liabilities:
Accounts payable $86,161 $58,844
Accrued liabilities 44,634 40,533
Deferred revenue 1,417 3,006
Income taxes payable 4,729 21,832

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

Three Months Ended Dec. 31, Year Ended Dec. 31,

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$331,361</td>
<td>$248,447</td>
<td>$680,012</td>
<td>$531,772</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>172,501</td>
<td>121,681</td>
<td>339,868</td>
<td>261,731</td>
</tr>
<tr>
<td>Gross profit</td>
<td>158,860</td>
<td>126,766</td>
<td>340,144</td>
<td>270,041</td>
</tr>
</tbody>
</table>

Operating expenses:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling, general and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>administrative</td>
<td>25,444</td>
<td>26,957</td>
<td>91,619</td>
<td>80,915</td>
</tr>
<tr>
<td>Research and development</td>
<td>15,926</td>
<td>14,595</td>
<td>57,605</td>
<td>54,405</td>
</tr>
<tr>
<td>Advertising</td>
<td>47,535</td>
<td>35,769</td>
<td>73,785</td>
<td>56,722</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,594</td>
<td>1,844</td>
<td>7,697</td>
<td>6,648</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>90,499</td>
<td>79,165</td>
<td>230,686</td>
<td>198,690</td>
</tr>
</tbody>
</table>

Income from operations          | 68,361 | 47,601 | 109,458 | 71,351 |

Interest expense                | (2)   | (1)   | (10)  | (823) |
Interest income                 | 233   | 235   | 1,191 | 694   |
Other income                    | 1,622 | 966   | 4,656 | 1,051 |

Income before provision for      | 70,214 | 48,801 | 115,295 | 72,273 |
| income taxes                    |      |      |      |      |

Provision for income taxes       | 26,048 | 19,440 | 42,620 | 28,829 |

Net income                      | $44,166 | $29,361 | $72,675 | $43,444 |

Net income per common share:

- Basic                          | $0.75  | $0.59  | $1.27  | $1.09  |
- Diluted                        | $0.72  | $0.50  | $1.20  | $0.86  |

Shares used in calculating net:

- Basic                          | 58,892 | 49,840 | 57,246 | 39,695 |
- Diluted                        | 61,549 | 58,741 | 60,548 | 50,744 |

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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$72,675</td>
<td>$43,444</td>
</tr>
</tbody>
</table>

Adjustments to reconcile net income to net cash provided by operating activities:
<table>
<thead>
<tr>
<th>Item</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and Amortization</td>
<td>16,625</td>
<td>11,904</td>
</tr>
<tr>
<td>Provision for allowances for accounts receivable</td>
<td>40,165</td>
<td>25,178</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options and other</td>
<td>39,130</td>
<td>4,908</td>
</tr>
<tr>
<td>Other noncash items</td>
<td>7,088</td>
<td>(6,584)</td>
</tr>
<tr>
<td><strong>Other changes in operating assets and liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(152,287)</td>
<td>(79,349)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(6,437)</td>
<td>(38,357)</td>
</tr>
<tr>
<td>Prepaid and other current assets due from related parties</td>
<td>(4,305)</td>
<td>(2,007)</td>
</tr>
<tr>
<td>Notes receivable due from related parties</td>
<td>595</td>
<td>94</td>
</tr>
<tr>
<td>Other assets</td>
<td>(764)</td>
<td>(136)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>27,317</td>
<td>24,433</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>4,101</td>
<td>26,744</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>(17,103)</td>
<td>12,198</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities:</strong></td>
<td>26,800</td>
<td>22,470</td>
</tr>
<tr>
<td><strong>Investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(15,810)</td>
<td>(14,832)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(3,000)</td>
<td>(250)</td>
</tr>
<tr>
<td>Purchases of short term investments</td>
<td>(76,136)</td>
<td>(2,500)</td>
</tr>
<tr>
<td>Sale of short term investments</td>
<td>35,735</td>
<td>--</td>
</tr>
<tr>
<td>Sale of investment in related party</td>
<td>181</td>
<td>--</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities:</strong></td>
<td>(59,030)</td>
<td>(17,582)</td>
</tr>
<tr>
<td><strong>Financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings under credit agreement</td>
<td>--</td>
<td>182,000</td>
</tr>
<tr>
<td>Repayments under credit agreement</td>
<td>--</td>
<td>(243,163)</td>
</tr>
<tr>
<td>Proceeds from the payment of notes receivable from stockholders</td>
<td>2,624</td>
<td>1,741</td>
</tr>
<tr>
<td>Proceeds from the issuance of common stock</td>
<td>--</td>
<td>115,116</td>
</tr>
<tr>
<td>Proceeds from the exercise of stock options and employee stock purchase plan</td>
<td>27,960</td>
<td>1,822</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities:</strong></td>
<td>30,594</td>
<td>57,516</td>
</tr>
<tr>
<td><strong>Effect of exchange rate changes on cash</strong></td>
<td>663</td>
<td>154</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash and cash equivalents</strong></td>
<td>(983)</td>
<td>62,558</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>70,827</td>
<td>8,269</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$69,844</td>
<td>$70,827</td>
</tr>
</tbody>
</table>

SOURCE LeapFrog Enterprises, Inc.

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02/10/2004

/CONTACT:
Jim Curley, Chief Financial Officer, +1-510-420-5000, or
Christopher Bunn, Director, Investor Relations, +1-510-420-5150,
both of LeapFrog Enterprises, Inc./

Web site: http://www.leapfrog.com / (LF)

http://www.prnewswire.com
"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding LeapFrog Enterprises, Inc.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.
EXHIBIT 7
LeapFrog Enterprises, Inc. Issues Guidance for the First Quarter

EMERYVILLE, Calif., March 10 /PRNewswire-FirstCall/ -- LeapFrog Enterprises, Inc. (NYSE: LF), a leading developer of innovative technology-based educational products, today issued guidance for the first quarter of 2004. Despite positive sell-through data to date in the first quarter, LeapFrog expects net sales in the first quarter to be between $66 million and $72 million. This, coupled with reduced gross margin for the quarter and continued strong investment in research and development and supply chain initiatives, results in an expected net loss for the quarter of between $(0.18) per share and $(0.22) per share.

"The first quarter is a very small portion of our overall year. In fact, we had expected the first quarter to represent just 10 percent of 2004 net sales," said Tom Kalinske, LeapFrog's Chief Executive Officer. "However, the first quarter is particularly vulnerable to trends that impact our net sales, margin and net income, including the shifting of retail orders to later in the year, and the difficult financial position of certain retailers.

"We believe that it is premature to draw conclusions with respect to the entire year based upon our sell-in results to date," added Kalinske. "We are excited about our 2004 line of products, which was met with much enthusiasm at New York Toy Fair. In addition, this will be the first full year for our LittleTouch(TM) LeapPad, LeapPad(R) Plus Writing and Leapster(TM) platforms, each with growing libraries of software titles.

"We remain committed to innovation and improvements in operations that provide superior long-term value to our stockholders," said Kalinske. "In order to finalize products for 2004 and ensure the timely development of exciting new products for 2005, we are maintaining our projected level of spending on research and development this year. We are also beginning to incur significant legal expenses to protect our valuable intellectual property against competitors."

The company believes all of these expenditures are in the best long-term interests of its stockholders and will result in a stronger business. While these investments in the business will result in significantly higher operating expenses in 2004, LeapFrog expects that they will lead to improved margins and reduced costs in the long run.

LeapFrog's guidance is reflective of the company's current expectations, which are based on information available at the time of this release, and are subject to changing conditions, many of which are outside of the company's control.

LeapFrog is not hosting a conference call in conjunction with this announcement. LeapFrog will report on first quarter 2004 earnings after the market closes on April 21st and conduct a conference call at 5:00 PM Eastern time on the same day.

About LeapFrog

LeapFrog Enterprises, Inc. is a leading designer, developer and marketer of innovative, technology-based learning products and related proprietary content, dedicated to making learning effective and engaging for all ages, at home and in schools, around the world. The company was founded in 1995 and is based in Emeryville, California. LeapFrog has developed a family of learning platforms that come to life with more than 100 interactive software titles, covering important subjects such as phonics, reading, math, music, geography, social studies, spelling, vocabulary and science. In addition, the company has created more than 35 stand-alone educational products for ages from six months to 16 years. LeapFrog's award-winning U.S. consumer products are available at major retailers in more than 20 countries around the world. The LeapFrog SchoolHouse curriculum programs are currently in classrooms across the United States with over 200 interactive books and over 450 skill cards representing more than 6,000 pages of educational content. LeapFrog SchoolHouse products have won numerous awards from the education industry, including the Golden Lamp Award and Distinguished Achievement Award from the Association of Educational Publishers, the Award of Excellence from Technology & Learning magazine and the Teacher's Choice Award from Learning magazine.

NOTE: LEAPFROG, The LeapFrog Logo, LEAPPAD, LITTLETOUCH, LEAPSTER and LEAPFROG SCHOOLHOUSE are trademarks of LeapFrog Enterprises, Inc.

Forward-Looking Statements

Cautionary Statement Under The Private Securities Litigation Reform Act Of 1995:

The guidance statements in this release constitute forward-looking information, and actual results could differ materially. Among the factors that could cause results to differ from the guidance are the following: actual orders and shipments in the remaining weeks of the first quarter, consumer demand for the company's products, both in the aggregate and in relation to competitive product offerings; the company's ability to adjust manufacturing and shipments to meet customer demand, particularly late in a quarter; expenses incurred by the company in expediting shipments to customers late in a quarter; the company's ongoing ability to develop, produce, and market new products that appeal to consumers; the company's success in penetrating the educational market; the shelf-space made available for the company's products by retailers; the company's ability to complete its supply chain initiatives on time; seasonal variability in the various markets for the company's products; resellers' changes in their own inventory and stocking models, and the financial condition of the company's customers. These and other factors that could affect the Company's actual financial performance during 2004 are discussed in greater detail in the company's SEC filings, particularly its 2002 annual report on Form 10-K filed on March 28, 2003, and its quarterly report on Form 10-Q filed on November 10, 2003. The guidance in this release represents the company's expectations as of the date of this release. The company disclaims any obligation to update this guidance prior to its announcement of financial results for the first quarter of 2004.

SOURCE LeapFrog Enterprises, Inc.

-0-

03/10/2004

/CONTACT:
Jim Curley, Chief Financial Officer, +1-510-420-5000, or Christopher Bunn, Director, Investor Relations, +1-510-420-5150, both of LeapFrog Enterprises, Inc./

/Web site: http://www.leapfrog.com / (LF)

http://www.prnewswire.com

EXHIBIT 8
LeapFrog Enterprises, Inc. | Press Release

Learn Something New Every Day!®

Press Release

LeapFrog Reports 1st Quarter Results

EMERYVILLE, Calif., April 21 /PRNewswire-FirstCall/ -- LeapFrog Enterprises, Inc. (NYSE: LF), a leading developer of innovative technology-based educational products, today reported financial results for the first quarter ended March 31, 2004.

Net Sales

Net sales for the first quarter of 2004 were $71.6 million, compared with $76.7 million in the first quarter of 2003, down 7%.

Segment Results

Net sales from the U.S. Consumer segment were $46.5 million, down 22% from $59.7 million in the first quarter of 2003. Net sales from the International segment were $16.0 million, up 44% from $11.1 million in the first quarter of 2003. Net sales from the Education and Training segment were $9.1 million, up 53% from $5.9 million in the first quarter of 2003. The three segments represented 65%, 22% and 13%, respectively, of consolidated quarterly net sales for the first quarter of 2004, as compared with 78%, 14% and 8% of consolidated quarterly net sales in the first quarter of last year.

Gross Margin

Gross margin was 44.6% in the first quarter of 2004, down from 53.0% in the first quarter of 2003. Gross margin declined largely due to a shift in the mix of products sold in the quarter from higher margin software to platforms and standalone products and a loss of sales leverage against fixed costs.

Net Loss

The company recorded a net loss for the first quarter of 2004 of $(11.8) million, or $(0.20) per share, compared with a net loss for the first quarter of 2003 of $(969,000), or $(0.02) per share.

Balance Sheet - Record Cash Flow From Operations

The company's balance sheet strengthened significantly in the first quarter as cash and short-term investments increased to an all-time high of $201 million, up 57% compared with last year's first quarter. Net cash provided by operating activities increased to $108.3 million, up 116% from last year's first quarter, largely due to the collection of year-end accounts receivable.

"While we are disappointed in the low sales in the first quarter, we are very pleased that retail consumer sales for our top four retailers (representing over 80% of our U.S. Consumer net sales) are up over 20% year-to-date," said Tom Kalinske, chief executive officer. "Clearly retailer orders in this quarter do not match our strong consumer over-the-counter sales. We also have new research that reports that the consumer ownership software-to-hardware tie-ratio for our LeapPad family (My First LeapPad, LeapPad, Quantum Pad, and LeapPad Plus Writing) has increased from a year ago, indicating a healthy business.

"This year we are actively engaged in a number of projects that bode well for the long term success of the company. We are investing in increasing our installed base of platform products, expanding our software offering, increasing our software marketing efforts, and improving our operations and systems infrastructure. We believe these steps are important to our company's market leadership in 2004 and beyond as we continue to provide enjoyable and effective learning products for all stages of a child's life."

The company is revising its published guidance to incorporate first quarter actual results and revised full year expectations based on more conservative expectations for the remainder of the year, as follows:

Outlook for 2004

- Net Sales of $770 to $800 million

Gross Profit Margin of 48% to 49% of net sales
Operating expenses of 33% to 35% of net sales
Fully diluted share count of approximately 63 million
Diluted net income per share of $1.18 to $1.28

Conference Call

A conference call will be held today, Wednesday, April 21 at 5:00 p.m. Eastern time (2:00 p.m. Pacific time) to discuss these announcements and to provide further discussion of results for the quarter and outlook for the remainder of 2004. A live web cast of the conference call will be offered on LeapFrog's investor relations website at www.leapfroginvestor.com and on www.ccbn.com. A replay of the web cast will be available on these websites through June 30, 2004. To participate in the call, please dial 706-634-0183.

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NOTE: IQUEST, MY FIRST LEAPPAD, MY OWN LEARNING LEAP, LEAPFROG, The LeapFrog Logo, LEAPPAD, LEAPPAD PLUS WRITING, TURBO-TWIST, and QUANTUM PAD are trademarks of LeapFrog Enterprises, Inc.

