

Indigo Q1 Revenue Up 5.5 % Digital Business Grows Rapidly

TORONTO, ONT - August 9, 2010 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported a 5.5% growth in revenue for its first quarter ending July 3, 2010.

Revenue for the quarter was \$204.3 million, up \$10.7 million from last year. On a comparable store basis, Indigo and Chapters superstores posted 1.5% growth, while Coles and Indigo Spirit small format stores were down 0.7%. Sales from Indigo's online channel, chapters.indigo.ca were flat to last year.

Commenting on the results, CEO Heather Reisman said, "We are pleased with our top line revenue growth, particularly from our rapidly growing digital business. Consumers have responded very favourably to our Kobo eReader launched in late May, and the business continues to gain traction in markets around the world."

Net loss for the quarter, historically the Company's weakest in any fiscal year, was \$5.3 million compared to \$2.3 million last year. Ms Reisman noted, "The increased loss is not unexpected as we continue to invest significantly in the growth and development of Kobo. We expect this investment to pay off materially in the mid to longer term".

The Board of Directors today also approved a quarterly dividend of 11 cents per common share to be paid on September 13th, 2010, to all shareholders of record as of August 30th, 2010.

During the quarter, the Company rolled out their Kobo eReader to Indigo and Chapters stores nationally. Indigo also launched an innovative "Teen Read Award" marketing program in-store and online at www.teenreadawards.ca to celebrate and reward the legions of Young Adult fiction fans who have propelled the division's substantial growth over the last five years. Additionally, the Indigo Love of Reading Foundation awarded \$1.5 million in grants to 20 high-needs elementary schools across the country, bringing their commitment to \$9 million dollars since the foundation launched in 2004. To date, Indigo has supported 90 schools nationally through the program.

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, 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 for more information.

To learn more about Indigo, please visit the About Our Company section of www.chapters.indigo.ca.

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Consolidated Balance Sheets

(Unaudited)

(thousands of dollars)	As at July 3, 2010	As at June 27, 2009	As at April 3, 2010
ASSETS			
Current			
Cash and cash equivalents	84,314	69,165	103,489
Restricted cash	1,196	363	409
Accounts receivable	10,827	7,910	8,455
Inventories	223,836	208,208	224,406
Income taxes recoverable	899	-	899
Prepaid expenses	5,948	5,631	6,771
Future tax assets	7,036	6,717	6,615
Total current assets	334,056	297,994	351,044
Property, plant and equipment	77,470	70,597	77,478
Future tax assets	40,894	36,422	40,894
Intangible assets	24,861	17,612	23,794
Goodwill	26,632	27,523	26,632
Total assets	503,913	450,148	519,842
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	223,418	197,859	229,920
Deferred revenue	14,849	12,434	12,882
Dividends payable	-	2,453	-
Income taxes payable	-	344	-
Current portion of long-term debt	1,460	2,538	1,863
Total current liabilities	239,727	215,628	244,665
Long-term accrued liabilities	6,841	6,123	8,203
Long-term debt	1,198	1,868	1,174
Total liabilities	247,766	223,619	254,042
Non-controlling interest	5,160	-	6,831
Shareholders' equity			
Share capital	198,561	196,508	198,635
Contributed surplus	4,936	4,044	4,670
Retained earnings	47,490	25,977	55,664
Total shareholders' equity	250,987	226,529	258,969
Total liabilities and shareholders' equity	503,913	450,148	519,842

Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

	13-week period ended July 3, 2010	13-week period ended June 27, 2009
<i>(thousands of dollars, except per share data)</i>		
Revenues	204,286	193,551
Cost of sales, operations, selling and administration	205,014	189,592
	(728)	3,959
Depreciation of property, plant and equipment	4,505	4,912
Amortization of intangible assets	2,412	1,841
	6,917	6,753
Loss before the undernoted items	(7,645)	(2,794)
Interest on long-term debt and financing charges	33	57
Interest income on cash and cash equivalents	(80)	(11)
Loss before income taxes and non-controlling interest	(7,598)	(2,840)
Income tax recovery	(421)	(536)
Loss before non-controlling interest	(7,177)	(2,840)
Non-controlling interest	(1,869)	-
Net loss and comprehensive loss for the period	(5,308)	(2,840)
Net earnings per common share		
Basic	\$(0.21)	\$(0.09)
Diluted	\$(0.21)	\$(0.09)

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of dollars)	13-week period ended July 3, 2010	13-week period ended June 27, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(5,308)	(2,304)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	4,505	4,912
Amortization of intangible assets	2,412	1,841
Stock-based compensation	175	243
Directors' stock-based compensation	112	125
Future tax assets	(421)	(536)
Loss on disposal of capital assets	67	8
Non-controlling interest	(1,869)	-
Other	(926)	105
Net change in non-cash working capital balances related to operations		
Accounts receivable	(2,372)	1,980
Inventories	570	13,559
Prepaid expenses	823	(513)
Deferred revenue	1,967	822
Accounts payable and accrued liabilities	(7,864)	(35,672)
Cash flows used in operating activities	(8,129)	(15,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(787)	5
Purchase of property, plant and equipment	(4,277)	(3,238)
Addition of intangible assets	(3,479)	(3,154)
Cash flows used in investing activities	(8,543)	(6,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(666)	(742)
Proceeds from share issuances	74	28
Repurchase of common shares	(313)	-
Dividends paid	(2,722)	-
Cash flows used in financing activities	(3,627)	(714)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,124	(105)
Net decrease in cash and cash equivalents during the period	(19,175)	(22,636)
Cash and cash equivalents, beginning of period	103,489	91,801
Cash and cash equivalents, end of period	84,314	69,165