

Indigo Books & Music Inc. Q2 Revenue Up 1%

Dividend Declared

Company Continues to Invest in Digital

TORONTO, ONT - October 26, 2009 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported a 1% increase in revenue for its second quarter ending September 26, 2009.

Revenue for the quarter was \$207 million, up \$1.7 million from the same quarter last year. The increase was attributable to the opening of four new superstores in the quarter. On a comparable store basis, Indigo and Chapters superstores were down 0.9%, while Coles and Indigo Spirit small format stores were down 2.1%. Sales from Indigo's online channel, chapters.indigo.ca, decreased 5.2% to \$20 million. Last year's results included revenue from the phenomenally successful "Twilight" series by Stephenie Meyer.

Net earnings for the quarter were \$2.2 million compared to a \$3.2 million net earnings last year.

Commenting on the quarter's results, CEO Heather Reisman said, "We are satisfied with our results through what has proven to be a very turbulent time for most retailers. It is important to note that the drop in bottom line results reflects our increased operating investment in Shortcovers, our digital initiative." Shortcovers launched in late February 2009 and serves customers who want the convenience of accessing and reading their selected content, anytime, anywhere, on the mobile devices they already own (www.shortcovers.com).

The Company also announced today that its Board of Directors has declared a quarterly cash dividend of \$0.10 per outstanding common share to be paid to shareholders of record as of the close of business on November 13, 2009, with a payment date of November 30, 2009.

During the quarter the Company opened four new superstores. Residents of Milton, Ontario and Edmonton, Alberta now enjoy an award winning booklover's haven in their market, while residents of Calgary, Alberta have two new stores to experience. The Company also opened a new superstore in Laval, Quebec just after the quarter ended.

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.

About Indigo Books & Music Inc.

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (TSX:IDG). As the largest book 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, toys, music and DVDs, and hosts the award winning Indigo Online Community. In 2008, Indigo launched Pistachio, an eco-aware lifestyle store featuring stationery, gifts and home décor, and apothecary.

Chapters and Indigo are rated as the number one and number two 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. 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)

<i>(thousands of dollars)</i>	As at September 26, 2009	As at September 27, 2008	As at March 28, 2009
ASSETS			
Current			
Cash and cash equivalents	79,055	70,036	92,169
Accounts receivable	8,470	8,234	9,890
Inventories	234,190	215,174	221,767
Income taxes recoverable	866	21	-
Prepaid expenses	6,577	5,138	5,118
Future tax assets	5,885	6,745	6,181
Total current assets	335,043	305,348	335,125
Property, plant and equipment	79,672	59,145	72,137
Future tax assets	36,422	41,951	36,422
Intangible assets	18,393	12,069	16,299
Goodwill	27,523	27,523	27,523
Total assets	497,053	446,036	487,506
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	247,273	218,785	233,353
Deferred revenue	12,537	11,553	11,612
Income taxes payable	-	-	344
Current portion of long-term debt	2,408	2,589	2,734
Total current liabilities	262,218	232,927	248,043
Long-term accrued liabilities	6,296	6,844	6,301
Long-term debt	1,827	2,302	2,272
Total liabilities	270,341	242,073	256,616
Shareholders' equity			
Share capital	196,638	197,877	196,471
Contributed surplus	4,351	3,062	3,685
Retained earnings	25,723	3,024	30,734
Total shareholders' equity	226,712	203,963	230,890
Total liabilities and shareholders' equity	497,053	446,036	487,506

Consolidated Statements of Earnings (Loss)
(Unaudited)

	13-week period ended September 26, 2009	13-week period ended September 27, 2008	26-week period ended September 26, 2009	26-week period ended September 27, 2008
<i>(thousands of dollars, except per share data)</i>				
Revenues	206,990	205,261	400,541	395,863
Cost of sales, operations, selling and administration	197,075	193,659	386,667	379,057
	9,915	11,602	13,874	16,806
Amortization of property, plant and equipment	4,918	5,758	9,830	11,558
Amortization of intangible assets	2,124	1,289	3,965	2,600
	7,042	7,047	13,795	14,158
Earnings before the undernoted items	2,873	4,555	79	2,648
Interest on long-term debt and financing charges	61	71	118	179
Interest income on cash and cash equivalents	(125)	(400)	(136)	(793)
Earnings before income taxes	2,937	4,884	97	3,262
Income tax expense	737	1,696	201	1,299
Net earnings (loss) for the period	2,200	3,188	(104)	1,963
Net earnings (loss) per common share				
Basic	\$0.09	\$0.13	\$(0.00)	\$0.08
Diluted	\$0.09	\$0.13	\$(0.00)	\$0.08

Consolidated Statements of Cash Flows (Unaudited)

<i>(thousands of dollars)</i>	13-week period ended September 26, 2009	13-week period ended September 27, 2008	26-week period ended September 26, 2009	26-week period ended September 27, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	2,200	3,188	(104)	1,963
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	4,918	5,758	9,830	11,558
Stock-based compensation	268	189	511	422
Directors' compensation	68	72	193	177
Future tax assets	832	1,696	296	1,299
Loss on disposal of property, plant and equipment	165	-	173	13
Amortization of intangible assets	2,124	1,289	3,965	2,600
Net change in non-cash working capital balances related to operations				
Accounts receivable	(560)	(845)	1,420	762
Inventories	(25,982)	(17,986)	(12,423)	(8,915)
Prepaid expenses	(946)	112	(1,459)	(209)
Income taxes recoverable/payable	(1,210)	-	(1,210)	-
Deferred revenue	103	721	925	1,203
Accounts payable and accrued liabilities	49,587	31,767	13,915	24,757
Cash flows from operating activities	31,567	25,961	16,032	35,630
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(13,567)	(7,879)	(16,805)	(11,993)
Addition of intangible assets	(2,905)	(3,135)	(6,059)	(4,909)
Cash flows used in investing activities	(16,472)	(11,014)	(22,864)	(16,902)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	(762)	(675)	(1,504)	(2,272)
Proceeds from share issuances	101	178	129	277
Dividends paid	(4,907)	-	(4,907)	-
Repurchase of common shares	-	(1,466)	-	(2,630)
Cash flows used in financing activities	(5,568)	(1,963)	(6,282)	(4,625)
Net increase (decrease) in cash and cash equivalents during the period	9,527	12,984	(13,114)	14,103
Cash and cash equivalents, beginning of period	69,528	57,052	92,169	55,933
Cash and cash equivalents, end of period	79,055	70,036	79,055	70,036