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PRESENTATION

Operator

Good afternoon. I will be your conference operator today. At this time, I would like to welcome everyone to the LeapFrog third quarter 2009 conference call. (Operator Instructions). Thank you, Ms. Karen Sansot in Investor Relations, you may begin your conference.

Karen Sansot - *LeapFrog Enterprises, Inc. - IR*

Thank you. Good afternoon, and welcome to LeapFrog Enterprises conference call to review the results of our third quarter ended September 30, 2009. I'm Karen Sansot, Director of Investor Relations for LeapFrog. Today on the call we have Jeff Katz, our Chairman and CEO, and Bill Chiasson, our CFO. Before we begin, we wish to remind you that certain statements made today will include forward-looking statements about management's expectations, including expectations regarding the timing, scope and success of product launches, expected benefits of new product and services and anticipated 2009 financial results. In addition, we expect the questions posed in the Q&A portion of this call to prompt answers that contain additional forward-looking statements not included in our prepared remarks. This reminder concerns forward-looking statements in both our prepared remarks and answers to questions.

A variety of factors, many of which are beyond our control, affect our results, performance and business strategy and can cause actual results to differ materially from what is discussed in today in any forward-looking statements. Some of these factors are described in our most recent Forms 10-K and 10-Q filed with the SEC, as well as in LeapFrog's other public statements and filings. LeapFrog makes these statements as of today and disclaims any duty to update them. On this call today, we will also discuss point of sale data. Please refer to the press release we issued today for an explanation of point of sale data. I would now like to turn the call over to Jeff Katz.

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Thanks, Karen. Good afternoon, everybody, and thank you for joining us on the call. Most of you on the call and those who follow the Company know that we started the year with an unusual level of inventory in the high channel, and that over the past nine months, we have worked to dramatically bring down retail inventory levels. High channel inventory directly impacted our net sales, which are down 40% year to date compared to the prior year. I am happy to say that these retail inventory issues are finally behind us. As we mentioned in our press release, inventory is over 30% lower than a year ago and nearly 10% lower than two years ago. Where we started the year with unusually high retail inventory, today inventory is (inaudible) lean. And while we are mindful and carefully monitoring for out of stock potential as a result of the actions we have taken, our current inventory will provide for true earnings momentum as seasonal demand drives sharply upward from here.

Simply put, we'll see sales and we'll see earnings growth in the fourth quarter. The economic collapse that started last year significantly impacted our business, especially given the higher retail price points for most of our product offering lines; and while conditions are certainly better today than they were a year ago, we expect the consumer economy to remain under pressure and to show some volatility for quite sometime, certainly into 2010. And as part of that, we expect that price, value and strong differentiation will continue to be more of a factor than they might have been before the great recession, as it's called. We at LeapFrog, like so many have adjusted to the "new normal." Our costs are substantially lower. Our price range of products is much broader than it's ever been. The speed with which we can adjust marketing resources is, in my view, remarketable, and our forecasting and measurement tools, which reach from daily retail performance and up into our supply chain are vastly improved from a year ago. Our cash balance improvement of 6 million during the so called great recession, despite hugely declining sales from a year ago is one solid metric that these changes are meaningful.

Let me make a few comments regarding our product and our point of sale -- our POS performance. Year-to-date, we've had pretty solid POS performance relative to the industry, especially with the Leapster business and the reading business, which have been very strong. This has been offset by sagging POS from our stand-alone learning toy line. But now that we've introduced our fall line, learning toys -- in particular our new Scout line -- has begun to reverse the learning toy trend. And during the holiday, we expect to see POS grow from all of our lines -- toys, reading and gaming. We are mindful that September and October we're not going to comp the heavy media investment we laid out last year as part of a broad range of launches. But in November and December, we will have a lot of product that is new, particularly on the content side, in reading and in toys, and we'll have a lot of marketing resources at work -- later than last year, but probably more effective and more intense around our core lines.