Cautionary Statement Under The Private Securities Litigation Reform Act Of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, including the financial guidance in the section entitled "Outlook for 2004" and other statements regarding the company's anticipated product introductions, intent to increase the installed base of platform products, expansion of the company's software offering, future product tie ratios and anticipated infrastructure improvements. These forward-looking statements involve risks and uncertainties, including: consumer demand for the company's products, both in the aggregate and in relation to competitive offerings; the company's ability to adjust manufacturing and shipments to meet shifting customer demand; expenses incurred by the company in expediting shipments to customers; reseller's changes in their own inventory and stocking models, the financial condition of retailers of the company's products, the company's ability to implement planned distribution and supply chain initiatives on time; the company's ability to invent, develop, introduce and market products in a timely and cost-effective manner; the company's ability to penetrate the U.S. education market and retail markets internationally; the shelf space allocated to the company by its retail customers; the seasonality of the consumer electronics and toy business at retail; and the acceptance of the company's products by consumers in the United States and internationally. These and other risks and uncertainties detailed from time to time in the company's SEC filings, including its 2003 annual report on Form 10-K filed on March 12, 2004, could cause the company's actual results to differ materially from those discussed in this release. All forward-looking statements are based on information available to the company on the date hereof, and the company assumes no obligation to update such statements.

LEAPFROG ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Unaudited)</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$126,545</td>
<td>$107,807</td>
<td>$69,844</td>
</tr>
<tr>
<td>Short term investments</td>
<td>74,124</td>
<td>20,211</td>
<td>42,759</td>
</tr>
</tbody>
</table>

###accounts receivable, net

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, net</td>
<td>69,170</td>
<td>57,989</td>
<td>281,792</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>115,063</td>
<td>81,872</td>
<td>90,897</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>17,239</td>
<td>6,923</td>
<td>8,370</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>18,774</td>
<td>9,671</td>
<td>11,735</td>
</tr>
<tr>
<td>Total current assets</td>
<td>420,915</td>
<td>284,473</td>
<td>505,397</td>
</tr>
</tbody>
</table>

###property and equipment, net

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment, net</td>
<td>20,923</td>
<td>20,541</td>
<td>20,547</td>
</tr>
<tr>
<td>Other assets</td>
<td>6,318</td>
<td>332</td>
<td>1,048</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>553</td>
<td>10,573</td>
<td>619</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>30,555</td>
<td>26,031</td>
<td>25,048</td>
</tr>
<tr>
<td>Total assets</td>
<td>$479,264</td>
<td>$341,950</td>
<td>$552,659</td>
</tr>
</tbody>
</table>

###liabilities and stockholders' equity

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
</table>
| Current liabilities:
| Accounts payable | $38,607 | $23,237 | $86,161 |
| Accrued liabilities | 26,294 | 21,201 | 44,634 |
| Deferred revenue | 240 | 2,186 | 1,417 |
| Income taxes payable | 3,069 | -- | 4,729 |
| Total current liabilities | 68,210 | 46,624 | 136,941 |

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred rent and other long term liabilities</td>
<td>540</td>
<td>573</td>
<td>572</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>31</td>
<td>3,344</td>
<td>--</td>
</tr>
<tr>
<td>Total stockholders' equity</td>
<td>410,483</td>
<td>291,409</td>
<td>415,146</td>
</tr>
<tr>
<td>Total liabilities and stockholders' equity</td>
<td>$479,264</td>
<td>$341,950</td>
<td>$552,659</td>
</tr>
</tbody>
</table>

(1) Derived from audited financial statements.

---

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended Mar. 31, 2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$71,632</td>
<td>$76,733</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>39,684</td>
<td>36,092</td>
</tr>
<tr>
<td>Gross profit</td>
<td>31,948</td>
<td>40,641</td>
</tr>
</tbody>
</table>

###Operating expenses:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling, general and administrative</td>
<td>26,769</td>
<td>21,521</td>
</tr>
<tr>
<td>Research and development</td>
<td>13,946</td>
<td>14,404</td>
</tr>
<tr>
<td>Advertising</td>
<td>8,686</td>
<td>6,355</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,793</td>
<td>1,903</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>51,194</td>
<td>44,183</td>
</tr>
</tbody>
</table>

###Loss from operations

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from operations</td>
<td>(19,246)</td>
<td>(3,542)</td>
</tr>
<tr>
<td>Interest income, net</td>
<td>245</td>
<td>323</td>
</tr>
<tr>
<td>Other income</td>
<td>1,014</td>
<td>1,604</td>
</tr>
<tr>
<td>Loss before provision for income taxes</td>
<td>(17,987)</td>
<td>(1,615)</td>
</tr>
<tr>
<td>Benefit for income taxes</td>
<td>(6,164)</td>
<td>(646)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(11,823)</td>
<td>$(969)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss per common share - basic and diluted</td>
<td>$(0.20)</td>
<td>$(0.02)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares used in calculating net loss per common share - basic and diluted</td>
<td>59,373</td>
<td>55,162</td>
</tr>
</tbody>
</table>

---

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

<table>
<thead>
<tr>
<th>Three Months Ended March 31, 2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(11,823)</td>
</tr>
<tr>
<td><strong>Adjustments to reconcile net loss to net cash provided by operating activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,248</td>
</tr>
<tr>
<td>Allowances for accounts receivable</td>
<td>6,833</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(6,942)</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>(32)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(1,177)</td>
</tr>
<tr>
<td>Amortization of deferred compens</td>
<td>481</td>
</tr>
<tr>
<td>Stock option compensation related to nonemployees</td>
<td>135</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options and other</td>
<td>3,179</td>
</tr>
<tr>
<td>Amortization of bond premium</td>
<td>50</td>
</tr>
<tr>
<td><strong>Other changes in operating assets and liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>205,789</td>
</tr>
<tr>
<td>Inventories</td>
<td>(24,166)</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(451)</td>
</tr>
<tr>
<td>Notes receivable due from related parties</td>
<td>--</td>
</tr>
<tr>
<td>Other assets</td>
<td>(270)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(47,554)</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>(18,340)</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>(1,660)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>108,300</td>
</tr>
<tr>
<td><strong>Investing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(4,131)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Purchases of short term investments</td>
<td>(60,854)</td>
</tr>
<tr>
<td>Sale of short term investments</td>
<td>16,021</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(54,964)</td>
</tr>
<tr>
<td><strong>Financing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds from the payment of notes receivable from stockholders</td>
<td>--</td>
</tr>
<tr>
<td>Proceeds from the exercise of stock options and employee stock purchase plan</td>
<td>3,410</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>3,410</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash</td>
<td>(45)</td>
</tr>
<tr>
<td>Increase in cash and cash equivalents</td>
<td>56,701</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>69,844</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>$126,545</td>
</tr>
</tbody>
</table>

**SOURCE** LeapFrog Enterprises, Inc.
LeapFrog Enterprises, Inc. | Press Release

04/21/2004 /CONTACT:
Jim Curley, Chief Financial Officer, +1-510-420-5000, or
Christopher Bunn, Director, Investor Relations, +1-510-420-5150,
of LeapFrog Enterprises, Inc./


regarding LeapFrog Enterprises, Inc.'s business which are not historical facts are "forward-looking statements" that involve
risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those
contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most
recently ended fiscal year.
LeapFrog Reports 2nd Quarter 2004 Results; Net Sales Up 19%

EMERYVILLE, Calif., July 21 /PRNewswire-FirstCall/ -- LeapFrog Enterprises, Inc. (NYSE: LF), a leading developer of innovative technology-based educational products, today reported financial results for the second quarter ended June 30, 2004.

Net Sales

Net sales for the second quarter of 2004 were $80.8 million, compared with $68.0 million in the second quarter of 2003, up 19%.

Segment Results

Net sales from the U.S. Consumer segment were $47.7 million, up 4% from $45.8 million in the second quarter of 2003. Net sales from the International segment were $13.8 million, up 51% from $9.1 million in the second quarter of 2003. Net sales from the Education and Training segment were $19.3 million, up 47% from $13.1 million in the second quarter of 2003. The three segments represented 59%, 17% and 24%, respectively, of consolidated quarterly net sales for the second quarter of 2004, as compared with 67%, 14% and 19% of consolidated quarterly net sales in the second quarter of last year.

Gross Margin

Gross margin was 45.1% in the second quarter of 2004, compared with 52.7% in the second quarter of 2003. Gross margin declined largely due to lower gross profit margins in the U.S. Consumer segment, which saw a shift in the mix of products sold from higher margin software to newer lower margin platforms. The company expects its gross margins to improve in the second half of the year as new software titles become increasingly available and software sales comprise a larger portion of the company's total sales mix.

Net Loss

The company recorded a net loss for the second quarter of 2004 of $(7.4) million, or $(0.12) per share, compared with a net loss for the second quarter of 2003 of $(3.9) million, or $(0.07) per share.

"We are pleased with our progress in the second quarter and with about 80% of the sales year still ahead of us, we are prepared for the second half of 2004," said Tom Kalinske, Chief Executive Officer. "We are excited about strategically expanding our product line within both our Consumer business and our Education and Training business. Our progress in penetrating the U.S. school market is particularly encouraging and, in a mature business model, will support a more even, year-round selling cycle for us over the long term. On the Consumer side, while the U.S. retail environment remains challenging, we are pleased that our POS data indicates that sell through at retail is up over 20% to date, which should bode well for the busy fall and holiday selling season. We believe that the work we are doing in 2004 to build our brand, company, infrastructure and product line will position LeapFrog to become a universally-recognized global leader in the future."

The company's published guidance for the full 2004 year remains unchanged as follows:

<table>
<thead>
<tr>
<th>Outlook for 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Net sales of $770 to $800 million</td>
</tr>
<tr>
<td>- Gross profit margin of 48% to 49% of net sales</td>
</tr>
<tr>
<td>- Operating expenses of 33% to 35% of net sales</td>
</tr>
<tr>
<td>- Fully diluted share count of approximately 63 million</td>
</tr>
<tr>
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Forward-Looking Statement

Cautionary Statement Under The Private Securities Litigation Reform Act Of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, including the financial guidance in the section entitled "Outlook for 2004" and other statements regarding the company's anticipated gross margin improvements, product introductions and availability, expected sales to U.S. schools, future sales to retailers based on retailers' sales to consumers, and anticipated infrastructure improvements. These forward-looking statements involve risks and uncertainties, including the mix of our products purchased by retailers and consumers, changes in budgets and product review cycles of schools and other educational programs, reseller's changes in their own inventory and stocking models, the financial condition of retailers of the company's products, the company's ability to implement planned distribution and supply chain initiatives on time, the company's ability to invent, develop, introduce and market products in a timely and cost-effective manner, the shelf space allocated to the company by its retail customers, the seasonality of the consumer electronics and toy business at retail, and the acceptance of the company's products by consumers in the United States and internationally. These and other risks and uncertainties detailed from time to time in the company's SEC filings, including its quarterly report on Form 10-Q filed on May 10, 2004, could cause the company's actual results to differ materially from those discussed in this release. All forward-looking statements are based on information available to the company on the date hereof, and the company assumes no obligation to update such statements.

CONTACT:

Jim Curley Cherie Stewart
Chief Financial Officer Sr. Director, Corporate Communications
510-420-5000 510-596-3343

LEAPFROG ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2004 (Unaudited)</th>
<th>December 31, 2003 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$103,474</td>
<td>$105,256</td>
</tr>
<tr>
<td>Short term investments</td>
<td>57,019</td>
<td>23,824</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>8,918</td>
<td>--</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>65,328</td>
<td>55,174</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>177,404</td>
<td>96,135</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>9,162</td>
<td>16,114</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>21,696</td>
<td>11,270</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>443,001</td>
<td>307,793</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>23,780</td>
<td>21,210</td>
</tr>
<tr>
<td>Investments in affiliates and related</td>
<td>20,547</td>
<td></td>
</tr>
</tbody>
</table>
LeapFrog Enterprises, Inc.

Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2004</td>
<td>June 30, 2003</td>
</tr>
<tr>
<td>Net sales</td>
<td>$80,814</td>
<td>$68,030</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>44,347</td>
<td>32,209</td>
</tr>
<tr>
<td>Gross profit</td>
<td>36,467</td>
<td>35,821</td>
</tr>
</tbody>
</table>

Operating expenses:

<table>
<thead>
<tr>
<th></th>
<th>Selling, general and administrative</th>
<th>Research and development</th>
<th>Advertising</th>
<th>Depreciation and amortization</th>
<th>Total operating expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27,378</td>
<td>13,469</td>
<td>5,540</td>
<td>1,743</td>
<td>48,130</td>
</tr>
<tr>
<td></td>
<td>21,904</td>
<td>13,272</td>
<td>6,330</td>
<td>2,257</td>
<td>43,425</td>
</tr>
<tr>
<td></td>
<td>54,147</td>
<td>27,415</td>
<td>14,226</td>
<td>3,526</td>
<td>87,946</td>
</tr>
</tbody>
</table>

Loss from operations

|                      | (11,663)                          | (7,942)                   | (10,909)    | (11,484)                     |
|                      | (3)                                | (2)                       | (4)         | (5)                          |
| Interest expense     |                                    |                          |             |                              |
| Interest income      | 500                                | 382                      | 997         | 708                          |
| Other income         | (70)                               | 1,018                    | 793         | 2,622                        |

Loss before provision for income taxes

|                      | (11,236)                          | (6,544)                   | (29,223)    | (8,159)                      |
| Benefit for income taxes |                              |                          |             |                              |
| Net loss             | $(7,407)                          | $(3,926)                  | $(19,230)   | $(4,895)                     |

Net loss per common share:

<table>
<thead>
<tr>
<th></th>
<th>basic and diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$(0.12)</td>
</tr>
</tbody>
</table>

Shares used in calculating net loss per common share - basic and diluted

|                      | 59,620           | 56,837                    | 59,497      | 56,004                       |
LEAPFROG ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(19,230)</td>
<td>$(4,895)</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>8,257</td>
<td>8,165</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>--</td>
<td>18</td>
</tr>
<tr>
<td>Provision for allowances for accounts receivable</td>
<td>18,032</td>
<td>5,184</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(9,887)</td>
<td>(6,986)</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>(76)</td>
<td>29</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(1,189)</td>
<td>(1,486)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>920</td>
<td>1,101</td>
</tr>
<tr>
<td>Stock option compensation related to nonemployees</td>
<td>278</td>
<td>454</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options and other</td>
<td>4,109</td>
<td>24,445</td>
</tr>
<tr>
<td>Amortization of bond premium</td>
<td>106</td>
<td>83</td>
</tr>
<tr>
<td>Other changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>198,432</td>
<td>109,312</td>
</tr>
<tr>
<td>Inventories</td>
<td>(86,507)</td>
<td>(11,675)</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(792)</td>
<td>(12,069)</td>
</tr>
<tr>
<td>Notes receivable due from related parties</td>
<td>--</td>
<td>596</td>
</tr>
<tr>
<td>Other assets</td>
<td>(295)</td>
<td>112</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(13,585)</td>
<td>(22,116)</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>(17,296)</td>
<td>(19,738)</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>(4,729)</td>
<td>(21,832)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>76,548</td>
<td>48,701</td>
</tr>
<tr>
<td>Investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(10,618)</td>
<td>(8,632)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(6,300)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(66,982)</td>
<td>(25,532)</td>
</tr>
<tr>
<td>Sale of short term investments</td>
<td>36,321</td>
<td>4,125</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(47,579)</td>
<td>(33,039)</td>
</tr>
<tr>
<td>Financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from the payment of notes receivable from stockholders</td>
<td>--</td>
<td>2,624</td>
</tr>
<tr>
<td>Proceeds from the exercise of stock options and employee stock purchase plan</td>
<td>4,778</td>
<td>16,170</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>4,778</td>
<td>18,794</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash</td>
<td>(117)</td>
<td>(27)</td>
</tr>
</tbody>
</table>
Increase in cash and cash equivalents: 33,630

Cash and cash equivalents at beginning of year: 69,844

Cash and cash equivalents at end of period: $103,474


SOURCE
LeapFrog Enterprises, Inc.
-0-
07/21/2004

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or Cherie Stewart,
Sr. Director, Corporate Communications, +1-510-596-3343,
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Web site: http://www.leapfrog.com/
(LF)

8745 07/21/2004 16:02 EDT http://www.prnewswire.com

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding LeapFrog Enterprises, Inc.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.
EXHIBIT 10
OPERATOR: Good morning. My name is Brooke, and I will be your conference facilitator today. At this time I would like to welcome everyone to the LeapFrog second quarter quarterly conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to ask a question during this time, simply press star, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. Mr. Bunn, you may begin your conference.

