

## Indigo Reports Gains in Fourth Quarter Revenue and Earnings

### Online booklovers community site reaches 100,000 members

TORONTO, ONT - May 22, 2008 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported gains in net revenue and net earnings for its fourth quarter ending March 29<sup>th</sup>, 2008.

Notwithstanding continuing decreases in retail book prices, total revenue for the quarter increased 2.1% to \$206.2 million. On a comparable store basis, Indigo and Chapters superstores posted 3.4% growth, while Coles small format stores were up 2.4%. Sales from Indigo's online channel, chapters.indigo.ca, grew 1.0% to \$24.7 million.

The Company's net earnings for the fourth quarter were \$3.1 million, up \$7.3 million from the same quarter last year. Pre-tax earnings rose \$6.1 million to \$1.9 million.

For the full year, total revenue increased 5.5% to \$922.9 million while net earnings were up 76.0% to \$52.8 million. Included in this year's results was a \$8.8 million non-cash tax recovery. Pre-tax earnings rose \$14.1 million to \$44.1 million.

According to Indigo CEO Heather Reisman, "It was a demanding year for many retailers as a result of the significant increase in the Canadian dollar. Booksellers in particular saw a meaningful decrease in book prices. Despite this downward pressure on our top line we are pleased with our results."

Other milestones in the fourth quarter included the celebration of Indigo's 100,000th member to the Indigo Online Community <http://www.chapters.indigo.ca/community>. The site combines social networking functionality with booklover inspired content and tools and is fast becoming the largest destination of booklovers on the internet.

### 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 Canadian company and the largest book retailer in Canada, operating bookstores in all provinces under the names Indigo Books Music & more, Chapters, The World's Biggest Bookstore and Coles. Indigo operates [chapters.indigo.ca](http://chapters.indigo.ca), an online retailer of books, music, movies and more. It is a publicly traded company listed on the Toronto Stock Exchange under the stock symbol IDG.

In 2006 and 2007 the Company qualified as one of Canada's Top 100 Employers in a survey run by Mediacorp Canada. To learn more about Indigo, please visit the About Our Company section of [chapters.indigo.ca](http://chapters.indigo.ca).

In 2004, Indigo founded the Indigo Love of Reading Foundation, a registered charity whose mission is to provide new books and creative learning materials to high-needs elementary schools, enhancing the literacy and self-esteem of students in Canada. Visit [chapters.indigo.ca/loveofreading](http://chapters.indigo.ca/loveofreading) for more information. To date, the Indigo Love of Reading Fund has committed \$4.5 million to 30 schools for the purchase of books and learning materials.

For further information please contact:

Janet Eger  
Director, Public Relations  
416 342 8561  
[jeger@indigo.ca](mailto:jeger@indigo.ca)

## Consolidated Balance Sheets

<i>(thousands of dollars)</i>	As at March 29, 2008	As at March 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	55,933	13,639
Accounts receivable	8,996	9,848
Inventories	206,259	224,059
Income taxes recoverable	21	194
Prepaid expenses	4,929	4,578
Future tax assets	6,745	9,205
<b>Total current assets</b>	<b>282,883</b>	<b>261,523</b>
Capital assets, net	67,348	76,186
Future tax assets	43,250	32,035
Goodwill	27,523	27,523
<b>Total assets</b>	<b>421,004</b>	<b>397,267</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	193,323	206,542
Deferred revenue	10,350	10,621
Current portion of long-term debt	2,648	15,562
<b>Total current liabilities</b>	<b>206,321</b>	<b>232,725</b>
Long-term accrued liabilities	7,549	10,807
Long-term debt	3,380	4,928
<b>Total liabilities</b>	<b>217,250</b>	<b>248,460</b>
<b>Shareholders' equity</b>		
Share capital	198,938	197,592
Contributed surplus	2,564	1,752
Retained earnings (deficit)	2,252	(50,537)
<b>Total shareholders' equity</b>	<b>203,754</b>	<b>148,807</b>
<b>Total liabilities and shareholders' equity</b>	<b>421,004</b>	<b>397,267</b>

