

Indigo Books & Music Inc. posts improved third quarter results

Comp store sales improved 1.9% in the superstores, 3.8% mall stores

TORONTO February 19, 2002 – Indigo Books & Music Inc. reported improved third quarter results, with total consolidated revenues rising to \$273.9 million, an increase of 10.6% from \$247.6 million for the same period last year. In addition to comparable store sales increase in superstores and traditional stores of 1.9% and 3.8% respectively, the increase was attributable to the addition of 15 existing Indigo superstores and 1 new Indigo opened in December.

This \$29.9 million in sales was offset by sales decreases from closing 27 traditional format stores and lower sales at Chapters Online. On a year to date basis total consolidated revenues were \$565.0 million as compared to \$538.5 million on a year to date basis last year.

Consolidated earnings before amortization, interest, taxes, restructuring charges and non-controlling interest (“operating earnings”) increased to \$34.9 million compared to operating earnings of \$27.2 in the third quarter last year. This represents an increase in operating earnings of \$7.7 million or 28.3% in the quarter. On a year-to-date basis, operating earnings were \$34.2 million as compared to \$11.3 million on a year to date basis last year, an increase in operating earnings of \$22.9 million or 203%.

On a year to date basis, restructuring and other costs of \$21.2 million, recorded in the second quarter, relate to store closures and other costs associated with the amalgamation between the Company and Old Indigo. The charges are comprised of \$12.3 million in capital asset write downs, \$4.5 million relating to store closings, \$1.7 million relating to relocation and other costs associated with the acquisition and \$2.7 million in finance charges. Of the total restructuring charges, approximately \$8.6 million are cash charges of which \$3.0 million have been paid. The balance of approximately \$12.5 million relates to non-cash transactions.

Excluding restructuring charges, the net income on a year to date basis was \$1.7 million (\$0.13 per share) as compared to a net loss of \$11.5 million (\$1.01 per share) on a year to date basis last year. This represents an increase of \$13.2 million (\$1.14 per share).

The consolidated net income for the third quarter was \$18.8 million (\$1.41 per share) as compared to a net income of \$9.0 million (\$0.79 per share) in the third quarter last year, a \$9.8 million or a 109% improvement. The consolidated net loss on a year to date basis, after the one-time restructuring charges described

above, was \$19.4 million (\$1.53 per share) as compared to a net loss of \$11.5 million (\$1.01 per share) on a year to date basis last year.

“We are pleased with our improved third quarter performance,” said Heather Reisman, Chief Executive Officer of Indigo. “We will continue to focus on strengthening all aspects of the retail experience for our customers and on addressing the opportunity to streamline our portfolio of stores in areas where we feel there is over-capacity.

“I am particularly proud of the employees in this company who have worked and continue to work relentlessly and with spirit to reverse the problems which were negatively affecting performance.”

Subsequent to the quarter end 13 superstores and 10 traditional stores, previously offered for sale pursuant to a Consent Order issued by the Commissioner of Competition, reverted to Indigo as no divestitures were completed by the trustee appointed to effect the sale. It is anticipated that a few stores in the portfolio will close and that costs related to this process will be incurred.

Retail

Retail sales in the third quarter were \$263.5 million as compared to \$232.1 million in the third quarter of last year, an increase of \$31.4 million or 13.5%. Operating earnings increased to \$35.0 million in the third quarter from \$33.6 million in the third quarter last year, an increase of \$1.4 million or 4.2%. The increase, as compared to last year, can be attributed to improved gross margin dollars, reduced warehousing and distribution costs offset slightly by higher occupancy and labour costs due to the expansion of the superstore portfolio.

Retail sales on a year to date basis were \$538.4 million as compared to \$497.6 million last year, an increase of \$40.8 million or 8.2 %. On a year to date basis, operating earnings were \$37.0 million as compared to \$35.4 million last year.

Superstores

In the third quarter, revenues at the Chapters and Indigo superstores, including the World's Biggest Bookstore, grew to \$176.1 million, a 26.0% increase compared to revenue of \$139.8 million in the third quarter last year. The growth in revenue was generated by the operation of 16 additional superstores as compared to the third quarter last year and positive performance on a comparable store basis. Comparative store sales increased 1.9% during the quarter as compared to 1.3% in the same period last year. Following challenges in the post September 11th environment, comparable store sales in the key month of December increased 5.7%.

Year to date revenues increased \$51.7 million to \$367.8 million as compared to last year. This growth in revenue is attributable to the operation of a larger superstore portfolio and improvement in merchandising.

Traditional Stores

Total traditional store revenues declined to \$72.4 million in the third quarter, a decrease of \$5.3 million or 6.8% in comparison to \$77.7 million in the third quarter last year. The decline in revenue was the result of operating 27 fewer mall stores, or approximately 12% fewer stores as compared with the third quarter last year. The comparative store sales increase of 3.9% during the quarter was a significant improvement over the 0.4% decline in the third quarter last year. The total number of traditional stores as at the end of the quarter was 190 as compared to 217 stores last year. Comparable store sales in the key month of December increased 4.3%.

Year to date revenues decreased \$10.8 million to \$145.5 million as compared to last year. Comparative store sales increased 2.5% on a year to date basis, a significant improvement over the 3.1% decrease during the same period last year.