CHRISTOPHER BUNN, INVESTOR RELATIONS, LEAPFROG ENTERPRISES, INC.: Thank you very much, Brooke. Good morning, everyone and welcome to LeapFrog Enterprises conference call for the second quarter of 2003, which ended on June 30th. I'm Christopher Bunn, the director of Investor Relations. After the close of the market yesterday we issued a press release detailing our second quarter results. In a minute, Mike Wood, our President and CEO will discuss LeapFrog's performance in the second quarter and our outlook. Then Jim Curley, our CFO, will discuss the results in detail and finally we will conduct a question and answer period.

Before we begin our formal remarks, I remind you that certain statements made today may include forward-looking statements about management's expectations, strategic objectives, anticipated financial performance and other similar matters. Forward-looking statements during this conference call may include statements regarding anticipated growth in sales, operating margins, earnings per share and retail shelf space, our ability to invent, develop and produce products and their acceptance in the markets, [INAUDIBLE] chain management and shipments, capital expenditures, inventory levels, receivables, advertising expense, tax rates, interest income or expense and SG&A expense. In addition, we expect the questions posed during the question and answer portion of this call may prompt answers that contain additional forward-looking statements that we have not anticipated and are not contemplated in our prepared statements.

This cautionary language concerning forward-looking statements applies to both our prepared comments and our impromptu answers to questions posed during this conference call. A variety of factors, many of which are beyond our control, affect the operations performance, business strategy and results at LeapFrog and could cause actual results to differ material from those projected in such forward-looking statements. Some of these factors are described in our 2002 annual property on Form 10-K filed with the S.E.C. on March 28th and with other filings made with the S.E.C. from time to time as well as LeapFrog's other published statements. LeapFrog does not update forward-looking statements and we expressly disclaim any obligation to do so. And now I'd like to introduce Mike Wood.

MIKE WOOD, PRESIDENT & CEO, LEAPFROG ENTERPRISES, INC.: Thank you, Chris. Thank you all for joining us, and good morning. I'm pleased to share with you the results of our second quarter. This morning I'm going to briefly cover high level financial results for the company, and then I will discuss some highlights from each of our business divisions. Let me begin by saying that we experienced strong growth in all three of our divisions, U.S. consumer, international consumer and U.S. SchoolHouse. And as a result, strong growth overall.

For the entire company the results of the second quarter of 2003 compared with the second quarter of 2002 were total net sales up 57%, gross margin improved from 48.5% to 52.7%, and we cut our net loss by 48%, from 7.5 million to 3.9 million. The results for each of our three business divisions for the second quarter were as follows: for the U.S. consumer division net sales were up 37% and gross margin improved from 49.9% to 51.1%. For the international consumer division net sales were up 94%, and gross margin improved from 38.2% to 44.2%. And finally, for the SchoolHouse division, net sales grew 151% and gross margin improved from 53.8% to 63.9%. Now let me briefly review some key performance measures for the entire company in the first half of 2003. First, platform sales were up 24%.

Second, software sales were up 49%. And finely, stand-alone product sales were up 70%. We are pleased with these results and we're optimistic about the second half of this year. We believe we enter the second half of
2003 with good momentum, exciting new products and expanded distribution in each of our three business divisions. In the U.S. consumer division our momentum is reflected in the 37% net sales increase in the second quarter, which resulted in a 34% net sales increase for the entire first half. Parenthetically, this is consistent with our sell-through to date measured at the wholesale level, which is up 35% for our top 10 customers. We believe our new product offerings, which include three new platforms, 31 new software titles and 15 new stand-alone products in the U.S. consumer division will help maintain LeapFrog momentum for the second half. I'd like to speak briefly about the three new platforms we plan to introduce.

First, with the Little Touch LeapPad, we're extending the LeapPad family into a new age group, the 6 to 36-month infant and toddler category. Our little Touch LeapPad uses a finger instead of our magic stylus. We decided to use the finger touch for kids under three years old based upon advice from our educational experts who stated that the finger was the most appropriate for kids before the age of 3, before they fully develop their small motor skills and before they begin to write. As you know, at age 3 we introduce the magic stylus with the My First LeapPad, and therefore the LeapPad and the LeapPad Plus Writing, which are all consistent with the development of fine motor skills and the importance of writing skills for kids at 3 and above. Our next two new platforms, the LeapPad Plus Writing and Leapster, truly demonstrate LeapFrog innovation in curriculum, technology and design. With our LeapPad plus writing platform, we've taken the LeapPad magic stylus and transformed it into an interactive writing pencil.

As a result, this new platform not only delivers what we believe is the most effective engaging reading experience because it works with our 54 LeapPad titles, but it also allows kids to introduce interactive writing and interactive math exercises. Teachers and parents have made it clear that reading, writing and math are all critical areas of learning for kids at this age. LeapPad plus allows us to offer all three, reading, interactive writing and interactive math on a single platform. Finally, we're introducing our Leapster platform. We believe this is the first hand-held for young children dedicated specifically to learning. We hope, and it's our intent, that this will become the first hand-held recommended by teachers. In addition to our three new platforms, we're introducing 30 new software titles this fall for our Imagination Desk, Turbo Twist, iQuest and the LeapPad family. Bringing our library content offering to over 120 software titles, these titles include reading, math, music, geography, social studies, spelling, phonics, vocabulary, science, and now, as I stated, writing.

There also excitement surrounding our new stand-alone products including our new leap start Learning Gym in the infant category and the Pretend and Learn cash register and our Learning Stream Karaoke. Our product offerings this fall have created considerable buyer enthusiasm. You can expect to see increased shelf space for our products at our existing retail partners and new distribution in such retail outlets as Radio Shack and Best Buy. We are equally pleased with the growth of our international division with sales are up 94% in the second quarter and 46% for the first half of the year. As with our U.S. consumer division, we are optimistic about solid momentum, new products and expanding distribution. We're planning to introduce LeapFrog Learning Centers, that is the Learning Centers themselves, in the United Kingdom and Canada for the first time this fall.

In addition our new LeapFrog office in Mexico will be open for business in the third quarter, and yesterday we announced an agreement with our partner Stadlbauer. With this partnership we will introduce LeapFrog products in 2004 in Germany, the fourth largest toy market in the world, as well as the German-speaking markets of Austria, Switzerland and Lichtenstein. Fine lip, in our U.S. SchoolHouse division sales were up 151% in the second quarter and 117% for the first half of the year. We are particularly pleased with our LeapTrack instruction and assessment system. The LeapTrack system leverages the benefits of the LeapPad and the QuantumPad platforms to enable teachers to quickly assess each student's skills relative to state standards, pinpoint areas for improvement for each child and create an individualized learning path for that child for the year in reading, language arts and math. The LeapTrack system was introduced in August last year and already represents approximately 20% of SchoolHouse net sales in the second quarter of 2003.

What a launch! We continue to pursue large scale sales such as the 840,280 unit sale to the Chicago School District we announced in June. We recently announced an upgrade cycle for the LeapTrack system with increased educational content, expanded reporting and several software interoperability improvements. Within the past 12 months we've introduced five new instructional book series and the preschool Ready, Set, Leap program which was adopted in the Texas preschool adoption program. We are pleased with the early response to each of these products. One last thing I would like to note, when we went public last year we disclosed six ongoing materiality legal matters in our prospectus.

This was a matter of concern for our investors and I'm pleased to say that over the past year we have resolved five of these legal matters. In closing, let me say that our dedication and our commitment remain as strong as ever. Our passion is to build a great company focused on developing great products that will allow kids and adults around the world to learn in ways that are engaging and effective. Let me now turn the call over to Jim.
Curley for a detailed look at our financial performance and outlook.

JAMES CURLEY, CFO, LEAPFROG ENTERPRISES, INC.: Thank you, Mike, and thank you all for joining us today. Let's take a closer look at some of the details in our financial performance in the second quarter. As Mike already reviewed, all of our business segments had strong net sales increases and the rates of increase for each business segment accelerated and were stronger in the second quarter than in the first quarter. Our U.S. consumer net sales were up 37% in the second quarter and 34% year to date. We said in our first quarter filing that the negative platform sales growth we recorded in the first quarter was not a trend for our U.S. consumer segment. The second quarter actual results confirm that statement.

Now for the first six months of 2003, U.S. consumer year to date platform growth was 20%. Year to date software growth was up 46%, and year to date stand-alone growth was up 43%. We had a very healthy and balanced product sales mix for our first half in the U.S. consumer segment. Our international net sales in the second quarter of 2003 were up 94% versus the same period last year and up 46% on a year-to-date basis. International net sales represented 19% of our second quarter company wide sales versus 11% of total company net sales last year. The foreign currency translation effect for the second quarter was positive, although not material for us, and increased the international segment's net sales by 7% and the total company sales by just under 1%.

Our education and training or SchoolHouse segment net sales were up 150% in the second quarter as compared with the second quarter of last year. And for the first six months of 2003 they were up 117%. SchoolHouse net sales represented 19% of total company, net sales versus 12% in the prior year. We had excellent performance company wide with consolidated gross profit margins of 52%, up 420 basis points, from 48.5% last year. Our year to date gross profit margin is 52.8% and gross profit margins were up solidly for all business segments. Now I want to clarify one point on gross profit that is caused by the growth in the publishing business of our SchoolHouse segment.

Historically we have capitalized a relatively small portion of our content development as prepublication costs, consisting primarily of that portion of SchoolHouse content developed externally. Previously we amortized this to expense in the depreciation and amortization line of operating expenses. Beginning with this quarter and for prior periods presented, the amortization of this capitalized content development expense will now be reflected in the cost of goods sold line of the income statement. This reclassification has no effect on the bottom line. The second quarter impact lowered depreciation and amortization expense by approximately $900,000 and increased cost of goods sold by an equal amount.

Our second quarter operating expenses were 43.8 million, 31% higher than last year and well below the 57% sales increase for the period. So, we're getting good expense leverage here. As a percent of sales we achieved a 1300 basis point improvement in operating expenses versus the prior year. This was achieved primarily in lower R&D and SG&A expenses as a percent of sales. We are still investing in increased R&D, but we benefited from significantly reduced web engineering expense during the second quarter period. Our operating loss of 7.9 million improved significantly from 12.6 million loss in the second quarter of last year.

We had net interest income for the second quarter of 380,000 dollars compared with net interest expense of 116,000 in the second quarter of 2002. We had one million of other income in the quarter, and that was all related to favorable foreign exchange gains. Net loss the second quarter of 2003 was 3.9 million as compared with the 7.5 million loss in the prior year second quarter. And our second quarter net loss per share was 7 cents compared with last year's 22-cent per share loss. Let's now turn to the balance sheet. Cash and short-term investments as June 30, 2003, were 129 million, up from last year's $388,000 level.

Accounts receivable at June 30, 2003 were 55 million, which was an increase of 25.4 million compared with the ends of last year's second quarter. At quarter end we were 73 day sales outstanding compared to 62 days sales outstanding at the end of the second quarter last year. This increase is due to the growth in sales and our 73 day sales outstanding level is right in line with other reporting companies in our peer group. Further, our aging of accounts receivable is healthier than last year's position. Net inventory as June 30, 2003 was 96.1 million, a 55% increase from the same period last year, and our inventory growth is slightly less than the 57% revenue growth in the second quarter, and we are confident that our inventory position is now at appropriate seasonal levels for the all-important second half. We are debt-free at quarter end compared to total debt of 22.2 million last year.

As for cash flow, in the first half of the year we experienced positive cash flow from operations of 48.7 million compared with 39.1 million in the same period last year. Before we start our Q&A session, I would like to
address going forward guidance. We are reaffirming our third and fourth quarter guidance. Note that the
guidance for the third and fourth quarters is unchange from that published in our fourth quarter press release on
February 10th. So to reiterate it, it's as follows: third quarter 2003 net sales in a range from 225 to 235 million.
Operating income, a range of 54 to 57 million. And diluted net income per share, a range of 55 to 58 cents.
Fourth quarter 2003, net sales 277 to 297 million.

Operating income, 66 million to 71 million. And diluted net income per share of 68 cents to 74 cents. Now, for
the full year, as we have exceeded expectations in the second quarter, our full-year guidance should be revised
as follows: net sales for the full year will be in a range of 647 to 683 million. Gross profit margin, 52 to 53% of
net sales. Operating expenses, a range of 37 to 38% of sales. Our effective tax rate is 37%. Net income, we
estimate 71 to 76 million. And our fully diluted share count is 60.6 million shares, and this results in a diluted
net income per share for the full year of $1.17 to $1.25. This concludes the review of our recent financial
performance and guidance. Now, Operator, let's begin the question and answer portion of the call.