Today, our product portfolio is solidly more on strategy than it was a few years ago. As we have always have, we work hard to create products with real learning at their core, and that deliver value through a fun, interactive play experience. The portfolio starts with early development learning toys and then graduates into interactive reading platforms and educational gaming platforms, which have software content that enrich the learning and the entertainment experience. Our products there then are brought together with our Learning Path connected strategy, which provides personalized learning feedback to consumers and increases consumer engagement through awards, game trailers, demos and new content downloads. The Learning Path also allows us to directly market to consumers in a personalized manner, including data mining based next purchase recommendations or incentives. We are starting to see early benefits from our Learning Path strategy.

For example, POS on leapfrog.com is up about 8% year-to-date, outpacing our overall POS growth. And more broadly, we are now seeing tie ratios of software content sales to hardware platform sales that are higher for sale through leapfrog.com compared to sales through other channels, which we think is an early indicator trend we will see more broadly over time at retail. And Learning Path is very clearly delivering big results for Tag software sales, bigger than we saw from the break out product LeapPad at this stage of its cycle. We expect The Learning Path to produce long-term gross margin benefits. Today, we have over 1 million connected customers and we expect to have 3 million connected customers after the holidays, 2009. We are building direct one-to-one relationships with these customers, and we have the ability to increase engagement with and directly to these customers, and we believe this will, as our strategy is more fully implemented, generate significant financial benefits.

So net, the past nine months have been rough, but cash flow continues to improve. Our products have been selling well at retail. We have a substantially lower cost structure, and our Learning Path connected and product graduation strategy continues to generate encouraging traction that we expect to contribute to improving results in the future. And now I'd like to turn it over to Bill Chiasson, our Chief Financial Officer, who will talk about the results for the third quarter.

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

Thanks, Jeff, and good afternoon, everyone. Results for the third quarter came in as we expected. First, as a result of reducing the high retail inventory levels and the difficulty comparison of last year's product launches, net sales for the quarter were down 43% compared to the third quarter of last year. And despite the large decline in shipments, gross margin was down only 1.1 percentage points. And this was mostly the result of significantly lower sales over a fixed cost base. Offsetting the margin impact to lower sales was the favorable margin contribution from our reading business, which is our fastest growing business line.

Operating expenses were down 31% in the quarter, and over the past year we've improved our Company's operations and made significant long-term cost reductions. Net cash flow improved $21 million in the quarter compared to year ago's cash flows, in part due to improved systems and processes that enabled us to more accurately measure POS and adjust inventory purchases appropriately. At the end of the quarter, as Jeff mentioned, our cash balance was $30 million, an improvement of $6 million compared to a year ago, and we had no borrowings on our asset backed credit line. Looking forward, we are poised to benefit from the good POS growth, the lean retail inventory levels, improved product mix, the lower operating cost structure, and improved cash flow management systems. And in the near-term, we expect our fourth quarter to reflect significant sales and gross margin improvement, as well as significantly lower operating expenses.

I'll discuss the outlook later in the discussion. But first, I'd like to provide a brief discussion of third quarter results. Net sales for the quarter were $111.9 million, or down 43% over last year. Net sales in our US segment were $90 million, also down 43%, and international net sales were $22 million, down 42%, with foreign currency exchange rates accounting for 4 percentage points of the international segment's decline. POS was up 2% in the US through nine months ended October 3rd, which compares favorably to the toy industry trends. This is encouraging, especially given the current economic conditions and the price-focused consumer. While POS has softened since our last call, it wasn't entirely unexpected given the difficult comparisons to big product launches last year and shifts in marketing spend. This year, much more of our marketing efforts are during the holidays as compared to last year when our marketing was aligned to the product launches.

By business line, our net sales for the in the US for the quarter were that reading was down 28%, educational gaming was down 64%, stand-alone learning toys was down 3% and sales to our leapfrog.com were up 19%. Again, our net sales by business line were impacted by the high retail inventory balances and the difficult comparisons to prior year product launched. And particularly, we had the most difficult year-over-year comparison due to the summer -- excuse me, gaming in particular had the most difficult year-over-year comparison due to the summer 2008 launches of Leapster 2 and Didj. The point of sales results reflect what is really happening in retail and tells a different story than the shipment results.