Online

Revenues in the third quarter were \$10.4 million as compared to \$15.5 million in the third quarter last year, a decrease of \$5.1 million or 32.9%. The decline was attributable to less aggressive marketing, discounting and promotional activities during the third quarter of this year as compared to the third quarter last year. Losses before interest, taxes, amortization and restructuring charges ("operating losses") were reduced by \$5.9 million to \$71,000 primarily due to significant reductions in operating costs as a result of restructuring activities undertaken over the previous three quarters.

On a year to date basis, revenues were \$26.6 million as compared to \$40.9 million on a year to date basis last year, a \$14.3 million decrease. Operating losses were reduced by \$21.2 million on a year to date basis to \$2.8 million, a significant improvement over last year's performance.

Forward-Looking Statements

Statements contained in this press release that are not historical facts are forward-looking statements, which involve risk and uncertainties which 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 and its subsidiaries.

About Indigo Books & Music Inc.

Indigo is a Canadian company and the largest book retailer in Canada, operating bookstores in all provinces under the names Indigo Books Music & more, Chapters, Coles, SmithBooks, and World's Biggest Bookstore. Indigo operates www.chapters.indigo.ca, an online retailer of books, videos and DVDs.

Indigo is a publicly traded company, listed on the TSE under the stock symbol IDG. To learn more about Indigo, please visit the About Our Company section of www.chapters.indigo.ca.

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Indigo Books & Music Inc.

Consolidated Statements of Financial Position

Figures as at December 29, 2001 and December 30, 2000 are unaudited

<i>[in thousands of dollars]</i>	As at December 29, 2001	As at December 30, 2000	As at March 31, 2001
Assets			
Cash	\$ 25,322	\$ 16,474	\$ 11,394
Short term investments	-	-	3,850
Accounts receivable	16,526	19,729	11,547
Inventories	270,255	297,129	193,977
Income taxes receivable	4,695	-	5,353
Prepaid expenses	4,624	4,551	4,863
Future income tax assets	2,921	925	5,281
Total current assets	324,343	338,808	236,265
Capital assets, net	132,249	140,206	138,842
Future income taxes assets	7,762	9,060	5,402
Goodwill, net of accumulated amortization of \$5,653 (2001 - \$5,137)	59,331	1,292	8,301
Deferred financing charges, net of accumulated amortization of \$467	3,383	-	-
Total assets	527,068	489,366	388,810
Liabilities and shareholders' equity			
Bank indebtedness	-	-	52,605
Accounts payable and accrued liabilities	305,530	262,457	182,942
Income taxes payable	-	8,170	-
Deferred revenue	6,137	5,318	5,272
Current portion long term debt	20,000	-	-
Total current liabilities	331,667	275,945	240,819
Accrued benefit obligations	1,916	49	1,166
Long-term debt	84,000	54,000	54,000
Convertible debentures	27,133	-	-
Non-controlling interest	-	5,477	1,716
Total liabilities	444,716	335,471	297,701
Shareholders' equity			
Share capital	153,543	132,262	144,775
Equity portion of convertible debentures	1,903	-	-
Retained earnings (deficit)	(73,094)	21,633	(53,666)
Total shareholders' equity	82,352	153,895	91,109
Total liabilities and shareholders' equity	\$ 527,068	\$ 489,366	\$ 388,810

Indigo Books & Music Inc.
Consolidated Statements of Earnings

Unaudited

	13 week period ended December 29, 2001	13 week period ended December 30, 2000	39 week period ended December 29, 2001	39 week period ended December 30, 2000
<i>[in thousands of dollars, except per share data]</i>				
Revenue				
Superstores	\$ 176,142	\$ 139,838	\$ 367,836	\$ 316,112
Traditional bookstores	72,394	77,661	145,501	156,344
Internet	10,386	15,481	26,618	40,915
Other	14,969	14,570	25,091	25,114
	273,891	247,550	565,046	538,485
Cost of product, purchasing, selling and administration	238,967	220,302	530,797	527,137
	34,924	27,248	34,249	11,348
Amortization of capital assets	7,636	6,836	22,738	20,167
Amortization of pre-opening store costs	58	157	443	832
Amortization of goodwill	249	134	749	402
Income (loss) before the undernoted items	26,981	20,121	10,319	(10,053)
Restructuring charges	-	-	21,152	-
Interest on long-term debt and financing charges	2,246	978	5,235	2,934
Interest on current debt	1,961	1,370	4,626	3,260
Income (loss) before income tax recovery and non-controlling interest	22,774	17,773	(20,694)	(16,247)
Income tax expense	4,102	11,052	450	4,773
Income (loss) before non-controlling interest	18,672	6,721	(21,144)	(21,020)
Non-controlling interest	(127)	(2,275)	(1,716)	(9,524)
Net income (loss) for the period	\$ 18,799	\$ 8,996	\$ (19,428)	\$ (11,496)
Basic net income (loss) per common share	\$ 1.41	\$ 0.79	\$ (1.53)	\$ (1.01)
Diluted net income (loss) per common share	\$ 1.27	\$ 0.79	\$ (1.53)	\$ (1.01)
Weighted average common shares outstanding				
Basic	13,341	11,375	12,728	11,369
Diluted	15,090	11,379	12,728	11,369