OPERATOR: At this I would like to remind everyone in order to ask a question please press star then the number
1 on your telephone keypad. We’ll pause for just a moment to compile a Q&A roster. Your first question comes
from David Liebowitz of Burnham securities.

DAVID LIEBOWITZ, BURNHAM SECURITIES: Congratulations on an excellent quarter. A few brief questions. One,
will SchoolHouse be profitable in the fourth quarter and for the full year this year?

MIKE WOOD: David, hi, thanks. We’ve projected for the full year that the SchoolHouse would breakeven. So,
that would be a catchup from losses in the first quarter. And .we maintain consistent, guidance on that.

DAVID LIEBOWITZ: Okay. Second of all, given the very fine results of the second quarter this year and that
historically first and second quarters have been meaningful losses, are we seeing a trend that might permit
profits in the first and second quarter of next year?

MIKE WOOD: I'd rather not at this point, David, project on first and second quarter profits or losses next year. I
will note, though, that we have been improving our position relative to loses each of the last years.

DAVID LIEBOWITZ: Also, there was a very significant increase in the cash, and even now short-term
investments on the balance sheet. How will those funds be utilized?

JAMES CURLEY: Okay, David. This is Jim. You know we are a seasonal company. We'll invest them in inventory
and receivables for the second half of the year. And then we expects increased cash coming out of the year end.
A positive cash flow we projected in the fourth quarter and into the first and second quarters of next year. It will
be an issue more for next year, but for right now we're just going to keep the funds invested in the business.

DAVID LIEBOWITZ: Last question, you did touch on inventory, and you said you believe it's at an appropriate
level. Is there anything we should be looking at in terms of hardware versus software in the inventory?

JAMES CURLEY: Well, we don't break out the inventory that way. I will say that our inventory position comprised
about 29% of our total and raw materials. The rest was finished goods. That's pretty much in line with last year,
and we're well positioned.

MIKE WOOD: But David, I think your question, at least my response would be that our inventory is in line with
our anticipated demand.

DAVID LIEBOWITZ: Okay. Thank you very much.

OPERATOR: Your next question comes from Lauren Fine of Merrill Lynch.

LAUREN FINE, MERRILL LYNCH: Hi, there. Great quarter. A couple of quick questions. I'm wondering if you could
break out for either -- well, actually for both total sales and for U.S. consumer, the breakdown between
platform, software and stand-alone. You gave the growth rates, but what portion are they? And second, if you
could comment maybe on a first half basis what percent of sales is coming from the whole LeapPad family of
products, platform and software? And third, are you anticipating any need to change pricing at all on the
LeapPad now that Mattel is out there? Are you hearing anything from retailers that would suggest you have to
change pricing?

MIKE WOOD: Let me start with your last question, Lauren, and then I'll turn it over to Jim. We're not in an analyst call going to discuss our pricing strategy in the thirds or fourth quarter. Go ahead, Jim.

JAMES CURLEY: Okay. Lauren, in the second quarter our sales mix for the U.S. consumer was platforms 53.6%, software 19.3% and stand-alone 27.1%. And that compares to platforms last year 38.3%, software 33.2%, and stand-alone 28.5%.

LAUREN FINE: Okay. And that was specifically the U.S. Consumer Division?

JAMES CURLEY: Yes.

LAUREN FINE: Okay. And then for the first half, LeapPad-related sales as a portion of the total?

MIKE WOOD: We're not breaking that out. This is standard disclosure. We're just going to stay with platform, software and stand-alone.

LAUREN FINE: Okay, that's fine. One last question. I was surprised by how little R&D went up. And I'm wondering, recognizing this could just be a timing issue, is this an indication there won't be the same level of new product activity looking to next year?

JAMES CURLEY: Oh, not at all. You're right about timing. You know, the second quarter was impacted by timing. R&D will be, as we we guided for the full year. The web expenses were significant, and those times last year, they were heavy last year and they were virtually gone this year. And most of the expenses are now in SG&A related to web because we're no longer developing the website. The two big areas in R&D are publishing of content and our engineering group. Engineering group in the quarter was actually up 98% because of the heavy emphasis on new products, particularly heavy right now. And we actually had a 48% increase in publishing. So this is matched by the reduction in web engineering that offset it. As well as some lower SchoolHouse development just from a timing standpoint.

LAUREN FINE: Great. Thank you.

OPERATOR: Your next question comes from Howard Block of Banc of America Securities.

HOWARD BLOCK, BANC OF AMERICA SECURITIES: Good morning, everybody, and congratulations. Really nice job on the quarter. I had a question also on the breakdown by product line. It looks like the platform sales in the second quarter doubled from the second quarter of last year, and obviously the first quarter wasn't as good. And then on the software side it looks like sales were sort of flat year-over-year, and the stand-alone was up maybe 33%. I thought maybe you could just offer some color as to why platform was so strong and recovered so nicely and maybe if the software at all was a disappointment.

JAMES CURLEY: First of all, there weren't disappointments in either hardware or software. We made a point, which I think is a non-trivial point that we should all consider going forward. The first and second quarter sales are relatively low. The timing of sell-in, which are sales, will vary from period to period. The difference between first and second quarter sales of hardware and software, s we mentioned at the end of the first quarter, simply reflected the timing of sell-in, not sell-through. And as I've indicated, the sell-through has been strong and consistent with overall sell-in throughout the first two quarters.

HOWARD BLOCK: Okay. That's very helpful. With regards to the gross margin, it improved really nicely year-over-year even without significant growth in the quarter from software and even with this change in the accounting in terms of running amortization through COGs instead of D & A. Can you maybe help us understand, 1, what was the implication of the changes on the COGs in the margin or the COGs in the quarter? And 2, why was gross margin up so impressively even without the same dramatic growth in software that we saw in the first quarter?

MIKE WOOD: Howard, you'll recall even in the past while software as a percentage of the mix has been a contributor to improved margins and in prior quarters lately, still the biggest area has been lower manufacturing costs and lower chip costs. We still are benefiting from that. That was still the biggest contributor to improved
margin and that really went across all three business segments.

JAMES CURLEY: Second question was the materiality of the change in the SchoolHouse capitalized expenses.

MIKE WOOD: Yeah, that was - it was again $900,000 in the second quarter. And that's about what it will be on a - a little bit higher than that, about a million a quarter going forward. And it's not a -- it has a bigger impact on the second quarter because of the low sales. The second half of the year if would be relatively small.

JAMES CURLEY: So, overall it's a relatively small component of expenses and therefore of cost of goods and therefore of the margin.

HOWARD BLOCK: Let me ask a quick question or two on inventory. In terms of the inventory, I think last call you had mentioned that roughly a third of your inventory is in raw materials. One, I was wondering if you could update that. And secondly, is there any reason inventory may be building to serve some of these new international markets that you're in? Are you just sort of stocking up in whether it be Canada or Mexico or France or somewhere else that may in fact create an impression of a higher inventory balance?

JAMES CURLEY: A little bit on the raw materials as a percentage of the mix, I think we front end loaded it, and we’ve discussed that as we’ve gone, coming out of last year. Let me give you the trends. Last year, in 2002 first quarter raw materials were only 16% of the total. In the first quarter of this year they were 23% of the total. Now we’re at about 29% is raw materials going into our production period. And that now is in line with the mix of raw materials the last year. We think we’ve adjusted our inventories. They were up significantly, in the high 80% over prior years at the end of the year, and now they’ve come in line at 55% increase to last year. We’re very happy with where we are on inventory.

HOWARD BLOCK: And then anything with regards to building stock in some of these overseas countries? Would that be contributing at all?

JAMES CURLEY: That would contribute a little bit. Now we’re in France. We didn’t have an inventory position there. So, we wouldn’t be carrying inventory there.

MIKE WOOD: Just one thing. When our sales have been up so significantly across each division, we’re required to increase inventory for SchoolHouse, for International in each of those areas in which we operate. Also, as you know, we’re right in the middle of the fall recess in all of our retailers. And given the expanded space that we’ve got and the expanded disproportionate number of new items, this is a natural time for us to be building up inventory. Just want to characterize, we think this is the appropriate place to be with inventory. One, very little risk on a carrying cost of inventory at this time. And secondly, we’re ready to keep our customers in stock as we move forward in this critical third period. So, this is the right place to be, at least as far as I’m concerned.

HOWARD BLOCK: Again, great job. Thanks, guys.

OPERATOR: Your next question comes from Sean McGowan of Harry Nesbitt Gerard.

SEAN MCGOWAN, GERARD KLAUER MATTISON: Harry Nesbitt. Okay. Hey, my Nesbitt’s never been called hairy. I have a couple questions regarding shelf space. Could you comment on your outlook, has it exchanged at all regarding shelf space at existing customers versus -- you had set certain targets at the beginning of the year about shelf space increase. Just update us on that. And if you can comment on the Radio Shack and Best Buy, it's my recollection you were in Radio Shack last year to a small extent. Can you talk about that, whether that's true and how much they will be carrying in terms of shelf space, number of units? And the same for Best Buy?

MIKE WOOD: Let me start with the latter half. We were not in Radio Shack last year. And they've made a significant commitment to us in terms of carrying a segment of our line. And the same thing with Best Buy. Obviously the first fall we're both trying to see how our products and what right selection is in the channel. But having said that, these are not trials. It's full distribution across those channels, which are obviously not trivial. We stated earlier that in our top retail accounts, the Learning Center space was going to increase -- or top four accounts -- approximately 40%. And I'm still comfortable with that as an estimate of increased Learning Center space. It's approximately 40% this fall.

SEAN MCGOWAN: Thank you. Now, you say you weren't in Radio Shack last year. I'm pretty sure there was one
or two items. Could they have gotten that a different way other than buying directly good from you?

MIKE WOOD: Shouldn't have. But if they were in there, they must have. But we're simply not aware of it, as I look around the table here. Maybe they owe us. Maybe we've got a receivable out there that we're not aware of.

OPERATOR: Your next question from Jill Krutick of Solomon, Smith, Barney.

MIKE WOOD: Hi, Jill.

JILL KRUTICK, SALOMON SMITH BARNEY: Good morning. Could you perhaps update us on the market share gains that you made in the quarter? Secondly, if you could perhaps discuss with us some of your supply chain initiatives that you have underway? And then, I'm also curious about your marketing plans and marketing spend expectations for the major new product launches you have coming for the balance year. Thank you.

MIKE WOOD: Well, we've given you our growth year-over-year across each of our divisions and within the U.S. division, our growth in platform, et cetera. We have also told you that overall our sell-through at the wholesale level across our top 10 accounts is up 35%. The actual gain in market share, it's very difficult for us to determine, in part because the NPD data, which is the only one that actually provides a comparison, is old. Secondly, our numbers, which are our actual numbers as reported by the retailers, give a significantly different and higher year-over-year sales growth rate than an MPD. And I can't quite figure out why, except I do know that we're giving the numbers based upon the actual numbers as reported to us by our customers. We continue to make strong growth in supply chain. As I mentioned, our director of IT has implemented a supply chain strategy both here and in our Hong Kong office, and now increasingly throughout our international divisions. And we all feel good about the successful launch of that improvement for this fall. And finally, our marketing plans, we have aggressive, we think impressive marketing plans which we feel are both necessary and appropriate to generate the increase in revenue which we're projecting. And I really don't want to go into any more detail on marketing plans, nor, as I mentioned earlier, pricing strategy at this point in the year.

JILL KRUTICK: If I could just follow up with one more, Mike, the EPS coming in so far above your expectations and no variance for the full year, is there any particular things you'd point to as to why that's not changing?

MIKE WOOD: Let me attach it more -- attack that more broadly. First of all, let me just say that the midpoint of our net sales and net income for the year, our net sales midpoint is up 25% and our net income is up 70%. So, I don't feel defensive or apologetic. I think those are good numbers. Secondly, in the beginning of the year, we set guidance as I mentioned, and we were penalized for the modesty of our guidance. But as I said, we did it in the beginning of the year in light of all the uncertainties of which we were aware at the time, the economy, retail environment, competition, international uncertainty, new product launches. Each quarter, as we've exceeded those projections, we've adjusted to reflect that quarter's performance in hindsight. As all of you know, the first half is a small portion of the overall year and although we think it's a good indicator of momentum, those percentage gains aren't necessarily directly indicative of how the year will end. So, most of the year lies ahead of us. We feel very positive. We're going to stick with our guidance until we continue to eliminate those uncertainties that remain ahead of us throughout the year. And that would be true on net sales and on net income. But there's no boogie man out there in either of those of which we're aware.

JILL KRUTICK: No impediments in terms of retail inventory levels being a little bit higher heading into the holiday season?

MIKE WOOD: No.

OPERATOR: Your next question comes from Tony Gikas of U.S. Bancorp Piper Jaffray.

TONY GIKAS, US BANCORP PIPER JAFFRAY: Good morning, guys, and my congratulations, as well, this morning. For the new stand-alone products that you're putting out, I think there's 15 new products there and 31 new pieces of software, how does that break down domestic versus international? And second, do you have any feel for the positioning of Mattel's Power Touch learning product? Is that going to be in the same aisle or near where the LeapPad is at this point? Do you have any visibility on that? I've been checking retail. It doesn't seem to be out yet.

MIKE WOOD: So, the first question was the new retail skews which we gave you, Tony, the 31 and the 15, were
just U.S. Consumer. If we gave you the number of new skews internationally, it would be significantly higher, only because we do localization and those get different skew numbers everywhere. So it would be misleading. It would be more accurate to say that each year we launch a subset of both last year’s new SKUs and this year’s new SKUs internationally. And furthermore, if we added the new SKU’s in SchoolHouse it would go up even higher because of the number of different SKUs, that is, the five phonics series, the books, et cetera. So that it would be misleading. So, that’s the answer to the first question in terms of U.S. versus international. The answer to your question on positioning, it is our anticipation that in some retailers they are expanding what they’re calling the ELA section significantly. And in those retailers the PowerTouch will be -- I think it’s across the aisle from us. In some of the other major retailers the Power Touch will remain in the Fisher-Price preschool section.

TONY GIKAS: Is that where it will be in the Toys ’R Us stores?

MIKE WOOD: I know the answer to that, but I’d rather not project any individual retailer’s strategy until they’ve projected it.

TONY GIKAS: Going back to the stand-alone and software, would you characterize the increase on an international basis similar to the increase here in the U.S.?

MIKE WOOD: Well, our growth internationally has the last year and certainly for the first half of this year significantly exceeded our growth domestically. And so, although I don’t -- I really haven’t counted SKU for SKU, I would guess that the percentage growth is significantly higher. I don’t know in terms of absolute growth.