Specifically, retail point of sales dollars in the US were as follows. In reading, point of sale was up 52% year-to-date through October 3rd, with strong sales at retail of Tag, Tag Junior and software content. The retail sales of Tag and Tag Junior software are outpacing the sales growth and tie ratios seen on our hit LeapPad and Little Leaps products when they were first introduced. POS in our educational gaming segment was flat. POS for Leapster softened during the quarter due to lower promotions this year and significantly less marketing. For the holidays, we have an aggressive marketing campaign and promotional strategy for Leapster 2. POS in the stand-alone learning toys was down 11% for the first nine months, primarily due to the transition away from legacy toys. POS of our new Scout line, which includes My Pal Scout, my Pal Violet, Text and Learn, Scribble and Write, Alphabet Explorer has been very strong. And as a result, POS for learning toys in the third quarter alone was up 1%.

The Scout toy line is becoming a new franchise for us, and in recent weeks, it's been about one third of our learning toys POS. By platform, our net sales mix in the US was as follows for the quarter. Hardware sales were 33% of US net sales, down from 48%

a year ago. Software sales were 29%, which was up 27% from 27% a year ago. Stand-alone toy sales were 35%, up from 22% a year ago, and leapfrog.com sale were 2%, up from 1%, and sales in our school business were 1%, down from about 2% a year ago. Gross margin was 42.7% compared to 43.8% a year ago as a result of lower sales relative to the fixed cost base and some promotional activity. This was partially offset by the favorable higher margin product mix due to reading product sales.

Operating expenses for the quarter were $39 million, down 31% from a year ago. And as we've discussed in the past, we have significantly reduced our cost structure by improving operational processes, outsourcing development when appropriate, and focusing on fewer but more strategic products. The number of full-time employees was 557, down 21% from a year ago, and we are on track to achieve the 30% reduction in operating expenses for the full year. Operating income for the quarter was $9 million, and net income was $7 million or $0.11 a share, compared to 24 million or $0.38 a share a year ago. On to the balance sheet, we have a very strong balance sheet. We ended the quarter with $30 million in cash, which was an improvement of $6 million compared to the end of the third quarter last year. Our cash flow for the quarter improved 21 million compared to the prior year, and we have no borrowings on our ABL. Inventories were $72 million, down 25% compared to $96 million a year ago.

Moving on to our outlook for the fourth quarter, in today's press release we provided guidance for the fourth quarter. As Jeff will discuss shortly, we have aggressive marketing plans for most of November and December, and retail inventories at its lowest level in several years leading into the holiday season. As a result, we expect net sales to be between 155 and $170 million in the fourth quarter compared to $138 million a year ago. We expect gross margin expansion in the fourth quarter compared to a year ago, driven by higher sales volume and sales of higher margin products. We expect operating expenses to be down about 40% compared to a year ago due to our cost reductions, and overall as a result of the sales improvement, higher gross margins, and overall lower operating expenses to the fourth quarter last year, we expect an operating profit in the fourth quarter.

For the year, we are targeting break-even net cash flow as of the year end, or in January, depending on the timing of shipment and therefore the collection of the receivables. And now, I'd like to turn the call back over to Jeff.

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Thank you Bill. As we look to the fourth quarter, we expect a conditioned price conscious and fickle consumer environment, but we do expect it to be better than it was last year. While unemployment is high, the consumer does seem a little more confident than a year ago when there was so much uncertainty. We are proceeding with caution and have aligned our product shipments, promotional plans, marketing strategies and certainly cost structure accordingly. But we do have aggressive marketing plans in place for most of November and December.

We are focusing our media spend on the last couple of months in particular of this year later and more targeted than last year, to align with a consumer shopping projections that we have and most that we discussed, the marketplace with in terms of retail projections are alluding to. Our advertising program will span television this year, print and online partner programs. We expect also this year to make a huge online dent in the marketplace. There will be over 700 million online impressions this holiday season from LeapFrog, and many of those impressions will be direct and personalized based on information we have from The Learning Path. We also have some innovative partnership marketing programs that we are launching this year with great companies such as Wendy's and Frito Lay, but also Juicy Juice and Stonyville Farms, which will reach children and parents of children in our target demographic.