## Consolidated Statements of Earnings

	<b>13-week period ended March 29, 2008</b>	13-week period ended March 31, 2007	<b>52-week period ended March 29, 2008</b>	52-week period ended March 31, 2007
<i>(thousands of dollars, except per share data)</i>				
<b>Revenues</b>	<b>206,236</b>	201,896	<b>922,878</b>	875,043
Cost of sales, operations, selling and administration	<b>197,654</b>	197,608	<b>848,934</b>	809,386
	<b>8,582</b>	4,288	<b>73,944</b>	65,657
Amortization of capital assets	<b>7,239</b>	7,687	<b>29,665</b>	30,670
Capital assets write-off	-	733	-	2,372
Amortization of pre-opening store costs	-	54	<b>144</b>	205
	<b>7,239</b>	8,474	<b>29,809</b>	33,247
Earnings before the undernoted items	<b>1,343</b>	(4,186)	<b>44,135</b>	32,410
Recovery of restructuring costs	-	(315)	-	(315)
Interest on long-term debt and financing charges	<b>203</b>	470	<b>786</b>	1,307
Interest (income) on bank indebtedness	<b>(789)</b>	(135)	<b>(704)</b>	1,504
Earnings before income taxes	<b>1,929</b>	(4,206)	<b>44,053</b>	29,914
Income tax recovery	<b>(1,201)</b>	-	<b>(8,755)</b>	(90)
<b>Net earnings for the period</b>	<b>3,130</b>	(4,206)	<b>52,808</b>	30,004
<b>Net earnings per common share</b>				
Basic	<b>\$ 0.13</b>	\$ (0.17)	<b>\$ 2.13</b>	\$1.23
Diluted	<b>\$ 0.12</b>	\$ (0.17)	<b>\$ 2.08</b>	\$1.19

## Consolidated Statements of Cash Flows

<i>(thousands of dollars)</i>	<b>13-week period ended March 29, 2008</b>	13-week period ended March 31, 2007	<b>52-week period ended March 29, 2008</b>	52-week period ended March 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net earnings for the period	3,130	(4,206)	52,808	30,004
Add (deduct) items not affecting cash				
Amortization	7,239	7,741	29,809	30,875
Stock-based compensation	239	126	751	546
Directors' compensation	84	79	341	298
Future income taxes	(201)	-	(8,755)	-
Loss on disposal of capital assets	9	33	105	241
Capital assets write-off	-	733	-	2,372
Amortization and write-off of deferred financing charges	44	76	258	304
Other	(25)	-	(19)	-
Net change in non-cash working capital balances related to operations				
Accounts receivable	7,926	3,206	852	(3,911)
Inventories	22,411	24,537	17,800	(9,461)
Prepaid expenses	(1,118)	(403)	(495)	4,518
Income taxes recoverable	-	250	173	(38)
Deferred revenue	(274)	607	(271)	1,589
Accounts payable and accrued liabilities	(83,332)	(92,812)	(16,477)	(4,100)
<b>Cash flows from operating activities</b>	<b>(43,868)</b>	<b>(60,033)</b>	<b>76,880</b>	<b>53,237</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of capital assets	(6,804)	(3,401)	(19,532)	(20,068)
Proceeds from sale of capital assets	691	-	691	67
<b>Cash flows used in investing activities</b>	<b>(6,113)</b>	<b>(3,401)</b>	<b>(18,841)</b>	<b>(20,001)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Decrease in bank indebtedness	-	-	-	(12,728)
Repayment of long-term debt	(1,389)	(761)	(16,811)	(15,155)
Proceeds from share issuances	67	1,179	1,066	2,303
<b>Cash flows used in financing activities</b>	<b>(1,322)</b>	<b>418</b>	<b>(15,745)</b>	<b>(25,580)</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>(51,303)</b>	<b>(63,016)</b>	<b>42,294</b>	<b>7,656</b>
Cash and cash equivalents, beginning of period	107,236	76,655	13,639	5,983
<b>Cash and cash equivalents, end of period</b>	<b>55,933</b>	<b>13,639</b>	<b>55,933</b>	<b>13,639</b>