TONY GIKAS: Okay. And could you refresh my memory on the LeapTrack system? What’s the seasonality of that product? Could we expect another jump in the September quarter? What’s your expectation for Q3?

MIKE WOOD: Well, it is dangerous, at least it seems to me, on small numbers, that is relatively small numbers, on a new launch to give guidance quarter by quarter. We have believed, and it’s turning out, I think, to be true, that it’s certainly less seasonal than our U.S. consumer business. And we believe that we have continuing momentum around the LeapTrack. But I feel as though we’re up 151% year to date.

JAMES CURLEY: 117.

MIKE WOOD: Excuse me, 117, 151 for the quarter. And I’m reluctant to compound that growth rate in guidance over the rest of the year.

TONY GIKAS: Okay, thanks, guys.

OPERATOR: Your next question comes from Jeetil Patel of Deutsche Bank Securities.

JEETIL PATAL, DEUTSCHE BANK SECURITIES: Hey, guys. A couple of questions. Can you, I guess, address, you’re looking at new distribution channels out there, Radio Shack, Best Buy, others that could come on the horizon. I guess can you speak to what kind of demographics we’re looking at in terms of opening up -- is the buyer changing out there for the most part for your products or becoming much broader than what we’re seeing in the retail channels that you’ve been servicing up to this point? Secondly, I guess when you talk about the ELA market, what do you think, given what you’re seeing in the business, how you’re expand into infant/toddler, what the growth looks like in this category and especially with the retailers creating new formats or new, different centers inside their own stores? Can you talk about just the long-term growth of the ELA category in light of kind of all the changes at retail that are going on? And then finally, the sell-through, which was up 35%, will that capture -- will that sell-through data capture these new channels that you’re adding? Is that inclusive of that going forward, or do you think there’s going to be a modest disconnect there?

MIKE WOOD: So, let me answer the questions in order. First of all, your question was is the demographic of our customer changing. Let me answer it this way. We are in a very good position in that our product offerings hits a number of different age groups, which I’ll get to in a minute. And the type of products that we are offering continues to increase it will attract, I think, in some ways different demographic. Let me explain what I mean. We offer products for infants now, toddlers, preschool kids, grade school kids, middle school kids and even high school kids. So, that demographic each year has increased either in older age products or younger age products. We also now offer products that are actually different. So, the demographic may change slightly. We’re
introducing, as you know, a video. I call it a line, although it's just two -- the beginning of a line. Two videos this year. We're introducing a hand-held. We've got a PEA, which is our I-Quest, and we have other products next year. So, I would say that there certainly we are trying to reach as broadly as we can to kids and eventually adults of all ages across a variety of different products and medium, and we'll continue to do that, and not only by distribution, but by age and by the different approaches in our different platforms that we're taking to learning. Your second question was the ELA section and the growth of the ELA section. One thing to note is that virtually all of the growth in the ELA section over the last three or four years has been our growth. There have been different companies that have jumped in and jumped out, but if you look at year to year growth of the category, in absolute dollars it almost tracks exactly our growth in those categories. Fortunately our growth in the category has been significant. And I think it's because we have found what I think are increasingly engaging ways to make important learning concepts fun. And I don't think we're anywhere near the end of our ability to make learning fun and meaningful. I happen to believe personally that kids get a great sense of accomplishment out of feeling like they're learning something and succeeding. And we're going to make that fun and accessible across different areas of curriculum for different aged kids. And as long as we do that, parents are going to buy these. First of all, they want their kids to be engaged. If it's not engaging, it's irrelevant. We try very hard never to create a product that a mother has to say, now it's time that you have to play with something. Instead we want these to be top of toy box products, and that appears to be the case. If parents also can feel good about what their kids are doing with their products, then they're going to put that at the top of the line in terms of products they want to buy. And that's what I think has been happening so far. And in fact, it's part of our big strategy on this hand-held. My understanding is there were 500,000 parents last year who bought a game boy for kids age 4, 5 and 6. I believe that a substantial, substantial portion of those parents, if they had the opportunity to buy a hand-held that is as engaging and significant in terms of educational, they're going to want to buy that product. So, number 1, I think there's lots of momentum left in the ELA category. I think the retailers have seen it as one of the consistently fastest growing categories. It looks to us as though they intend to commit additional space to that category. And we intend to get our lion's share of that space as the innovation and category leader.

JEETIL PATAL: And then on the sell-through question, would that -- can you address that? Would that capture the new channels that you're adding, or would we start to see a disconnect there relative to your numbers?

MIKE WOOD: I'm sorry. I just had to clarify that with Tim Bender. The answer is going forward we will get weekly POS sales from both of those retailers so we will be able to include those in those numbers going forward. Obviously they aren't reflective in those numbers here to date because we just shipped in June for their fall sets. And so, there are no sell-through numbers from those customers.

JEETIL PATAL: Thank you.

MIKE WOOD: You're welcome.

OPERATOR: Your next question comes from Jennifer Childe of Bear Stearns.

JENNIFER CHILDE, BEAR STEARNS: Hi. Good morning. Congratulations.

MIKE WOOD: Thank you.

JENNIFER CHILDE: You mentioned adult a couple of times. And I'm just wondering if the announcements, such as the Afghanistan women's project, McDonald's, et cetera, does that signal more of a core focus on the adult, or is that a few years away still?

MIKE WOOD: Yeah, I would rather not lay out our strategy in terms of adult except to say that I think that there -- we will have the ability to utilize our underlying technology and our insights into the way pedagogue works with this to do some things that will be meaningful for adults going forward.

JENNIFER CHILDE: But not near term?

MIKE WOOD: Certainly not this year.

JENNIFER CHILDE: I'm still a little confused about the R&D guidance. I thought that you mentioned in the first quarter that we were going to see a spike in the second quarter due to timing differences, Jim. Has your
guidance for the full year changed?

JAMES CURLEY: We weren't that specific. We did say that some of the timing of the expense savings we saw in the first quarter in the R&D line were timing and would be experienced later in the year. And we're still saying that. Didn't come in the second quarter. It actually did come in the second quarter, but it got masked by the web savings that I already talked about. And we are still moving ahead with significant development on three new platforms and many different new products. So there is no bring-down in future expectations for R&D. So, our guidance remains intact.

JENNIFER CHILDE: So, what is the guidance in terms of as a percentage of revenues? Should we expect it to be up or down from last year?

JAMES CURLEY: Well, there again we're not breaking out in our projection -- I mean, giving guidance is a tricky thing. We've given you more specific guidance, we think, than most of our competitors, because we're an early stage company and we feel that we have to educate initially on how our company works seasonally. We said our operating expenses would be 37 to 38% of sales. That's as much detail as we're giving.

TIM BENDER, PRESIDENT WORLD WIDE CONSUMER DIVISION, LEAPFROG ENTERPRISES, INC.: Jim, just to clarify, we have a strong, ongoing commitment to R&D, correct?

JAMES CURLEY: Correct.

TIM BENDER: And that's a driving engine of LeapFrog and something, frankly, that we think is -- distinguishes us from many of our competitors in that it's what allows us to do things better, we think, in a more efficacious and better price to our customers because of our commitment, primarily our 7th and 8th generation of our [[INAUDIBLE]], but also because some of the other innovative engineering and development and research that we're doing on an ongoing basis.

year?

JAMES CURLEY: Yes Second quarter of last year? Second quarter of last year was 300,000. 900,000 in the second quarter of this year. And 300,000 in the second quarter of last year.

JENNIFER CHILDE: Okay. Thanks a lot.

OPERATOR: Your next question comes from Margaret Whitfield of Brean Murray.

MARGARET WHITFIELD, BREAN MURRAY: Good morning. Congratulations.

MIKE WOOD: Thank you, Margaret.

MARGARET WHITFIELD: Getting back to the U.S. mix, I guess I was surprised given the time of the year that software wouldn't have been stronger. In fact, it looks like it's down a little bit. And hardware, normally in terms of at least retail sales isn't as strong as it is in the latter part of the year, and that doubled. I wonder to what extent adding platforms to new retailers like Best Buy entered into this. And what is the underlying tie ratio here? Is it changing on you? Could you give us what it was this year in the U.S. versus last? And finally, what does Jim think the inventories might look like at the end of Q3 given the fact that you'd be gearing up for the holiday periods?

MIKE WOOD: Let me start with, as Jim mentioned, our U.S. sales for the entire company in the first half in the U.S., platform sales were up 20%. Software sales were up 46%. And stand-alone's were up 43%. Now, those are on top of very significant growth in the first half of last year across those categories. So, number 1, not disappointed in platform sales, not disappointed in software sales, not disappointed in stand-alone, and not disappointed in the mix. In fact, what you can see is that the tie ratio obviously at the sell-in level went up significantly because our software sales went up as a percentage more than double the sale -- the percentage increase in platform sales. So, that's the tie ratio. And then, Jim, did you want to address the inventory in the second half of the year? Oh, one last thing. At the very end you asked whether any of our new platforms were reflected in the second quarter. And yes, we began to ship a small number, that is really the initial set.
requirements of two of our new platforms. And that's good news. That means -- it's a small number, but it means we're in manufacturing and we're shipping the Little Touch and the LeapPad plus writing. And as you know, we've already announced that the introduction of the Leapster will be early in November. Jim?

JAMES CURLEY: Ye, and Margaret, inventory last year at the end of the third quarter was 92 million. We would expect inventory to be up year-over-year in the 30 to 40% range.

MARGARET WHITFIELD: Okay. So, there's no further explanation as to why software, while it was very strong for the first half, was actually down in dollars in Q2 in the U.S. market?

JAMES CURLEY: Right.

MIKE WOOD: No, no, wait a second. I've already addressed that earlier. That's strictly timing. As I said, this is a teeter-totter where we put in the middle of the teeter totter the end of the first quarter. We shipped in not many platforms in the first quarter. We shipped in a lot more in the second quarter. We shipped in a lot more software in the first quarter and less in the second quarter. It was just a matter of timing. They evened out the way you would want them to even out. 20% increase in platform, 46% in software. But the sell-through did not teeter totter. The sell-through remains consistent, as I mentioned. And that's why our sell-through is essentially consistent with our sell-in overall.

MARGARET WHITFIELD: Thank you. That's helpful.

OPERATOR: Next we have a follow up question from David Liebowitz.

DAVID LIEBOWITZ: Briefly, the announcement of the German joint venture, was there a reason why you did not try to enter this market on your own? And also, in terms of the international arena, how many markets are you now in on your own and how many are still joint ventures?

MIKE WOOD: Let me start with the answer to Stadlbauer. Number 1, the German market is a very unique market, one that requires lots of local expertise, which we don't have. Stadlbauer, we think, is the best possible partner we could have in that market. We spent a lot of time essentially interviewing different potential partners, the one we wanted the most, the one most committed to what we were doing was Stadlbauer. So, that's the reason we used Stadlbauer. Secondly, as you know, historically we have found the most effective way to enter a new market is through a partnership. By the way, as pointed out, Stadlbauer was responsible for the very, very successful launch of Nintendo into that market. The second part of your question is which of the markets do we currently handle direct. And the answer is Canada, we've got our own office. United Kingdom, we've got our own office. France, we've got our own office. Mexico, we've got our own office. We used distributors in Latin America, Australia, Korea and the other Asian markets. And in Japan, although they're distributors, in lots of ways they're like partners, Gakken, Sega, because we not only sell products to them, but we work with them on developing and localizing content.

DAVID LIEBOWITZ: And second of all, the Little Touch product, was that on display at Toy Fair?

MIKE WOOD: Yes. David, that was the one that you said, "Wow, I love that one!" No, I'm just teasing you. Yes, it was. That was the product that, remember, it had sort of a soft cushion behind it. You put in a book. You can set the level that you want to set on at the beginning. Level 1 for kids six months to a year. Level 2 for their second year. Level 3 for their third year. The interactivity on each page of each book changes, then, associated with which level you have. And the intention behind it, remember, is to introduce kids to a love of learning. But also, as they work their way through the books, through the levels, we give them essentially a pre-K curriculum by the time they've graduated from that product into our My First LeapPad.

DAVID LIEBOWITZ: Great. Also, with all your foreign business now, are you hedging currency at all?

MIKE WOOD: Jim?

JAMES CURLEY: No, right know we're not hedging currency. We may enter into some currency hedges in the third quarter pending discussion with our audit Committee. But at this time we're not hedging.

DAVID LIEBOWITZ: And if you do go with the Audit Committee and start hedging, is there a limit as to how
much you’re willing to commit to that score?

JAMES CURLEY: Absolutely. We would only focus on transaction hedging just of our intercompany balance.

DAVID LIEBOWITZ: Okay. Thank you again.

JAMES CURLEY: You’re welcome.

OPERATOR: Next we have a follow-up question from Howard Bloch.

MIKE WOOD: Hi, Howard.

HOWARD BLOCK: Thanks again. The first question is, Jim, and if you answered this already, I apologize. You might have answered it. But did you update the guidance with regards to composition, revenue composition in the year? I think last it was 34 software, 39 hardware, 27 stand-alone.

JAMES CURLEY: You’re talking about year to date, Howard?

HOWARD BLOCK: No, in terms of the full year. In the last conference call you had mentioned it. I don’t know how firm the guidance was. But that the composition would be something like that.

JAMES CURLEY: We have not -- no, we are not giving any revised guidance on the composition of platform, software or stand-alone.

HOWARD BLOCK: Okay. And then, with regards to SchoolHouse, it continues to perform certainly better than I've modeled, and I'm guessing better than a lot of us have. Can you give us a sense, I guess of the pipeline in terms of, is this more of, I guess, an elephant hunt? Are there a lot of large contracts out there, or is the volume within the pipeline more about just an abundant number of small contracts that you're chasing? And finally, what is sort of the average contract size?

MIKE WOOD: The short answer is that the vast majority of our sales are small sales that are coming in on a recurring basis. We are fortunate in that increasingly we're grabbing district sales, as we did in Chicago. But the current plan, if you looked at our overall plan, it would be on a regular, daily, recurring order flow.

HOWARD BLOCK: Okay. And then just lastly on SchoolHouse, its contribution to the quarter exceeded the international line. And I was wondering, is that an indication of what we may see more of in the future, that this division may actually eclipse contributions from International, or was this just sort of an aberration?

MIKE WOOD: First of all, it -- I was asked a similar question this last quarter; that is, to compare where we think different divisions will land. And the question involves too many simultaneous equations; that is, how fast is the U.S. consumer growing, how fast is, in that case, SchoolHouse division, and how fast is International growing? Where are they now, and how fast will they grow going forward? Too complex to project where they are. However, I would say that in terms of overall penetration potential, we've got the smallest penetration of our markets in the SchoolHouse division followed closely by International, and obviously we've got greater penetration at the U.S. division.