We expect shipments to retailers to be higher in the fourth quarter compared to the prior year, yet we think these shipments may be somewhat conservative, and we wouldn't be surprised if there are some out of stocks on some of the more popular items. This is a year where from our perch it feels like there may be some bias towards err on shipping a bit too little product instead of erring on the side of too much, which we completely understand. Looking a bit further out, we are feeling more optimistic about 2010 and 2011. Our balance sheet is unencumbered by debt. Our brand is working very well. Projections suggest that the stimulus programs, particularly in the United States, will generate a bit of economic tailwind in terms of GDP growth and a reduction in unemployment, particularly by the time we get to 2011.

So as this occurs, we are going to continue to position LeapFrog for profitability and cash flow growth under pretty conservative assumptions. We'll improve our product portfolio with new content, additional features and platform features, next generation platforms and also pretty big effort in the direction of new innovative learning toys. Our marketing operations and product development efforts will be particularly attuned to driving improved content sales, which should drive gross margin expansion. We'll be looking to offer a more robust Learning Path experience that increases consumer engagement with our products and with learning feedback. We will be using The Learning Path to drive our product graduation strategy, moving our connected consumer from one product to the next and then the next as children age up through our full product line, and to facilitate increased content sales.

Finally, we'll be doing more to improve our operations by continuing to build our culture around metrics and to take unnecessary costs out of business. We think there's still more there that we can do. And so with that overview, I would like to open up the call to questions you may have, and I will ask the operator who on the call would like to begin.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Drew Crum with Stifel Nicolaus.

Drew Crum - *Stifel Nicolaus - Analyst*

Great, good afternoon, everyone. Two part question for you on the costs. Your advertising spend is running down nearly 50% year-to-date, and based on your fourth quarter guidance, you're forecasting at least 12% revenue growth. I wonder if you could help us out, any quantification around advertising spend in the fourth quarter given that you're projecting a 40% decline in operating expenses. And I guess along those lines, the operating expenses came in slightly lower than your guidance for the third quarter, and you are now projecting, as I mentioned, a 40% decline in the fourth quarter. I think you were originally looking at a 35% decline, so I just want to know what the change is there.

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

Yes. Drew, this is Bill Chiasson. Let me address a few of those. First is on the ad spend. You are right, in the first nine months we have taken down our advertising spend quite a bit for a few reasons. One of them is we put a lot more focus on retail promotion to make sure that price points were where they needed to be at retail and we were getting the right reflection at retail required to move the product. As we've talked about all year, we see that in this year with the consumer being very price conscious, that's a very important priority for us. So a lot more of our investment and our (inaudible) will continue to be there, and has gone into the retail trade promotions which of course does not show up on the advertising line. We do see a step up in our commitment to communications to the consumer advertising in the fourth quarter, and we see that the number of times we'll actually be talking to those consumers will go up for our key products, especially for Leapster and Tag.

The cost is significantly less this year than last year, as you probably are aware as well. So the cost to get to those TRPs is nowhere near where the same cost was a year ago before the "great recession." So I think those are two key things to remember, is one is our strategy is a bit different this year than going into last, and the other is we are able to reach a lot of people. Also a third factor there is last year was a heavy launch year for us, and so we were communicating new products, especially at the end of the second quarter going well into the third quarter -- and this year, we're of course focusing on the holiday season. The second question was related to the overhead -- the operating expenses and what is happening there. You are right. We did come in at about $1 million under our range this quarter. We came in at about $1 million over our range the quarter before.

So if you give us forgiveness of those two, we'll take the two together and say we are within our range for both of those. And as we have final visibility to the year, we see that -- we see where our expenses are coming, like the 40% guidance is a good target, a number for us as we come through the end of the year. So it's not a huge change to our overall expectations. We were talking about 34, 35% for the fourth quarter and have just updated that a bit.

Drew Crum - *Stifel Nicolaus - Analyst*

Okay, fair enough. And Jeff, one question for you on the point of sale data. Any color you can give us as far as what you are seeing early part of fourth quarter? And then also could you address what you are seeing in terms of sell through on some of the higher priced items in your portfolio, such as Zippity and Leapster 2?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Sure. Well, it's sort of early in the quarter. The retailer projections seem to be leaning towards a late happening Christmas. We are seeing some continued strength on sort of core products, like Tag and Tag Junior and book seem to be doing quite well. Learning toys has picked up a lot of steam. We have back weighted most of our media investment this year to November and December. So last year, we had pretty heavy media sort of July on. So we expected to see through the third quarter a little bit of softening in the growth we had in the first half of the year, but I would say it's a little early to tell.

