

## Indigo Q2 Results Reflect Strong Margin and Productivity Improvements *Plum Rewards Membership Tops 5 Million Customers*

TORONTO, ON - November 6, 2012 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported a 5.9% decrease in net revenue for its second quarter ending September 29, 2012. Revenue for the quarter was \$185.6 million, down \$11.6 million from last year driven primarily by a delay in the planned launch of the new Kobo devices. In addition, the Company operated seven fewer Coles stores. Book sales for the quarter were down only modestly to last year owing to strong titles as well as effective efforts to drive book sales both in store and online.

On a comparable store basis, Indigo and Chapters superstores posted a 6.5% decrease in revenue, while Coles and IndigoSpirit small format stores were down 2.2%.

Commenting on the results, CEO Heather Reisman said, "We are focused on driving significant margin and productivity improvements and are pleased that our on-going efforts are reflected in our results. We will continue to broaden our assortment in our key growth categories to drive higher top line sales to offset the decline in physical books. We're also pleased to have the newest Kobo eReaders now in store as top gift picks for the upcoming holiday season."

The net loss attributable to shareholders of the Company from continuing operations improved \$24.8 million from a loss of \$28.8 million last year to a loss of \$4.0 million this year. The significant reduction in net loss was due to there being no impairment charges in the current year. In the same period last year, the Company recorded a full write down of the \$25.4 million of goodwill allocated to the Indigo segment. In addition, the Company experienced improvements in margin and productivity in the current year.

The net loss per share from continuing operations improved from a loss of \$1.14 per share last year to a loss of \$0.16 per share due to the above noted factors.

In the quarter, the Company's plum rewards program was recognized for global leadership, earning the award for *Loyalty Innovation in Retail* at the 3<sup>rd</sup> Annual COLLOQUY Loyalty Awards. In less than 18 months, five million Canadians joined the plum rewards program, collecting over seven billion plum points. Designed in response to customer feedback, plum rewards help shoppers discover products that match their interests and passions while rewarding and recognizing their purchases. Plum rewards members can collect points on virtually every in-store purchase, have self-service access to personalized recommendations and offers online or at in-store kiosks, and enjoy special member pricing on online book purchases.

Also in the second quarter, Indigo launched its award winning annual Adopt-A-School program, a three week national fundraising campaign that raised over \$580 thousand – the equivalent of over 50 thousand books – to support 570 participating schools across Canada. Through the program Indigo helps augment the \$1.5 million in grants made annually by the Indigo Love of Reading Foundation to benefit high needs elementary schools.

The Board of Directors today approved a quarterly dividend of 11 cents per common share to be paid on December 5, 2012, to all shareholders of record as of November 20, 2012.

### **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-IFRS Financial Measures**

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards and International Accounting Standards 34, "Interim Financial Reporting." In order to provide additional insight into the business, the Company has also provided non-IFRS data, including comparative store sales growth, in the press release above. This measure does not have a standardized meaning prescribed by IFRS 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 (IDG). As the largest book, gift and specialty toy retailer in Canada, 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 channel, [indigo.ca](http://indigo.ca), offers a one-stop online shop with a robust selection of books, toys, home décor, stationery and gifts.

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, as well as the Indigo "Adopt A School" program, have contributed \$13 million, equating to more than a million books, to high-needs elementary schools across Canada. Visit [loveofreading.org](http://loveofreading.org) for more information.