CHRISTOPHER BUNN: Operator, I think we have time for one more call, one more question.

OPERATOR: Our next question is a follow-up question from Sean McGowan.

SEAN MCGOWAN: From Harry Nesbitt here. It's about capacity on the new platforms. Can you give us an idea of what your capacity for shipments are in Leapster and LeapPad Plus Writing this year and how that capacity would kind of roll out next year? Obviously you have a lot of capacity for full year, but how much would it be, let's say, in the first half of 2004? Thank you.

MIKE WOOD: Two answers. One, we are not capacity constrained on any platform except the Leapster, and obviously that's constrained because we're not launching until early November. In terms of capacity for the first
half of next year, by having capacity for the second half of this year, we certainly have capacity across all of
those platforms for the first half of next year when the sales are relatively small. Software, of course, where it
goes up is virtually limitless because it's just making paper books and doing more chips. And the only constraint
would be the lead time on the chips, which has decreased now to two weeks in lots of cases.

SEAN MCGOWAN: Thank you.

MIKE WOOD: Thanks, Sean. And thank you very much for joining us. Our next conference call covering the
September quarter will be in October. And thanks to everyone for joining us this morning. Operate, thank you.

OPERATOR: This concludes today's LeapFrog second quarter quarterly conference call. You may now
disconnect.

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CCBN StreetEvents Conference Call Transcript

LF - Q3 2003 LeapFrog Enterprises, Inc. Earnings Conference Call

Event Date/Time: Oct. 22, 2003 / 6:00AM PT
Event Duration: N/A
PRESENTATION

Operator

Good day and welcome to the LeapFrog Enterprises Third Quarter 2003 Earnings Results Conference Call. Today's call is being recorded. With us today from the company is the Director of Investor Relations, Mr. Christopher Bunn. Please go ahead.

Christopher Bunn - LeapFrog Enterprises, Inc. - Director of Investor Relations

Thank you. Good morning and welcome to LeapFrog Enterprises conference call for our third quarter 2003 which ended September 30th. I'm Christopher Bunn, the Director of Investor Relations. After the close of the market yesterday, we issued a press release detailing our third quarter results. In a minute, Mike Wood, our President and CEO, will discuss leapfrog's performance in the third quarter and our outlook. Then Jim Curley, our CFO will discuss these results in detail, and finally, we'll conduct a question-and-answer session.

Before we begin our formal remarks, I'll remind you that certain statements made today may include forward-looking statements about management's expectations, strategic objectives, anticipated financial performance and other similar matters. Forward-looking statements made during this conference call may include statements regarding anticipated growth in sales, operating margins, earnings per share, and retail shelf space, our ability to invent, develop, and produce products and their acceptance in the market, supply chain management and shipments, capital expenditures, inventory levels, receivables, advertising expense, tax rates, interest income or expense, and SG&A expense. In addition we expect that questions posed during the question and answer portion of this call may prompt answers that contain additional forward-looking statements that we have not anticipated and are not contemplated in our prepared statements. This cautionary language concerning forward-looking statements applies to both our prepared comments and our impromptu answers to questions posed on this call.

A variety of factors, many of which are beyond our control, affect the operations, performance, business strategy, and results of LeapFrog and could cause actual results to differ materially from those projected in such forward looking statements. Some of these factors are described in our 2002 annual report on Form 10-K filed with the SEC and other filings made with the SEC from time to time as well as LeapFrog's other published statements. LeapFrog does not update forward-looking statement and we expressly disclaim any obligation to do so.

Now I'd like to introduce Mike Wood.
Thank you, Chris. Thank you all for joining us and good morning. Before I delve into our miss on U.S. consumer sales projections, bear with me while I briefly outline the good news. And there's lots of it.

First, year-to-date, our net income is up 102%, on net sales growth of 23%. Second, for the third quarter, our international sales are up 86%, education and training net sales are up 36%, making for education and training year-to-date net sales up 86%. Third, and I believe this is important, our U.S. sell-through at retail, which was up above 30% at the end of the second quarter, remained above 30% for the third quarter, and therefore year-to-date. This confirms that moms, dads, and our other consumers continue to purchase LeapFrog products at a pace significantly above last year.

We believe third quarter sell-through is an important indicator of the strength of our fall line. In essence, in the fall reset, LeapFrog and all of our competitors put out our fall lines, and we get the first read on how we stack up competitively for the holiday season.

In fact, our third quarter retail sell-through by category is even more insightful. Our consumer demand for platforms, in the third quarter was up over 40%, software up over 80%, and stand-alone up over 15%.

Of course, third quarter sell-through is a small sample, and can be affected by promotions, TV advertising, product availability and late launches. Nevertheless we're very encouraged by the continued strength of our third quarter sell-through which reflects the success of both our ongoing line and also the very encouraging sales of our new line, including the launch of our new Little Touch LeapPad and LeapPad Plus writing platforms, as well as several other new product launches.

We are also very excited about the upcoming launch of our Leapster multimedia learning system and new learning videos. As a reminder the Leapster multimedia learning system allows kids to play interactive educational games, interactive educational videos, interactive educational books, and even an interactive arts studio.

In light of these factors we believe that our shortfall in U.S. sales in the third quarter was primarily timing, and that those sales not recognized in the third quarter will be recognized in the fourth quarter. As a result, we've increased our fourth quarter guidance and are reiterating our full year guidance. So I look forward to what we believe will be a very strong fourth quarter in both sell-through and sell-in.

Now I will turn the call over to Jim Curley.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Thank you, Mike, and thank you all for joining us today.

Net sales for the third quarter of 2003 were up 12% to $204 million. Net sales from our U.S. consumer segment were up 4% to $167 million. U.S. consumer sales for the quarter represented 82% of company-wide net sales versus 88% last year.

Third quarter net sales from our international segment were up 86% to 30 million and up 68% year-to-date. International net sales represented 14% of our third quarter company-wide net sales versus 9% last year. The foreign currency translation effect for the third quarter was positive, although not significant, and increased the international segment net sales by 9% and total company net sales by 1%.

Our third quarter education and training, or SchoolHouse segment net sales were up 36% compared with last year. For the year-to-date SchoolHouse net sales were up 86%.

Our consolidated gross profit margin was 51.4% in the third quarter, down 80 basis points from the third quarter of last year. The decline in gross profit margin was due to higher royalties expense and increased air freight, ocean freight, and higher warehouse expenses. These higher expenses offset favorable product costs for the quarter.

Our third quarter operating expenses were very well controlled and allowed us to mitigate to a great extent the sales shift. Total third quarter operating expenses were $52.2 million, 3% above last year. As a percent of net sales operating expenses decreased from 27.8% last year to 25.6% in this year's third quarter. The improved leverage came from a 140-basis point improvement in SG&A and a 90-basis point improvement in R&D.

We had net interest income from the third quarter of $247,000, compared with $132,000 last year. Additionally, we had $412,000 of other income for the quarter, primarily related to favorable foreign exchange gains. Net income for the third quarter of 2003 was up 25% to $33.4 million as compared with $26.7 million in the third quarter of 2002. Our year-to-date net income was up 102% to 28.5 million from $14.1 million in the same period last year. Our third quarter fully diluted net income per share was 55 cents compared with 50 cents per share in last year's third quarter. Finally, our year to debt net income per diluted share was 47 cents versus 30 cents per share in the same period last year.

Let's now turn to the balance sheet.

Cash in short-term investments at September 30, 2003 were $97.8 million, an increase of $40 million from last year's third quarter end. Accounts receivable at September 30, 2003 were $155.4 million, up $25 million from last year's position. At quarter end there were 68 days sales outstanding versus 64 DSO's last year. Net inventory at September 30, 2003 was $119.5 million up 29%.
from last year. This represents a seasonally appropriate level going into the fourth quarter. We are debt-free and year-to-date we experienced positive cash flow from operations of $15 million compared with $5 million in last year's comparable period.

Before we start our Q and A session I would like to address going forward guidance. We are raising our fourth quarter guidance as follows. Net sales, we're guiding you towards $316 million to $334 million for the fourth quarter, net income in a range of $42 to $47 million, and diluted net income per share of 69 cents to 76 cents.

A few more insights in our fourth quarter thinking: As I said previously we had good leverage in SG&A and R&D expense in the third quarter. We are forecasting continued fourth quarter leverage on SG&A and R&D expenses, but higher advertising expense. We are guiding advertising expense at 15% of net sales in the fourth quarter.

Our new fourth quarter guidance results in full year guidance of the following. Net sales in a range of $665 million to $683 million. Gross profit margin of 51% to 52% of net sales. Net income in a range of $70 million to $75 million. A fully diluted share count of 61 million shares, and a diluted net income per share range of $1.17 to $1.25.

This concludes the review of our third quarter financial performance. Now operator, let's begin the question and answer portion of the call.

**QUESTION AND ANSWER**

**Operator**

At this time I would like to inform everyone if you would like to ask a question please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q and A roster. Your first question comes from Jill Krutick.

**Jill Krutick - Salomon Smith Barney - Analyst**

Thank you very much. Good morning. From Smith Barney. Mike, I was hoping you could give us a flavor for your supply chain, your distribution process, your logistics, how would you sort of describe where you are, where you expected to be, and your order fill rates, when did the orders come in for these sort of last sales that are being translated into the fourth quarter, when did those orders come in, how were they filled, and what kind of management systems you have in place to be monitoring this very closely. Thank you.

**Mike Wood - LeapFrog Enterprises, Inc. - President**

Thank you, Jill. Well, as we mentioned last time, we work through, I believe it's seven factories in China. We have four warehouses in Los Angeles, we use manugistics. We have an extensive and experienced operating team, many of whom have been with Tom Kalinske and Paul Rioux for over 20 years.

Having said all of that, there are lots of areas of improvement within LeapFrog and operations is clearly one of them, which is why we hired Fred Forsyth as COO about two months ago and Fred spent the last two months in Asia and down in our warehouse and throughout the operations looking for ways to improve so that we can become best of breed in operations.

Having said that, your question is the orders, when did they come in and how did they translate into fourth quarter sales. Two things: We had what we felt was an extraordinary number of orders that came in, that is dollar volume in order, essentially the last ten days of the quarter. We shipped as quickly as we could, and the net result was what we announced, $203 million.

We've done some soul searching in terms of could we have done better in terms of shipping. The answer is yes, but I don't want to use that as an excuse. Suffice it to say that we're in position to take the orders that we have and the orders which we're projecting in our guidance and to ship those efficiently in the fourth quarter.

**Jill Krutick - Salomon Smith Barney - Analyst**

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**Jill Krutick - Salomon Smith Barney - Analyst**
If I could just follow up, perhaps you could share with us some changes that you've made to avoid any sort of replay of missed shipments perhaps even in the fourth quarter for the holiday season. Thank you.

Mike Wood - LeapFrog Enterprises, Inc. - President

Jill, I don't -- I think for -- perhaps we're giving a mis-impression. The orders that we missed shipped, when you have lots and lots of orders, no one can ship 100% of the orders that they get every single day, so there was some natural carry-over. We did, though, however, having left some orders on the table, scrutinize down, and we've buttressed up the team and we've actually increased the warehousing and distribution capability for the fourth quarter.

Jill Krutick - Salomon Smith Barney - Analyst

Thank you.

Operator

Your next question comes from Lauren Fine.

Lauren Fine - Merrill Lynch - Analyst

Thank you. With Merrill Lynch. I guess I want to understand this a little bit more. The orders that didn't ship in the third quarter, have they shipped in the fourth quarter, and would that -- if you look at where you missed on the revenues in the third quarter have you already kind of accounted to that already to date in the fourth quarter? Then, I guess, help us reconcile that with some of the previous rhetoric on increased shelf space, why there wouldn't have been the sell-in to that shelf space earlier in the third quarter, then I'll come back with a follow-up.

Mike Wood - LeapFrog Enterprises, Inc. - President

Okay. So the answer is that there was some -- there were some pent up orders which have now been shipped, but I don't -- you know, when we say that the -- we think it's a matter of timing, it's not only a matter of timing, that is, the orders that came in late, but we think that there was a general, in some case, deferral of orders toward the first probably what will be the first half of the fourth quarter.

The second question on shelf space, of course, we did our best to fill our 40% increase of shelf space, but the real buildup is not actually on the shelf, it's in the retailers' channels. And it's really in the retailers' channels that we saw what we believe is some deferral of orders.

Lauren Fine - Merrill Lynch - Analyst

Okay. And then, you know, looking -- I'm wondering, Jim, if you could maybe break down the revenues, as you have done in the past, on the U.S. consumer between platform software, stand alone, and give us a sense of their growth rates.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Okay. The platforms… For the U.S. consumer, I’ll give you the three categories we report on, for the quarter, we are down 5% in platforms -- minus 5%. We're up 7% in software. This is all sell-in. And we're up 20% in stand-alone products. And those totals comprise the 4% U.S. consumer total increase. On a year-to-date basis for U.S. consumer, platforms are up 2%, software is up 21%, and stand-alone products up 28%, for a total of 14% increase in U.S. consumer sell-in year-to-date.

Lauren Fine - Merrill Lynch - Analyst

Okay. Then also just one last clean-up. The increase in shipping and air costs, is that because of the last minute, trying to get orders out, and is that something that should continue into the fourth quarter?

Mike Wood - LeapFrog Enterprises, Inc. - President

Well, it wasn't something we planned for. But we always seem to incur it, so it does relate to activities in prior year. Last year we had a dock strike, this year we have other challenges. The improvements in the future, yes, I think this is definitely something we can avoid. Clearly the air freight. The ocean freight, we had planned for an ocean freight increase, it came in about double what we had expected. We would expect that to be going forward.

To give you a little more granularity, our product cost improvement, you know, was more what you would have expected from us. We had about 160-basis point better, or lower, product cost. Those were all offset, because we had an 80-point decrease, those were all offset by the extra expenses and a higher royalty expense.

Lauren Fine - Merrill Lynch - Analyst

Thank you.

Mike Wood - LeapFrog Enterprises, Inc. - President

Thank you, Lauren.
Howard Block - Banc of America Securities - Analyst

Okay. And then with regards to, I guess, again, the short-fall in revenue, are you willing, perhaps, to try to quantify how much of the short-fall was attributable to inability to ship versus this deferral, as you said earlier, into the first half of the fourth quarter?

Mike Wood - LeapFrog Enterprises, Inc. - President

So two things. First of all, Howard, part of it relates to when did we know, and that is although we knew we'd missed the revenue at the end of the quarter, we believed at the time we were still within our earnings per share range, and it wasn't until we closed the books late last week that we finalized our actual revenue and our EPS. Furthermore, we believe then and we believe now that the miss on revenue was really related to timing. So we didn't have the final numbers until late last week.