But there are some signs that we are seeing that looks like the consumer is back with a little bit more conviction, but still very price sensitive, which is to say we are starting to see some retail-driven price promotion on, for example, Leapster 2, and it's having a big impact. We've seen that the last couple of weeks, for example, when Leapster 2 has been on deal at a couple of retailers. So it still seems a real price sensitive consumer, but in general looks like we are starting to see things pick up a little bit in terms of POS. It does vary a bit by price range. It does vary a bit by product. And we are sort of expecting the show to hit the road more fully this month and certainly next month. So did you have a second part to your question?

Drew Crum - *Stifel Nicolaus - Analyst*

Just the second part --

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

High price?

Drew Crum - *Stifel Nicolaus - Analyst*

Yes, I mean, you kind of addressed it, but I just want get some additional more color.

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Yes, Zippity was a question you asked pretty specifically. We've expected to beat Zippity, which is $79 price point, to be kind of a lack last six weeks of the year item, driven heavily by television, which hasn't yet started. I will say that, when we did test television earlier in the year, we had really good performance on Zippity. So we are still pretty positive that it will have a good performance, but I will also tell you we didn't over build it.

Drew Crum - *Stifel Nicolaus - Analyst*

Got it. Okay, thanks, guys.

Operator

Your next question comes from the line of Sean McGowan with Needham & Company.

Sean McGowan - *Needham & Company - Analyst*

Thanks. I also have a couple of questions. So Jeff, what are you seeing specifically at retail in terms of the price promotions from one retailer to another? Is your category one that they sort of called out to use as the pricing football, if I may?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

I can't say that we are the pricing football, but as you know, we have a lot of higher price points items, typically in ELA in our range and some of our competitors products similarly. So we've certainly done more than we ever had to make it easier to get into consumers' hands all year long. Whether this is the category where that's happening more than others, I can't really say. But we have certainly made an investment to make sure that our product moves. It's been -- I've been pretty pleased that it hasn't really done too much damage on the gross margin to date. That's driven by very -- pretty strong content sales, particularly in reading, and some modest, what I would say, COGs improvement as well. So -- but I don't think we are the only category that's focused on price this year. It's just sort of my casual observation. Whether we are a particular focus of retail, I can't say much about that.

Sean McGowan - *Needham & Company - Analyst*

One thing that is pretty clear in some of the products that are leading the way this year is that they are engineered right from the outset to be considerably lower in average price than some of the big hardware platform launches have been in the past.

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

True.

Sean McGowan - *Needham & Company - Analyst*

Does that suggest to you that, if all -- let's say Scout, and Scribble and Text and Alphabet Explorer -- if those all carry forward into next year, does that suggest the possibility of seeing some sales earlier in '10 than would typically being the LeapFrog pattern?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Yes. I would say that's right. I also think lean inventories will have an impact on that, Sean. I mean, we are -- I don't think we've ever had -- we've ever run this lean -- well frankly, we couldn't before, as you know. But I think you are right, some of our lower priced range products will have an ability for us to generate a bit more sales volume in the first half of the year when it's a bit more of a gifting environment than a holiday environment. Content as well. The Tag books, which are out there at 13.99 and promoted a bit more cheaper when they are on deal, those are also good drivers of volume, even when compared to a Leapster game.

Sean McGowan - *Needham & Company - Analyst*

Okay. Thanks. And a couple of other quickies. Given where your inventories are and your outlook and the retailer caution, if you could give us some idea of how much upside could there be if everything broke even in your favor to what the fourth quarter is? I mean, is it -- obviously, you're not going to build it, but how much flexibility could there be?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

I would put it to you this way. Yes, you are right. We took a sort of a cash flow view that said we weren't going to over build this year. There is some modest upside possibility, and I think the sort of good news is a great deal of the upside capability is based on software, so the margins associated with the upside could be good, but the next six to eight weeks will tell us a lot about upside versus just meeting expectation.

Sean McGowan - *Needham & Company - Analyst*

Right, okay. And last question for Bill. Bill, I think it was around this time last year you actually did a little borrowing just because you could, as a way of being careful. Was there any borrowing at any point --

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William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

No.

