

Indigo Net Earnings Up 29% for Key Holiday Quarter

Revenue Increases 3.1%

TORONTO, ONT - January 25, 2010 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported a 29% increase in net earnings for its third quarter ending December 26, 2009. Net earnings for the quarter were \$34.5 million compared to \$26.8 million last year.

Revenue for the quarter was \$340.2 million, up \$10.2 million from the same quarter last year. On a comparable store basis, Indigo and Chapters superstores posted 3.4% growth, while Coles and Indigo Spirit small format stores were down 1.6%. Sales from Indigo's online channel, chapters.indigo.ca, decreased 2.7% to \$29.3 million.

Commenting on the quarter's results, CEO Heather Reisman said, "We are very pleased to report these earnings, particularly in the current environment. The results reflect the impact of our ongoing efforts to improve store experience, productivity and customer loyalty. We are equally pleased with top line sales - achieved notwithstanding being against last year's massive success of the Stephenie Meyer Twilight Series. Our small format and online channels are particularly impacted by blockbuster releases."

During the quarter, the Company transferred all the assets of its digital reading initiative into a newly formed company, Kobo Inc. (www.kobobooks.com). 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. Indigo recorded a \$2.1 million increase in pre-tax earnings as a result of the transaction and continues to own 58% of the company.

Reisman, who is Chair of Kobo, noted that "Indigo and Kobo are very well positioned to play a major role in the emerging eBook revolution both in Canada and globally."

During the quarter the Company opened one new superstore in Laval, Quebec with residents now enjoying an award winning book, toy and gift lover's haven in their market. During the quarter Indigo also opened expanded IndigoKids departments in Ottawa, Newmarket, Sudbury, and Thunder Bay continuing its strategy to make Indigo the ultimate family friendly destination.

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 February 12, 2010, with a payment date of February 26, 2010.

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, 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 launched KOBO - 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 \$7.5mm 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.

For further information please contact:

Janet Eger
Director, Public Relations
416 342 8561
jeger@indigo.ca

Consolidated Balance Sheets (Unaudited)

<i>(thousands of dollars)</i>	As at December 26, 2009	As at December 27, 2008	As at March 28, 2009
ASSETS			
Current			
Cash and cash equivalents	202,763	168,092	92,169
Accounts receivable	16,231	17,689	9,890
Inventories	246,312	228,017	221,767
Prepaid expenses	5,090	4,740	5,118
Future tax assets	4,589	6,590	6,181
Total current assets	474,985	425,128	335,125
Property, plant and equipment	78,669	67,938	72,137
Future tax assets	23,164	31,085	36,422
Intangible assets	20,317	13,774	16,299
Goodwill	26,632	27,523	27,523
Total assets	623,767	565,448	487,506
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	333,319	312,262	233,353
Deferred revenue	12,180	11,101	11,612
Income taxes payable	703	2,308	344
Current portion of long-term debt	2,388	2,740	2,734
Total current liabilities	348,590	328,411	248,043
Long-term accrued liabilities	7,096	6,174	6,301
Long-term debt	1,328	2,210	2,272
Total liabilities	357,014	336,795	256,616
Non-controlling interest	7,905	-	-
Shareholders' equity			
Share capital	196,585	196,471	196,471
Contributed surplus	4,641	3,365	3,685
Retained earnings	57,622	28,817	30,734
Total shareholders' equity	258,848	228,653	230,890
Total liabilities and shareholders' equity	623,767	565,448	487,506

Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)

	13-week period ended December 26, 2009	13-week period ended December 27, 2008	39-week period ended December 26, 2009	39-week period ended December 27, 2008
<i>(thousands of dollars, except per share data)</i>				
Revenues	340,195	330,014	740,736	725,877
Cost of sales, operations, selling and administration	287,717	283,462	674,384	662,519
	52,478	46,552	66,352	63,358
Amortization of property, plant and equipment	5,079	5,341	14,909	16,900
Amortization of intangible assets	2,184	1,413	6,149	4,012
Write-off of capital assets	455	-	455	-
	7,718	6,754	21,513	20,912
Earnings before the undernoted items	44,760	39,798	44,839	42,446
Interest on long-term debt and financing charges	49	69	167	248
Interest income on cash and cash equivalents	(45)	(391)	(181)	(1,184)
Kobo dilution gain	(3,019)	-	(3,019)	-
Deemed disposition of goodwill	891	-	891	-
Non-controlling interest (recovery)	(76)	-	(76)	-
Earnings before income taxes	46,960	40,120	47,057	43,382
Income tax expense				
Current	2,169	2,329	2,169	2,329
Future	10,261	11,021	10,462	12,320
Net earnings and comprehensive earnings for the period	34,530	26,770	34,426	28,733

Consolidated Statements of Cash Flows (Unaudited)

<i>(thousands of dollars)</i>	13-week period ended December 26, 2009	13-week period ended December 27, 2008	39-week period ended December 26, 2009	39-week period ended December 27, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	34,530	26,770	34,426	28,733
Add items not affecting cash				
Amortization of property, plant and equipment	5,079	5,341	14,909	16,900
Stock-based compensation	299	219	810	641
Directors' compensation	96	86	289	263
Future tax assets	14,554	11,021	14,850	12,320
Loss on disposal of property, plant and equipment	83	-	256	13
Amortization of intangible assets	2,184	1,413	6,149	4,012
Write-off of capital assets	455	-	455	-
Non-controlling interest	(76)	-	(76)	-
Kobo dilution gain	(3,019)	-	(3,019)	-
Deemed disposal of goodwill	891	-	891	-
Net change in non-cash working capital balances related to operations				
Accounts receivable	(7,761)	(9,455)	(6,341)	(8,693)
Inventories	(12,122)	(12,843)	(24,545)	(21,758)
Prepaid expenses	1,487	398	28	189
Income taxes payable	1,569	2,329	359	2,329
Deferred revenue	(357)	(452)	568	751
Accounts payable and accrued liabilities	86,846	92,807	100,761	117,564
Cash flows from operating activities	124,738	117,634	140,770	153,264
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(3,963)	(13,349)	(20,768)	(25,342)
Addition of intangible assets	(4,518)	(3,117)	(10,577)	(8,026)
Cash flows used in investing activities	(8,481)	(16,466)	(31,345)	(33,368)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	(760)	(727)	(2,264)	(2,999)
Proceeds from share issuances	110	10	239	287
Repurchase of common shares	(446)	(2,395)	(446)	(5,025)
Issuance of equity securities by subsidiary to non-controlling interest	11,000	-	11,000	-
Dividends paid	(2,453)	-	(7,360)	-
Cash flows from (used in) financing activities	7,451	(3,112)	1,169	(7,737)
Net increase in cash and cash equivalents during the period	123,708	98,056	110,594	112,159
Cash and cash equivalents, beginning of period	79,055	70,036	92,169	55,933
Cash and cash equivalents, end of period	202,763	168,092	202,763	168,092