Our EPS was in the range, our demand remained strong, and we believe that the revenue was largely timing. We haven't pre-announced in the past when we significantly exceeded revenues and EPS. We thought about pre-announcing and made the decision not to, and that will be something we will do on a case-by-case basis going forward.

Howard Block - Banc of America Securities - Analyst

Okay. And then with regards to your comments about sell-through, in the second quarter, I believe what we had said was that sell-through to date at our top ten customers was up 35%.

Mike Wood - LeapFrog Enterprises, Inc. - President

Right.

Howard Block - Banc of America Securities - Analyst

Is the opening comments this morning sort of the comparable retailers, comparable level of sell-through?

Mike Wood - LeapFrog Enterprises, Inc. - President

Exactly. I said above 30%. In fact, it was 35% and continues to be at 35%.

Howard Block - Banc of America Securities - Analyst

Okay. And then with regards to the gross margin, I guess the relative disappointment on that, Jim, can you maybe attribute -- are you going to attribute all of it to the air freight, ocean freight, and I think another factor you listed, and none of it perhaps to product mix?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Stand alone being the biggest increase, it's definitely our lowest margin category, it had some effect, you know. I can give you the pieces. We had about 100 basis points related to product mix, 800 basis points related to warehousing. This is negative over the prior year. And we had another 800 basis points on higher royalty expense. The royalty expense we would expect to continue. That results from the success of our licensed titles.

Howard Block - Banc of America Securities - Analyst

Okay. Then the last question is, I was just struggling a little bit to reconcile the fact, it appears as though the inventory balances, at least I think relative to guidance, and certainly relative to our model, were not that excessive, and one would have thought that if you had anticipated a stronger shipment level as well as sell-in and you weren't able to achieve it that your own inventories would have looked a little more bloated than they were.
Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Let me go back and give you a correction on what I just said. I said 800 basis points. I meant 80. I’ll give you each of the line items. Royalties of 80 basis points of the gross margin miss, warehousing also another 80 basis points. Okay, so that corrects what I said at 800 basis points. 80 basis points on each of those.

Howard Block - Banc of America Securities - Analyst

But, anyway, Jim, just to clarify, then I’ll jump back in the queue, is there any -- I mean, your own inventory guidance I think you came pretty close to where you guided to in the second quarter conference call.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

That’s right.

Howard Block - Banc of America Securities - Analyst

Wouldn’t we have thought your own inventories would have been more bloated if you were unable to ship certain orders at the end of quarter?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Inventory availability wasn’t the issue, it was the demand arising late. As Mike said, in order to have shipped what we needed, we needed to get that demand in earlier so we could process it through our logistics system.

Howard Block - Banc of America Securities - Analyst

Okay. So you hadn’t taken product yet to sit in your own warehouses, it was sort of your own distribution challenges as well as fulfillment?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Yes, that would be right.

Howard Block - Banc of America Securities - Analyst

Okay. Thank you.

Christopher Bunn - LeapFrog Enterprises, Inc. - Director of Investor Relations

You’re welcome.

Operator

Your next question comes from Tony Gikas.

Tony Gikas - Piper Jaffrey - Analyst

Good morning. Piper Jaffray. Would you characterize any of the revenue miss in the quarter as permanent to the year? It sounds like it’s a timing issue but is there ten, twenty, thirty million that could slip out of the year? Couple other quick questions. Was pricing a challenge during the quarter? Did that account for any of the revenue miss? Do you anticipate lowering the pricing on any of the hardware systems? And did competition factor into any of the revenue miss during the quarter?

Mike Wood - LeapFrog Enterprises, Inc. - President

Tony, let me do all three. First of all, do we think any of the revenue miss was permanent to the year, the answer is no. Otherwise, we would not have maintained our full year guidance. So we think that the revenue shift is literally a shift into the fourth quarter. Just to contextualize this, our miss on revenue, on U.S. revenue, was about 11%, $27 million to our mid-range, which is about one week of shipping at that time of the year, and what we anticipate is some of that is stuff that we had that we shipped right away, as I mentioned, and some of it is going to be -- is being made up and will be made up over the next, you know, ten weeks, really, from the end of the quarter through the last shipments for this holiday period.

Your second question is was pricing a challenge and do we anticipate lowering pricing on our hardware. The answer is no on both.

The third is, do we think competition affected demand. And so first of all, of course, competition is always going to affect sales. It has always, will always, but I want to reiterate, you know, our platform sell-through, that is, at the end of the day, the retailers don’t dictate demand, the consumers dictate demand, and retailers are going to ultimately place orders to make sure that their shelves are full with the hottest moving products. So in the third quarter our platform sales sell-through was up 40%, and that was despite whatever all of the competition in platforms that was at retail. Our software sell-through in the third quarter was up 80% and that reflected all of the competition that was entered in the third quarter in the fall sets, and as I said, our stand-alone’s were up over 15%.
Part of what happened in the third quarter, or let me put it slightly differently, there are four major new platforms being launched this year in the learning category. There's the Little Touch, which is said we're having a very strong, in fact, surprisingly strong launch to us. We'll be chasing that inventory all year. The LeapPad Plus Writing, where kids took the stylus and can write with it, the Fisher Price Power Touch, and the platform I'm personally most excited about, because it's so new and novel, the Leapster, but that hasn't even launched yet.

So do I think competition had an effect? Of course I did. But net-net of the effect I've just given you, the increase on the demand in our product in the third quarter.

Tony Gikas - Piper Jaffrey - Analyst

Thanks, guys.

Mike Wood - LeapFrog Enterprises, Inc. - President

You're welcome.

Operator

Your next question comes from Sean McGowan.

Mike Wood - LeapFrog Enterprises, Inc. - President

Hi, Sean.

Sean McGowan - Gerard Klauer Mattison - Analyst

Hi, guys. I want to come back to a question about the air freight, because I'd like some more discussion on that. If you didn't get a lot of orders until late in the quarter, why would you need to air freight them? That seems like you're bearing the expense for an order that was placed late by a retailer. If you could just get that product out in time for the holiday season why would you want to incur that extra expense?

Mike Wood - LeapFrog Enterprises, Inc. - President

Two things happened. You're exactly right. We certainly weren't flying in for the last minute because the last-minute demand occurred so quickly we couldn't fly it anyway. The air freight was primarily around getting our new items in for the fall set. Also, some of the items sold so quickly, the Little Touch and some others, that in order to meet -- there were some advertising and promotions, we had to fly those in. So to a certain extent it was getting stuff there in the fall sets, which that would have been anticipated, what wasn't anticipated in Little Touch and the others, the take-off and demand was so rapid and we had some ads that hit that we had to fly in to meet those demands.

Sean McGowan - Gerard Klauer Mattison - Analyst

So you weren't scrambling at the end there.

Mike Wood - LeapFrog Enterprises, Inc. - President

Your air freight on orders that come in the last week, it doesn't -- you can't fly them in to meet them. The logistics just don't work.

Sean McGowan - Gerard Klauer Mattison - Analyst

The second question I had, can you talk a little bit about how you managed to grow sales but keep SG&A so tight? There's really no increase there but lots of leverage on the operating line. Were you planning that? Were you cutting it throughout the quarter? Just seems that's a pretty good expense management in the face of expected growth.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Yeah, we were very focused on our expenses. You can see in the first two quarters we had good SG&A and R&D leverage. We did not bring down expectation on those line items because we viewed them as our safety against the top line.

Throughout the year, back in the third quarter, or rather in the first quarter, we put additional budget revisions in place to really focus the company on being as lean and mean as we could be. We've been successful, obviously, and just a couple of comments on SG&A, how we got there. It was lower compensation expense, all in. That gave us the biggest piece. Also last year it was burdened with significant litigation expense.

You recall after going public we had six major lawsuits. We've settled every one of those. That had a significant savings year-over-year on a relative basis. So that was a big help.

Sean McGowan - Gerard Klauer Mattison - Analyst

And now you just have one lawsuit.

Mike Wood - LeapFrog Enterprises, Inc. - President

Right. And we get to control the pace of the spending.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer
That's self-initiated by us. The other benefit really against last year's numbers, last year we had an 800,000 write-off of the K-Mart exposure in the SG&A line. We didn't have such a experience this year, so that was favorable. Then in R&D, R&D we've made -- was really planned all along, but we're cautious about it, it was lower content development expense, primarily in the SchoolHouse division, which was part of their plan to get, you know, close to operating profit this year. They had front-loaded their content development, so this year it had come down significantly.

Sean McGowan - Gerard Klauer Mattison - Analyst

Could you then comment on which of the items you see there might have been there in the fourth quarter of last year that might not recur? I know there are always things that come along and surprise you both ways, but did you write down additional K-Mart stuff in the fourth quarter? Was there litigation stuff in the fourth quarter that's not going to be there?

Mike Wood - LeapFrog Enterprises, Inc. - President

There was continued litigation, so, you know, to ratify the savings that we've had in the third quarter, really to identify that they're not one-time isolated to just third quarter, is, you know, our guidance really has SG&A and R&D, having strong leverage in the fourth quarter.

Some specifics, you know, last year we air-freighted to the tune of $3 million in the fourth quarter, related to the dock strike. Obviously, we don't anticipate that recurring. On the expense saving side, litigation would continue to be a save for us. In the overall expense savings that we put in, we expect to get continued leverage that in the fourth quarter.

Sean McGowan - Gerard Klauer Mattison - Analyst

Thank you.

Operator

Your next question comes from Jeetil Patel.

Jeetil Patel - Deutsche Banc - Analyst

Hi, guys. Couple of questions. Can you characterize the impact of the shift-out, any particular product or areas that were particularly hit hard, the platform, software, or stand-alone side? Secondly, if you look at just kind of the guidance going into the third quarter, call it around $235 million or so, yeah, that would imply that you would have done, on the current expense base, about 80 cents in earnings, which on a flow-through on incremental revenue a year ago would be about 40% margin. Do you think that this is the level of kind of flow-through on margins that we should expect going forward considering that it's historically been running around 30% to 32%? I just want to get your take on that. Then the advertising expense going forward, for Q4, which is increasing, is that mainly to support some of the newer platforms that you're launching, specifically Leapster?

Mike Wood - LeapFrog Enterprises, Inc. - President

So let me answer the first and the third part of your question. This is Mike. Then I'll turn it over to Jim on your question about guidance and earnings. First of all, the impact of the shift, as I mentioned, based upon our increase in sell-through in the third quarter on platforms and software, we think that a lot of the deferred purchases will be in our hardware and software. The sell-in versus the sell-through on the stand-alone's was much more highly correlated. The ad expense, we will certainly have ads on our new items, but we're heavily weighted on the ads towards all of our platforms. So it's My First LeapPad, it's LeapPad, LeapPad Plus Writing, Quantum Pad, the Turbo's, and it's the I-Quest, and, of course, a lot of advertising on Leapster. There are also a few new stand-alone items that we're launching through TV, so that's -- pardon me? And also, I'm reminded, we've got a very strong content campaign across all of those platforms also.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Jeetil, can you repeat your question on guidance?

Jeetil Patel - Deutsche Banc - Analyst

If you look at the second quarter call and what you talked about for the third quarter, based on what you would have done if you had not seen the revenue slip from Q3 to Q4 you would have done, call it, about $235 million revenue, roughly, and maybe about 80 cents on the current expense base, about a 50% gross margin. That kind of computes to about a 40% flow-through on incremental revenue, so basically take a net which I think if you had done $235 million versus a year ago and the incremental profitability on that incremental revenue. So kind of got to a 40% number, and historically you've been running around 30%. Is this a change that we should expect going forward, even for Q4, that we should see about 40% margins on the incremental revenues year to year that you're picking up in the business?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Well, our guidance is pretty specific for the fourth quarter, Jeetil. I would stay with that guidance. You can calculate the percentage increase. You're right, we didn't miss on two pieces. We had much...
stronger expense control over what was out there as published guidance that offset the sales miss to some extent. Had we made the sales number we would have had a huge over-performance.

Jeetil Patel - Deutsche Banc - Analyst

Yeah. Jim, isn't the primary difference in that we were under budget on advertising in the third quarter, and as you mentioned in your opening comments, our advertising in the fourth quarter will be about 15%?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Right.

Jeetil Patel - Deutsche Banc - Analyst

And that's why you don't anticipate a 40% carry-forward into the fourth quarter?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Well, we have lower margins, you know, and plus we are getting better operating expense leverage than what we had published previously and we carried that forward into the guidance.

Jeetil Patel - Deutsche Banc - Analyst

Great. Thank you.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

You're welcome.

Operator

Your next question comes from Natalie Walrond.

Natalie Walrond - Pacific Growth Securities - Analyst

Couple of questions. Start with SchoolHouse. I know in the press release you comment that you were comfortable with the SchoolHouse performance but on a sequential basis it was very negative. Do you want to reset expectations on SchoolHouse in terms of, you know, can you talk about what's going on with revenue there?

Mike Wood - LeapFrog Enterprises, Inc. - President

Yes. Do you want to -- do you want to list all of your questions or do you want me to do them serially?

Natalie Walrond - Pacific Growth Securities - Analyst

We can do them serially.

Mike Wood - LeapFrog Enterprises, Inc. - President

Let me start with that. Our year-to-date trend in -- our year-to-date net sales in SchoolHouse were up 86%, you're right, to 36% in the third quarter is significantly below that. We don't think that reflects a trend. I've spent a lot of time with Bob Lally and the sales team and reviewing their pipeline and we're all confident that the pipeline will reflect a return to a significantly better rate of sales than reflected in the third quarter.

Natalie Walrond - Pacific Growth Securities - Analyst

I'm sorry, can you just say a little bit more about that? Because all of the K through 12 companies we're talking about, all of the channel checks, indicate that the selling environment is just getting tougher and tougher. Can you just say a little bit more about what gives you confidence that their pipeline is going to hold up?

Mike Wood - LeapFrog Enterprises, Inc. - President

Yes, it is in part that our products are in one of the few remaining areas in which both federal and state funding has not been significantly decreased, and that's the early -- primarily the early literacy program and the assessment and accountability, so that we're fortunate in that our two strengths and the majority of our product line are in those areas in which there continues to be access to funding. One of the things that did happen this quarter, and you may have heard this, in this particular category, that the funding itself, although it's available, it's taking longer to trickle down to the actual purchasers, but the funding itself continues to be available in the areas in which we've got a product line.