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

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## Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)	As at September 29, 2012	As at October 1, 2011	As at March 31, 2012
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	192,598	45,491	207,601
Accounts receivable	14,092	21,831	12,627
Inventories	247,604	263,918	229,706
Prepaid expenses	4,835	15,285	3,695
<b>Total current assets</b>	<b>459,129</b>	<b>346,525</b>	<b>453,629</b>
Property, plant and equipment	62,111	76,031	67,464
Intangible assets	22,467	31,251	22,810
Goodwill	-	1,216	-
Deferred tax assets	53,986	68,250	48,633
<b>Total assets</b>	<b>597,693</b>	<b>523,273</b>	<b>592,536</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	198,435	224,159	174,201
Unredeemed gift card liability	37,912	36,292	42,711
Provisions	175	-	232
Deferred revenue	12,882	12,401	11,234
Income taxes payable	111	650	65
Notes payable	-	5,168	-
Current portion of long-term debt	900	1,305	1,060
<b>Total current liabilities</b>	<b>250,415</b>	<b>279,975</b>	<b>229,503</b>
Long-term accrued liabilities	4,448	5,038	5,800
Long-term provisions	391	-	460
Long-term debt	1,045	1,623	1,141
<b>Total liabilities</b>	<b>256,299</b>	<b>286,636</b>	<b>236,904</b>
<b>Equity</b>			
Share capital	203,660	202,962	203,373
Contributed surplus	7,570	6,839	7,039
Retained earnings	130,164	4,882	145,220
<b>Total equity attributable to shareholders of Indigo</b>	<b>341,394</b>	<b>214,683</b>	<b>355,632</b>
Non-controlling interest	-	21,954	-
<b>Total equity</b>	<b>341,394</b>	<b>236,637</b>	<b>355,632</b>
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## Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended September 29, 2012	13-week period ended October 1, 2011	26-week period ended September 29, 2012	26-week period ended October 1, 2011
<b>Revenues</b>	<b>185,589</b>	197,248	<b>372,072</b>	385,253
Cost of sales	<b>100,487</b>	111,497	<b>206,875</b>	222,579
<b>Gross profit</b>	<b>85,102</b>	85,751	<b>165,197</b>	162,674
Operating and administrative expenses	<b>90,975</b>	115,579	<b>181,149</b>	208,270
<b>Operating loss</b>	<b>(5,873)</b>	(29,828)	<b>(15,952)</b>	(45,596)
Interest on long-term debt and financing charges	<b>29</b>	39	<b>60</b>	83
Interest expense (income) on cash and cash equivalents	<b>(578)</b>	56	<b>(1,159)</b>	(15)
<b>Loss before income taxes</b>	<b>(5,324)</b>	(29,923)	<b>(14,853)</b>	(45,664)
Income tax recovery	<b>(1,311)</b>	(1,074)	<b>(5,353)</b>	(4,852)
Loss and comprehensive loss for the period from continuing operations	<b>(4,013)</b>	(28,849)	<b>(9,500)</b>	(40,812)
Loss and comprehensive loss for the period from discontinued operations (net of tax)	-	(11,542)	-	(23,773)
<b>Net loss and comprehensive loss for the period</b>	<b>(4,013)</b>	(40,391)	<b>(9,500)</b>	(64,585)
<b>Net loss and comprehensive loss attributable to:</b>				
Shareholders of Indigo	<b>(4,013)</b>	(35,120)	<b>(9,500)</b>	(53,225)
Non-controlling interest	-	(5,271)	-	(11,360)
<b>Net loss per common share from continuing operations</b>				
Basic	<b>\$(0.16)</b>	\$(1.14)	<b>\$(0.38)</b>	\$(1.62)
Diluted	<b>\$(0.16)</b>	\$(1.14)	<b>\$(0.38)</b>	\$(1.62)
<b>Net loss per common share from discontinued operations</b>				
Basic	\$ -	\$(0.25)	\$ -	\$(0.49)
Diluted	\$ -	\$(0.25)	\$ -	\$(0.49)
<b>Net loss per common share</b>				
Basic	<b>\$(0.16)</b>	\$(1.39)	<b>\$(0.38)</b>	\$(2.11)
Diluted	<b>\$(0.16)</b>	\$(1.39)	<b>\$(0.38)</b>	\$(2.11)

**Consolidated Statements of Cash Flows  
(Unaudited)**

(thousands of Canadian dollars)	13-week period ended September 29, 2012	13-week period ended October 1, 2011	26-week period ended September 29, 2012	26-week period ended October 1, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss from continuing operations for the period	(4,013)	(28,849)	(9,500)	(40,812)
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	4,329	4,557	9,048	9,016
Amortization of intangible assets	2,515	2,103	4,937	4,184
Impairment of capital assets	-	-	250	-
Impairment of goodwill	-	25,416	-	25,416
Loss on disposal of capital assets	-	11	44	15
Stock-based compensation	200	75	359	670
Directors' compensation	96	118	229	267
Deferred tax assets	(1,311)	(1,250)	(5,353)	(4,852)
Other	510	(2,125)	(243)	(2,411)
Net change in non-cash working capital balances related to continuing operations	10,667	(18,306)	(897)	(11,501)
Interest on long-term debt and financing charges	29	39	60	83
Interest expense (income) on cash and cash equivalents	(578)	56	(1,159)	(15)
Income taxes received	41	-	45	-
Operating cash flows of discontinued operations	-	(282)	-	(16,813)
<b>Cash flows from (used in) operating activities</b>	<b>12,485</b>	<b>(18,437)</b>	<b>(2,180)</b>	<b>(36,753)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of non-capital tax losses	-	(450)	-	(10,559)
Purchase of property, plant and equipment	(2,764)	(3,651)	(3,548)	(5,848)
Addition of intangible assets	(2,784)	(2,259)	(4,614)	(3,888)
Investing cash flows of discontinued operations	-	(2,488)	-	(4,646)
<b>Cash flows used in investing activities</b>	<b>(5,548)</b>	<b>(8,848)</b>	<b>(8,162)</b>	<b>(24,941)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Notes payable	-	225	-	5,280
Repayment of long-term debt	(338)	(393)	(684)	(712)
Interest received	565	10	1,124	94
Proceeds from share issuances	142	-	230	578
Purchase of shares in subsidiary	-	-	-	(3,009)
Dividends paid	(2,780)	(2,772)	(5,556)	(5,539)
Financing cash flows of discontinued operations	-	36	-	24,478
<b>Cash flows from (used in) financing activities</b>	<b>(2,411)</b>	<b>(2,894)</b>	<b>(4,886)</b>	<b>21,170</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(523)	2,285	225	2,354
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>4,003</b>	<b>(27,894)</b>	<b>(15,003)</b>	<b>(38,170)</b>
Cash and cash equivalents, beginning of period	188,595	73,385	207,601	83,661
<b>Cash and cash equivalents, end of period</b>	<b>192,598</b>	<b>45,491</b>	<b>192,598</b>	<b>45,491</b>
<b>Cash and cash equivalents attributable to:</b>				
Continuing operations	192,598	18,497	192,598	18,497
Discontinued operations	-	26,994	-	26,994
	<b>192,598</b>	<b>45,491</b>	<b>192,598</b>	<b>45,491</b>