

Indigo Q3 Revenue Up 2.3%

Book Sales Rise Despite Tough Economic Climate

TORONTO, ONT - January 27, 2009 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported a 2.3% increase in revenue for its third quarter ending December 27, 2008.

Revenue for the quarter was \$330.0 million, up \$7.4 million from the same quarter last year. On a comparable store basis, Indigo and Chapters superstores posted 2.2% growth, while Coles small format stores were up 3.2%. Sales from Indigo's online channel, chapters.indigo.ca decreased 2.6% to \$30.1 million.

Pre-tax earnings for the quarter were \$40.1 million, down \$1.5 million, or 3.6% from the same quarter last year. Net income for the quarter was \$26.8 million, down \$22.4 million from \$49.2 million last year. This year's results include tax expense of \$13.4 million while last year's numbers included a \$7.6 million tax recovery, which combined account for \$21.0 million of the decrease in reported net income.

Commenting on the results, CEO Heather Reisman said, "We're very satisfied with our top line growth given the challenging economic climate. Our profit was dampened by the steep and unexpected decline in the Canadian dollar during the quarter which impacted the cost of imported goods and a number of our operating costs. We chose not to pass these cost increases to our consumers during these times." Ms Reisman also noted, "The Company also absorbed the costs associated with the launch of its new Pistachio concept."

Two new Indigo Books, Gifts, Life superstores opened in the third quarter. Residents of Saskatoon, Saskatchewan and Stoney Creek, Ontario now enjoy an award winning booklover's haven in their markets. Surrey, British Columbia will host the launch of the newest Indigo store in the spring of 2009. Indigo also expanded toy sections at five superstores located in Calgary and Ontario in the quarter.

Two of the Company's new eco-aware Pistachio stores launched this quarter in Toronto at Yonge and Eglinton and Yorkdale Mall, with a focus on paper, home decor, gifts, and apothecary. Many Pistachio branded products are available nationally at select Indigo and Chapters stores.

Additionally, the Company announced "Shortcovers," a new digital initiative developed by Indigo Books & Music Inc. set to launch in the current quarter at www.shortcovers.com. Shortcovers will serve customers who want the convenience of accessing and reading their selected content, anytime, anywhere, on the mobile devices they already own.

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, Life; 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 December 27, 2008	As at December 29, 2007	As at March 29, 2008
ASSETS			
Current			
Cash and cash equivalents	168,092	107,236	55,933
Accounts receivable	17,689	16,922	8,996
Inventories	228,017	228,670	206,259
Income taxes recoverable	-	21	21
Prepaid expenses	4,740	3,811	4,929
Future tax assets	6,590	7,347	6,745
Total current assets	425,128	364,007	282,883
Property, plant and equipment	81,114	67,779	67,348
Future tax assets	31,085	42,955	43,250
Goodwill and intangible assets	28,121	27,523	27,523
Total assets	565,448	502,264	421,004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	312,262	276,900	193,323
Deferred revenue	11,101	10,624	10,350
Derivative liabilities	-	1,498	-
Income taxes payable	2,308	-	-
Current portion of long-term debt	2,740	2,525	2,648
Total current liabilities	328,411	291,547	206,321
Long-term accrued liabilities	6,174	7,304	7,549
Long-term debt	2,210	4,144	3,380
Total liabilities	336,795	302,995	217,250
Shareholders' equity			
Share capital	196,471	198,861	198,938
Contributed surplus	3,365	2,251	2,564
Retained earnings (deficit)	28,817	(878)	2,252
Accumulated other comprehensive loss	-	(965)	-
Total shareholders' equity	228,653	199,269	203,754
Total liabilities and shareholders' equity	565,448	502,264	421,004

Consolidated Statements of Earnings (Unaudited)

	13-week period ended December 27, 2008	13-week period ended December 29, 2007	39-week period ended December 27, 2008	39-week period ended December 29, 2007
<i>(thousands of dollars, except per share data)</i>				
Revenues	330,014	322,552	725,877	716,642
Cost of sales, operations, selling and administration	283,462	273,555	662,519	651,280
	46,552	48,997	63,358	65,362
Amortization of property, plant and equipment	6,716	7,340	20,874	22,426
Amortization of intangible assets	38	-	38	-
Amortization of pre-opening store costs	-	36	-	144
	6,754	7,376	20,912	22,570
Earnings before the undernoted items	39,798	41,621	42,446	42,792
Interest on long-term debt and financing charges	69	133	248	583
Interest expense (income) on bank indebtedness	(391)	(137)	(1,184)	85
Earnings before income taxes	40,120	41,625	43,382	42,124
Income tax expense (recovery)				
Current	2,329	-	2,329	-
Future	11,021	(7,554)	12,320	(7,554)
Net earnings for the period	26,770	49,179	28,733	49,678
Net earnings per common share				
Basic	\$1.09	\$1.98	\$1.17	\$2.01
Diluted	\$1.07	\$1.94	\$1.14	\$1.96

Consolidated Statements of Cash Flows (Unaudited)

<i>(thousands of dollars)</i>	13-week period ended December 27, 2008	13-week period ended December 29, 2007	39-week period ended December 27, 2008	39-week period ended December 29, 2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	26,770	49,179	28,733	49,678
Add (deduct) items not affecting cash				
Amortization	6,716	7,376	20,874	22,570
Stock-based compensation	219	210	641	512
Directors' compensation	86	81	263	257
Future tax assets	11,021	(8,554)	12,320	(8,554)
Loss on disposal of property, plant and equipment	-	96	13	96
Amortization of intangible assets	38	-	38	-
Amortization and write-off of deferred financing charges	-	38	-	214
Other	-	25	-	6
Net change in non-cash working capital balances related to operations				
Accounts receivable	(9,455)	(8,414)	(8,693)	(7,074)
Inventories	(12,843)	8,278	(21,758)	(4,611)
Prepaid expenses	398	433	189	623
Income taxes recoverable/payable	2,329	173	2,329	173
Deferred revenue	(452)	(252)	751	3
Accounts payable and accrued liabilities	92,807	70,921	117,564	66,855
Cash flows from operating activities	117,634	119,590	153,264	120,748
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(15,830)	(5,626)	(32,732)	(12,728)
Addition of intangible asset	(636)	-	(636)	-
Cash flows used in investing activities	(16,466)	(5,626)	(33,368)	(12,728)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in bank indebtedness	-	(15,794)	-	-
Repayment of long-term debt	(727)	(759)	(2,999)	(15,422)
Proceeds from share issuances	10	501	287	999
Repurchase of common shares	(2,395)	-	(5,025)	-
Cash flows used in financing activities	(3,112)	(16,052)	(7,737)	(14,423)
Net increase in cash and cash equivalents during the period	98,056	97,912	112,159	93,597
Cash and cash equivalents, beginning of period	70,036	9,324	55,933	13,639
Cash and cash equivalents, end of period	168,092	107,236	168,092	107,236