Natalie Walrond - Pacific Growth Securities - Analyst

Then the next question, I guess would be on insider selling. Can you just clarify for us how much of the recent selling was part of a 10-B-5 program where it was sort of determined in advance and how much wasn't?

Mike Wood - LeapFrog Enterprises, Inc. - President
So I can't speak for anyone else's sales. I can say that at least my sales, this is Mike Wood, all year have been entirely 10-B-5-1.

Natalie Walrond - Pacific Growth Securities - Analyst

Not to beat a dead horse, but I'm really struggling to understand how this order shift thing works. It seems to me, I would guess at the beginning of the year when you look at your guidance and expectations for revenue, it's going to be driven primarily by what you're expecting the end-user to do, what you're expecting the consumer to do. And if you expected the consumer to provide a certain level of sales for the fourth quarter, then the fact that orders shifted from third quarter into fourth quarter, for you to add that over and above what we were originally estimating must mean that you're expecting stronger than originally expected demand. Is that right?

Mike Wood - LeapFrog Enterprises, Inc. - President

No, no. Let me give you an explanation, then let me get to the exact specific question you've asked.

First of all, so why did we miss guidance? Obviously, first of all, we did hit the low end of the EPS range, but as I mentioned we missed the U.S. consumer guidance by approximately $26 million. And as I also mentioned, it's approximately one week of shifting. So that is to say, if there was a deferral of buildup of inventory at the retailers' level of one week, that would account for our miss.

The way we do guidance is we project as best we can projected demand. That is, what do we think consumers are going to buy what, will our sell-through be by quarter, then we try and match that sell-through to the historical shipping patterns related to demand. It turns out we've been accurate in terms of what I think is the critical issue. That is, what is our relative consumer demand year-over-year, what is the sell-through, and it turns out it's above 30%. So we hit it on that.

So then the question is, if we were right on our demand, which ultimately is going to dictate this, why were we off by essentially a week in shipping. And we've done a lot of soul searching on this. An increment of it may be having orders and not shipping, but I'm more inclined to think that the primary factor is two things: One, maybe a slight misjudgment on us in terms of looking at our historical performance, particularly last year. In hindsight what, we realized is that we -- there was plenty of retailer demand at the end of the third quarter because everyone wanted products in their warehouses in anticipation of the West Coast Dock Strike. And it's conceivable that that shift in demand may have accounted for two or three days worth of the shift. The second thing that we believe is happening is that the retailers made a conscious decision, if they could defer their inventory buildup by, you know, a half week or a week and not miss any sales, they'd push the risk back down to us.

So I think it was that double whammy, one, our guidance maybe was slightly high because we were factoring in the effect of the West Coast Dock Strike, and not in ultimate demand, that is, on timing of demand, and partly because I think there's a conscious effort this year by some of the major retailers to defer their inventory buildup. So that's what I think happened.

That's why I feel good in the guidance on the full year that our demand is strong and remains strong, that the retailers are ultimately going to order consistent with demand, and that what happened was we essentially -- our shipping and to a certain extent their orders, were deferred by approximately a week, net a week.

Now, we don't need to show increased demand fourth quarter over third quarter, and, in fact, if you look at the numbers, the sell-through rate actually goes down, and that would be consistent with the projections that we've given. So the demand in the third quarter, and if it continued at this level in the fourth quarter, is more than enough to increase -- to increase the shipments and to allow us to give the projections that remain consistent on a full-year basis.

Natalie Walrond - Pacific Growth Securities - Analyst

Okay. That's very helpful. Thank you.

Mike Wood - LeapFrog Enterprises, Inc. - President

You're welcome.

Operator

Your next question comes from Margaret Whitfield.

Margaret Whitfield - Brean Murray - Analyst

Good morning. I wanted to tell you what I saw during the quarter, which was a lot of LeapPad inventory, then when it was marked down to $39 it appeared to move. I was wondering, to what extent did the retailers want to have the inventory work down before the LeapPad Plus came in because most likely it might cannibalize the LeapPad itself. If you could first comment on that.

Mike Wood - LeapFrog Enterprises, Inc. - President

First of all, one thing that's sort of interesting, as you probably have observed, in each, I think, the last three years, the retailers have virtually all marked down the LeapPad to -- I shouldn't say marked down, that's the wrong term, but they created an every day retail price of $39.95, and that happened three years ago when the
LeapPad was the hottest item in the industry. It just happens whenever you have a hot item everyone uses that as a price driver to drive traffic. It turns out, sure, counter-intuitively, this year at least one of the major retailers waited much longer than last year to mark the price down to $39.95, so it actually, in some ways, we thought, deferred demand in sell-through, vis-a-vis last year, but I certainly can't complain since the sell-through was up 40%.

So I don't think that they marked -- I don't think that they marked it down when they did to make room for the LeapPad Plus Writing. In fact, they marked it down net later than they did last year.

So I think what -- I think what the retailers are anticipating, certainly has been what we've seen, is that each of these niches, in terms of our platforms, are working. As I said, the Little Touch is actually exceeding our expectations. My First LeapPad is up. LeapPad looks like it has a very strong niche in the LeapPad and LeapPad Pink, at that price point, and the LeapPad Plus are at or above our expectations.

So it appears to me we're all managing our inventory appropriately, although it does -- this deferral by a week does shift slightly the risk to us in terms of, you know, the timing of us making our shipments to the retailers. But I think that may just be a fact of life going forward.

Two other questions for Jim. Where do you think you'll end the year with inventories? Could you give us some commentary on the outlook for fourth quarter gross margins, and did the international segment, the sales growth there, in some ways take away from Q4 or is it exactly where you thought it would be?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

Okay. Inventories, we'd guide you in a range of $85 to $100 million. 85 million would put us flat with last year. Then gross margin guidance would be in a range of 51 to 52% in the full year. And about 50 to 52% in the fourth quarter. Between the high and low range.

Margaret Whitfield - Brean Murray - Analyst

And the international sales growth, which was up sharply?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

We don't break out guidance for the individual segments, but it's been healthy all year. I think that's a good indicator. We'd prefer not to go into individual segment sales.

Margaret Whitfield - Brean Murray - Analyst

Anything unusual in the timing for the third quarter that you reported today, any timing issues there? Did you ship earlier than expected, or was it about where you thought it would be?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

I think we're better safe. Number one, we did not see the same deferral on inventory buildup. I guess that should be obvious with the increase in sales. And we think that the increase in sell-in is consistent with what we're seeing in terms of increased sell-through.

Margaret Whitfield - Brean Murray - Analyst

Thank you.

Operator

Your next question comes from Jennifer Childe.
Hi, Jennifer.

Hi, good morning. I have three questions. Number one, I was a little confused about your answer to Howard's question about inventory. If you have merchandise that didn't ship, wouldn't it be reflected in higher inventory levels? I'll just run through the questions. Number two, did mark-downs or promotions affect the top line at all? Number three, is there a chance that you'll have to air-freight the Leapster?

Let me answer those in reverse order. One, there's not a chance, there's a certainty that we will be air-freighting Leapster, and we will be -- we've been anticipating that from the beginning.

Secondly, did mark-downs or promotions affect the top line. The answer is no. There was very little mark-down -- there's two forms of mark-downs. Very little mark-down in terms of discontinued items, and that mark-down was a very small increment of the -- of our third quarter sales. The rate of sales is affected by the timing of the retailers' decisions to lower their prices on particularly hot items. And I suppose you could say that there was some effect because one of the major retailers maintained LeapPad price at $49.95 significantly longer than they did last year, but I wouldn't blame our shipment on that.

Again, the problem with our shipments wasn't for lack of sell-through at retail. And I've already gone through, and you're probably getting tired of hearing, at least why I believe the deferrals and -- that there was a shift in timing.

Your last question was inventory, and your answer is right. Those items which we had, which we did not ship, remained in our inventory, and, in fact, if we had shipped them, and, again, we could not -- just want to make it clear. I don't want this to be an excuse. We could not have shipped 100% of all orders that we received up to the last day. But if we had been more efficient in our shipping, that clearly would have lowered our inventory and our inventory would have at the end of the quarter been lower than we had projected.

But yet it was only up 29% year-over-year, where as last year it was up 62%.

Right. And if you will recall, at the first and second quarter calls, the primary focus to us was why is your inventory so high, so we have, and one could say arguably, over-reacted in terms of inventory management. So our inventory is low, in part because we made a concerted effort to try and align inventory as closely as possible, and as I said, I think that people would -- there would be a lot of praise if we actually shipped that full amount and our inventories were even lower than we had projected.

Okay. Thank you.

Yeah.

Your next question comes from Steve Mortimer.

Hi, guys. Couple of questions. Sorry, I jumped on a little late, if you did address them. I was wondering if you could clarify whether that sell-through number you stated was for U.S. consumer or for global.

The numbers we gave were for U.S. consumer.

Then, if that sell-in had matched the sell-through for U.S. consumer, would sales have been up in that division, instead of 4%, at least the 40%, matching platforms, or potentially somewhere between the 40 and the 80?

Well, yes, if they had -- matched identically -- if sell-in had matched identically sell-through, they would have been up, although the net number wouldn't be up 40 to 80, but on those numbers, just by definition, if the platform sell-through was up 40%, if sell-in was up the same percentage, they would have gone up.

As a practical matter, I just want to calibrate this, when we give third quarter sell-through, it is indicative of the strength of those
products, and we can certainly use it as an indicator on where we think we'll go in the fourth quarter. But the dollar amount of the sell-through in the third quarter is relatively low, and certainly it's relatively low to the sell-in. The sell-in is not primarily dictated by getting product in the third quarter to sell-in the third quarter. It's getting product in the channel to be available in the fourth quarter when those trends accelerate into the heavy buying season.

So the literal answer is, if sell-in had matched sell-through they would have been up a lot higher, but generally in the third quarter you don't get a perfect correlation because, as I said, it's not -- the purpose is not to literally -- the retailers are not literally buying one to replace the one that sold through. They're buying a lot more than is selling through because they're looking at the trends and trying to build inventory in anticipation of as those trends go forward.

Steve Mortimer - Analyst

That makes sense. Lastly, did I hear you correctly that, given your guidance for Q4 you are actually assuming in that guidance a decline in the year to year sell-through at retail, so if trends did continue that guidance would prove quite conservative?

Mike Wood - LeapFrog Enterprises, Inc. - President

Yeah, I do not want to be in a position where we are considered to be giving conservative guidance. I personally think that the fourth quarter is going to be very competitive across the industry and within our subsegment. So, yes, what I said was, if you just sort of do the math, I'm anticipating that the -- obviously, that our net increase in sales for the U.S., I think it's net for the year is about 22%, and to the extent that it correlates in the long run with sell-through, that's a decrease in sell-through. And, again, I think that it's prudent for us to plan that way, prudent for us to guide that way, and prudent for us all to take seriously this guidance in light of what I mentioned -- That is, I think that it will be a very competitive fourth quarter.

Steve Mortimer - Analyst

And Power Touch is the main reason?

Mike Wood - LeapFrog Enterprises, Inc. - President

No, just to calibrate something. Power Touch is one item for one purchaser of one of our platforms. We've got substantial infant/toddler items, substantial preschool items, substantial ELA items, platforms for kids under 3, Quantum Pads for kids in the third, fourth, fifth grade, Turbo Twist for kids in the first, second, third, fourth, fifth grades, I-quest in the fifth, sixth, seventh and eighth grade, so certainly Power Touch is one of our competitors but there is competition for parents and relatives' dollars for every one of their kids in every category.

Steve Mortimer - Analyst

Then lastly, I guess, if sales had met your original high end of the expectations would SG&A have been also correspondingly higher or would it also have been flat still year to year?

Mike Wood - LeapFrog Enterprises, Inc. - President

There are variable expenses, it would have gone up, but our leverage would have been even greater with higher sales.

Steve Mortimer - Analyst

Thanks, guys.

Mike Wood - LeapFrog Enterprises, Inc. - President

Thank you. Is it one more question, Chris?

Christopher Bunn - LeapFrog Enterprises, Inc. - Director of Investor Relations

Yes. Operator, we'd like to take one more question, please.

Operator

You do have a follow-up question from Lauren Fine.

Mike Wood - LeapFrog Enterprises, Inc. - President

Hi, Lauren.

Lauren Fine - Merrill Lynch - Analyst

Hi there. Thanks. I'm wondering if you could give us a sense of what the gross margins were on the product lines and whether you think SchoolHouse will be profitable for the year, then finally in terms of the deferred orders was there any particular retailer that sort of postponed or deferred more so than others, like a Wal-Mart or anybody like that?

Mike Wood - LeapFrog Enterprises, Inc. - President

So you asked three questions. The first deferred, yes, but we would -- we will not disclose the buying strategies of our retailers. It just wouldn't be appropriate. And what were the first two questions, Lauren? The gross margin?
Lauren Fine - Merrill Lynch - Analyst

Looking for the gross margin by product line and SchoolHouse profitability.

Mike Wood - LeapFrog Enterprises, Inc. - President

Okay. So we still believe that SchoolHouse will reach the break-even point this year and, Jim, I'll let you address the gross margin issue.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

The only thing we've given on gross margin by product line, if you're talking platform software and stand alone, you know, had been broad range, we haven't broken out any clearer than that. I can reiterate those from the past. You know, our platforms, in a 40 to 50% gross profit margin, the most mature platforms being at the high end of that range, obviously the LeapPad. Software, 60 to 70% gross profit margins. And stand-alone, 35 to 45%.

Lauren Fine - Merrill Lynch - Analyst

And I guess actually what I was really also hoping for was more of a U.S. consumer/international on SchoolHouse, tied into that question on break even. Any sort of gross margins differences across there?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

SchoolHouse is the strongest gross profit margins. We do break that out. I can give you that. The SchoolHouse gross profit margin for the full year-to-date, 59.2%, you know, versus 53.7% last year. That's in line with what we said. We target them since they're a consumer-direct business, at about 60%.

Lauren Fine - Merrill Lynch - Analyst

And U.S. consumer, then?

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

U.S. consumer on a year-to-date basis, is at 51.2%. That compares with 51.5% last year.

Lauren Fine - Merrill Lynch - Analyst

Then I think international is the missing piece.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

International, very strong at 52.8% year-to-date versus 41.5 percent last year.

Lauren Fine - Merrill Lynch - Analyst

Great. Thank you.

Jim Curley - LeapFrog Enterprises, Inc. - Chief Financial Officer

You're welcome.

Mike Wood - LeapFrog Enterprises, Inc. - President

Thank you everyone. Our next conference call covering the December quarter will be in February. I actually look forward to that conference call and thank you for joining us today.

Operator

Thank you for participating in today's conference call. You may now disconnect.