

## Indigo Fiscal-Year Earnings Up 14% Revenue Rises 3.0%

**TORONTO, ONT - May 31, 2010** -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported a 14% increase in net earnings for its fiscal year ending April 3, 2010. Net earnings for the year were \$34.9 million compared to \$30.7 million last year. The Company noted that this year was a 53-week reporting period.

Revenue for the year was \$969 million, up \$28.5 million, or 3.0% from last year. On a 52 week, comparable store basis, Indigo and Chapters superstores posted 0.6% growth, while Coles and Indigo Spirit small format stores were down 2.2%. Sales from Indigo's online channel, chapters.indigo.ca, decreased 4.8%.

Commenting on the results, CEO Heather Reisman said, "We are pleased with our bottom line improvement, particularly since we invested significant capital and operating expense in Kobo, our digital reading initiative. We are also very pleased with the growth in our lifestyle and toy businesses, which allowed us to report top line growth against a year which included phenomenal sales from Stephanie Meyer's *Twilight* series. This confirms that our strategy of enriching our assortment is being well accepted by our customers."

Revenue for the fourth quarter was up \$13.7 million over the same quarter last year. The Company noted that this was a 14-week reporting period. On a 13 week, comparable store basis, Indigo and Chapters superstores were down 2.7% while Coles and Indigo Spirit small format stores were down 5.8%. Sales from Indigo's online channel, chapter.indigo.ca, decreased 3.3%.

Ms Reisman noted, "The last quarter was a challenging one for us, with no blockbuster hit to compete with last year's over-the-top success of Stephanie Meyer. Our store traffic was also down materially during the two weeks of the Olympics as Canadians stayed home to cheer on our athletes."

Net earnings for the quarter were \$0.5 million compared to \$1.9 million last year. This quarter included significant expense related to the start up and growth of Kobo, which the Company expects will continue in the coming fiscal year.

Shortly after the close of the fiscal year, Canadian retailers, including Indigo, launched Kobo eReaders in-store nationally and online to high demand. Retailers in the United States and Australia will launch the Kobo eReader in May and June, 2010.

Indigo transferred all of the assets of its digital reading initiative into a newly formed company, Kobo Inc. ([www.kobobooks.com](http://www.kobobooks.com)) in December, 2009. Kobo subsequently raised \$16 million in funding from strategic partners, including \$5 million from Indigo, and investment from US based Borders Group Inc., Instant Fame, a division of Cheung Kong (Holdings) Limited of Hong Kong, and REDGroup Retail PTY Ltd of Australia.

In the fiscal year, the Company opened six new superstores across the country. New stores were opened in Surrey, BC; Calgary, AB (2); Edmonton, AB; Milton, ON; and Laval, QC and residents of those cities now enjoy award winning book, toy and gift lover's havens in their market. Indigo also expanded their IndigoKids departments in 30 locations continuing their strategy to make Indigo the ultimate family friendly destination and the largest specialty toy retailer in Canada.

### **Forward-Looking Statements**

Statements contained in this news release that are not historical facts are forward-looking statements which involve risk and uncertainties that could cause results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are: general economic, market or business conditions in Canada; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company.

### **Non-GAAP Financial Measures**

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In order to provide additional insight into the business, the Company has also provided non-GAAP data, including comparative store sales growth, in the press release above. This measure does not have a standardized meaning prescribed by GAAP, and is therefore specific to Indigo and may not be comparable to similar measures presented by other companies. Comparative store sales growth is a key indicator used by the Company to measure performance against internal targets and prior period results. This measure is commonly used by financial analysts and investors to compare Indigo to other retailers. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis.

### **About Indigo Books & Music Inc.**

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (TSX:IDG). As the largest book, gift and specialty toy retailer in the country, Indigo operates in all provinces under different banners including Indigo Books & Music; Indigo Books, Gifts, Kids; IndigoSpirit; Chapters; The World's Biggest Bookstore; and Coles. The online division, [www.chapters.indigo.ca](http://www.chapters.indigo.ca), features books, eBooks, toys, music and DVDs, and hosts the award winning Indigo Online Community. In 2008, Indigo launched Pistachio, an eco-aware lifestyle store. In 2009, Indigo spun off their digital eReading division to launch KOBO Inc. - a leading destination for eReading.

Chapters and Indigo are rated as the number one and number two most favoured retailers in Canada by the Kubas Major Market Retail Report, and have occupied the list since 2000.

In 2004, Indigo founded the Indigo Love of Reading Foundation, a registered charity that provides new books and education materials to high-needs Canadian elementary schools, to address the literacy crisis in Canada. To date the Foundation has contributed \$9 mm to schools in need.

Visit [loveofreading.org](http://loveofreading.org) for more information.

To learn more about Indigo, please visit the About Our Company section of [www.chapters.indigo.ca](http://www.chapters.indigo.ca).