Sean McGowan - *Needham & Company - Analyst*

-- before or after the quarter ended?

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

No.

Sean McGowan - *Needham & Company - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Gerrick Johnson with BMO Capital Markets.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Hi, good afternoon. I was wondering if you could give us sort of a break down on the gross margin in terms of basis points,s how much benefit from mix and input costs, how much of an impact from sales deleverage, et cetera?

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

Well, the biggest single input, Gerrick, was the leverage issue on the lower sales base. I won't give you the exact number for that. but if you took that into account alone, it would more than account for the full decline in the margin. We had a small improvement from favorable spending and warehousing and some of the rates that go into our distribution center, but the biggest offset to that decline was the favorable mix coming from the reading line. So those are the three components; but by far and away, if it was -- the lower sales base on the fixed cost, which is mostly our distribution center in Fontana, caused the full decline in margin.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Okay. And at retail, what's support like for the categories -- is the overall category growing or declining in terms of shelf space?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

I think, certainly with a view towards holiday 2010, it's a little bit hard to know. We are -- my sort of qualitative observation would be that there's -- NPD data suggest the category is growing, mostly driven by our growth this year at -- on a POS basis, and there's a lot of new product coming next year, as well as new product from -- for competitors that retailers seem to be pretty positive about. So I don't know how they will use all of that to manage space, and we won't know that until the early part of 2010, but we feel pretty good about our direction in that regard. But again, those decisions are still a bit ahead of us.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Okay, I have one more question on The Learning Path. Can you give us a percent of platforms that are registered online, and then what percent of those users actually use The Learning Path on sort of a recurring or repeat basis?

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

Yes, so for connected products, the people that actually then sort of both connect and register is in the 70 to 80% range -- can be a little bit higher for a product like Tag, and might be a little bit lower for another product. And a good rule of thumb for us is -- so everybody has at least one connection to The Learning Path just to get their content. But about a third of our customers we are finding are making multiple connections to both look at the learning feedback, recommendation engines, or as a part of that, downloading new content and sort of being exposed to the marketing messages as a part of that, much like when you get to iTunes and download a new song, you kind of see what's new and what's recommended for you and so forth.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Okay, great. Thank you very much.

Operator

(Operator Instructions). Your next question comes from the line of Ed Woo with Wedbush.

Edward Woo - *Wedbush Morgan - Analyst*

Good job cutting cost. For the fourth quarter, do you think that will be the last quarter that we'll get these pretty bit decreases in operating expenses?

William Chiasson - *LeapFrog Enterprises, Inc. - CFO & PFO*

Yes, you're not going to get the same comparisons, Ed, quarter to quarter. As you know, we started the year coming out of the blocks with all the actions already having taken place, so we've accomplished the heavy lifting with that. We are always looking for ways to be more cost efficient. So it's not to say that we won't continue to look for those opportunities. But when you are looking at rates, I think each quarter we've been around that 30% range. I wouldn't expect that going forward next year.

Edward Woo - *Wedbush Morgan - Analyst*

Last question I had is, you mentioned the US retail environment continues to be a little bit challenging. What about international? Have you seen anything that is different from last quarter?

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

All over the map we've seen pretty robust activity, and frankly, positively in Canada and Australia. We have seen -- although I -- we have seen some surprising strengthening in the United Kingdom in the last month to two months, and then France is a bit more of a mixed bag for us. So we've had differing kinds of results; but I would say in general some of the non-US markets seem to be rebounding. I don't have an explanation from the UK, because everything we read suggests that it shouldn't be rebounding. So that just may be that our programs are a bit more effective right now. But certainly Canada, Australia, as examples; some of the Asian markets where we are quite small, but we see -- we are starting to see -- we have seen some pretty good strength. Operator, any other questions in queue?

Operator

No, sir. There are no further questions in queue at this time.

Jeffrey Katz - *LeapFrog Enterprises, Inc. - Chairman, President & CEO*

Okay.

Karen Sansot - *LeapFrog Enterprises, Inc. - IR*

All right, well, thank you for joining us on our call today, and please feel free to give me a call if you have any followup questions. I can be reached at 510-420-4803. Thank you.

Operator

This does conclude today's conference call.. You may now disconnect your lines.