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## Consolidated Balance Sheets

(thousands of dollars)	As at April 3, 2010	As at March 28, 2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	103,898	92,169
Accounts receivable	8,455	9,890
Inventories	224,406	221,767
Income taxes recoverable	899	-
Prepaid expenses	6,771	5,118
Future tax assets	6,615	6,181
<b>Total current assets</b>	<b>351,044</b>	<b>335,125</b>
Property, plant and equipment	77,478	72,137
Future tax assets	40,894	36,422
Intangible assets	23,794	16,299
Goodwill	26,632	27,523
<b>Total assets</b>	<b>519,842</b>	<b>487,506</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	229,920	233,353
Deferred revenue	12,882	11,612
Income taxes payable	-	344
Current portion of long-term debt	1,863	2,734
<b>Total current liabilities</b>	<b>244,665</b>	<b>248,043</b>
Long-term accrued liabilities	8,203	6,301
Long-term debt	1,174	2,272
<b>Total liabilities</b>	<b>254,042</b>	<b>256,616</b>
Non-controlling interest	6,831	-
<b>Shareholders' equity</b>		
Share capital	198,635	196,471
Contributed surplus	4,670	3,685
Retained earnings	55,664	30,734
<b>Total shareholders' equity</b>	<b>258,969</b>	<b>230,890</b>
<b>Total liabilities and shareholders' equity</b>	<b>519,842</b>	<b>487,506</b>

## Consolidated Statements of Earnings and Comprehensive Earnings

(thousands of dollars, except per share data)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
<b>Revenues</b>	<b>968,927</b>	940,399
Cost of sales, operations, selling and administration	<b>895,930</b>	867,945
	<b>72,997</b>	72,454
Depreciation of property, plant and equipment	<b>19,682</b>	22,223
Amortization of intangible assets	<b>8,326</b>	5,638
Write-off of capital assets	<b>1,086</b>	-
	<b>29,094</b>	27,861
Earnings before the undernoted items	<b>43,903</b>	44,593
Interest on long-term debt and financing charges	<b>214</b>	309
Interest income on cash and cash equivalents	<b>(333)</b>	(1,443)
Dilution gain on sale of non-controlling interest in subsidiary	<b>(3,019)</b>	-
Deemed disposition of goodwill	<b>891</b>	-
Earnings before income taxes and non-controlling interest	<b>46,150</b>	45,727
Income tax expense		
Current	<b>1,481</b>	344
Future	<b>11,056</b>	14,733
	<b>12,537</b>	15,077
Earnings before non-controlling interest	<b>33,613</b>	30,650
Non-controlling interest	<b>(1,310)</b>	-
<b>Net earnings and comprehensive earnings for the period</b>	<b>34,923</b>	30,650
 <b>Net earnings per common share</b>		
Basic	<b>\$ 1.42</b>	\$ 1.24
Diluted	<b>\$ 1.39</b>	\$ 1.21

## Consolidated Statements of Cash Flows

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	34,923	30,650
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	19,682	22,223
Amortization of intangible assets	8,326	5,638
Stock-based compensation	1,130	862
Directors' stock-based compensation	378	362
Future tax assets	2,842	10,324
Loss on disposal of capital assets	290	30
Write-off of capital assets	1,086	-
Non-controlling interest	(1,310)	-
Dilution gain on sale of non-controlling interest in subsidiary	(3,019)	-
Deemed disposal of goodwill	891	-
Other	1,387	883
Net change in non-cash working capital balances related to operations		
Accounts receivable	1,435	(894)
Inventories	(2,639)	(15,508)
Prepaid expenses	(1,653)	(189)
Income taxes payable (recoverable)	(1,243)	365
Deferred revenue	1,270	1,262
Accounts payable and accrued liabilities	(1,531)	38,782
<b>Cash flows from operating activities</b>	<b>62,245</b>	<b>94,790</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(24,927)	(34,041)
Addition of intangible assets	(16,231)	(12,176)
Acquisition of non-capital tax losses	(7,748)	(2,932)
<b>Cash flows used in investing activities</b>	<b>(48,906)</b>	<b>(49,149)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(3,031)	(3,784)
Proceeds from share issuances	1,909	287
Repurchase of common shares	(446)	(5,025)
Issuance of equity securities by subsidiary to non-controlling interest	11,000	-
Dividends paid	(9,815)	-
<b>Cash flows used in financing activities</b>	<b>(383)</b>	<b>(8,522)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,227)	(883)
<b>Net increase in cash and cash equivalents during the period</b>	<b>11,729</b>	<b>36,236</b>
Cash and cash equivalents, beginning of period	92,169	55,933
<b>Cash and cash equivalents, end of period</b>	<b>103,898</b>	<b>92,169</b>