

## **Indigo Revenue Up in Third Quarter**

*-Sales Up In Store, Online with Double Digit Increases in Gift, Lifestyle and Toys-*

**TORONTO, ONT - February 8, 2012** -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported a 0.5% growth in revenue for its third quarter ending December 31, 2011. Revenue for the quarter was \$352.9 million, up \$1.7 million from last year driven by growth in the gift, lifestyle, toy, and eReader businesses.

On a comparable store basis, Indigo and Chapters superstores posted a 1.8% increase in revenue, and Coles and IndigoSpirit small format stores were up by 2.5%. Sales from Indigo's online channel, chapters.indigo.ca were up 9.3% compared to last year.

Commenting on the results, CEO Heather Reisman said, "We were very pleased with our holiday results. We recorded the highest sales day in the history of our Company during December and experienced double digit growth in our gift, lifestyle, and toy businesses".

Net profit from continuing operations for the quarter was \$23.7 million compared to a net profit from continuing operations of \$27.0 million last year. Ms. Reisman noted, "The reduced profit was due to lower gross margins as a result of increased promotional discounts to drive print sales and increased sales of low margin eReaders. This margin impact has not yet been offset by expected growth in the gift, lifestyle and toy businesses. The Company also recorded a \$4.0 million non-cash asset impairment charge during the quarter. Excluding this charge, net profit increased \$0.7 million."

During the quarter, the Company entered into an agreement with Rakuten, Inc. to acquire all of the outstanding shares of Kobo Inc. on a fully diluted basis for an aggregate price of US\$315 million. The sale was completed shortly after quarter end and Indigo received US\$146.1 million from the proceeds of the sale. The Company noted that it intends to keep the cash proceeds to support its growth and transformation strategy.

The Company also announced that Ted Marlow decided to return to the U.S. and has stepped down from his role as President. "We thank Ted for his leadership over the past year," said Ms. Reisman.

The Board of Directors today approved a quarterly dividend of 11 cents per common share to be paid on March 12, 2012, to all shareholders of record as of February 24, 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 consolidated financial statements in accordance with International Financial Reporting Standards. 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) and the majority shareholder of the global eReading service Kobo Inc. 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), features books, eBooks, toys, gifts and, and hosts the award winning Indigo Online Community. 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 \$10.5 million to schools in need. Visit [loveofreading.org](http://loveofreading.org) for more information.

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

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**Consolidated Balance Sheets**  
**(Unaudited)**

(thousands of Canadian dollars)	As at December 31, 2011	As at January 1, 2011	As at April 2, 2011
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	148,610	144,643	83,661
Accounts receivable	21,690	26,007	12,684
Inventories	234,705	255,750	232,694
Income taxes recoverable	-	899	-
Prepaid expenses	3,915	13,729	7,941
Derivatives	1,747	-	-
Assets held for sale	117,551	-	-
<b>Total current assets</b>	<b>528,218</b>	<b>441,028</b>	<b>336,980</b>
Property, plant and equipment	70,409	85,722	78,777
Intangible assets	22,333	28,359	30,614
Deferred tax assets	60,290	34,847	38,004
Goodwill	1,216	26,632	26,632
<b>Total assets</b>	<b>682,466</b>	<b>616,588</b>	<b>511,007</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	241,553	256,432	180,899
Unredeemed gift card liability	60,959	57,094	40,991
Provisions	-	33	-
Deferred revenue	12,110	12,639	11,528
Income taxes payable	310	-	657
Notes payable	5,224	-	-
Current portion of long-term debt	1,163	1,302	1,290
Liabilities associated with assets held for sale	114,400	-	-
<b>Total current liabilities</b>	<b>435,719</b>	<b>327,500</b>	<b>235,365</b>
Long-term accrued liabilities	4,820	6,822	6,284
Long-term debt	1,327	2,081	1,995
<b>Total liabilities</b>	<b>441,866</b>	<b>336,403</b>	<b>243,644</b>
<b>Equity</b>			
Share capital	203,254	201,294	202,220
Contributed surplus	6,860	5,986	6,066
Retained earnings	16,468	70,825	48,629
<b>Total equity attributable to shareholders of the Company</b>	<b>226,582</b>	<b>278,105</b>	<b>256,915</b>
Non-controlling interest	14,018	2,080	10,448
<b>Total equity</b>	<b>240,600</b>	<b>280,185</b>	<b>267,363</b>
<b>Total liabilities and equity</b>	<b>682,466</b>	<b>616,588</b>	<b>511,007</b>

## Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss) (Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended December 31, 2011	13-week period ended January 1, 2011	39-week period ended December 31, 2011	39-week period ended January 1, 2011
<b>Revenues</b>	<b>352,858</b>	351,225	<b>738,111</b>	756,289
Cost of sales	<b>208,456</b>	199,335	<b>431,035</b>	426,615
<b>Gross profit</b>	<b>144,402</b>	151,890	<b>307,076</b>	329,674
Cost of operations	<b>82,277</b>	84,041	<b>213,986</b>	213,948
Selling and administrative expenses	<b>21,376</b>	20,838	<b>58,708</b>	56,846
Foreign currency translation	<b>(1,780)</b>	75	<b>(1,167)</b>	339
<b>Operating earnings before the following</b>	<b>42,529</b>	46,936	<b>35,549</b>	58,541
Depreciation of property, plant and equipment	<b>4,810</b>	4,801	<b>13,826</b>	13,424
Amortization of intangible assets	<b>2,082</b>	1,955	<b>6,266</b>	5,793
Impairment of capital assets	<b>3,956</b>	-	<b>3,956</b>	-
Impairment of goodwill	-	-	<b>25,416</b>	-
Interest on long-term debt and financing charges	<b>34</b>	72	<b>117</b>	115
Interest income on cash and cash equivalents	<b>(25)</b>	(122)	<b>(40)</b>	(295)
<b>Earnings (loss) before income taxes</b>	<b>31,672</b>	40,230	<b>(13,992)</b>	39,504
Income tax expense	<b>7,961</b>	13,280	<b>3,109</b>	13,367
Earnings (loss) and comprehensive earnings (loss) from continuing operations	<b>23,711</b>	26,950	<b>(17,101)</b>	26,137
Loss and comprehensive loss from discontinued operations, net of taxes	<b>(17,906)</b>	(10,107)	<b>(41,679)</b>	(21,151)
<b>Net earnings (loss) and comprehensive earnings (loss) for the period</b>	<b>5,805</b>	16,843	<b>(58,780)</b>	4,986
<b>Net earnings (loss) and comprehensive earnings (loss) attributable to:</b>				
Shareholders of the Company	<b>14,362</b>	20,827	<b>(38,863)</b>	13,699
Non-controlling interest	<b>(8,557)</b>	(3,984)	<b>(19,917)</b>	(8,713)
<b>Total net earnings (loss) and comprehensive earnings (loss) for the period</b>	<b>5,805</b>	16,843	<b>(58,780)</b>	4,986
<b>Net earnings (loss) per common share</b>				
Basic	<b>\$0.57</b>	\$0.84	<b>\$(1.54)</b>	\$0.55
Diluted	<b>\$0.56</b>	\$0.82	<b>\$(1.54)</b>	\$0.54

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

(thousands of Canadian dollars)	13-week period ended December 31, 2011	13-week period ended January 1, 2,011	39-week period ended December 31, 2011	39-week period ended January 1, 2,011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net earnings (loss) from continuing operations for the period	23,711	26,950	(17,101)	26,137
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	4,810	4,801	13,826	13,424
Amortization of intangible assets	2,082	1,955	6,266	5,793
Impairment of capital assets	3,956	-	3,956	-
Impairment of goodwill	-	-	25,416	-
Loss on disposal of capital assets	50	4	65	73
Stock-based compensation	196	243	866	532
Directors' compensation	117	100	384	416
Deferred tax assets	7,961	13,280	3,109	13,367
Interest on long-term debt and financing charges	34	72	117	115
Interest income on cash and cash equivalents	(25)	(122)	(40)	(295)
Other	2,453	363	43	494
Net change in non-cash working capital balances related to continuing operations	97,121	56,514	85,620	32,325
Operating cash flows of discontinued operations	(51,874)	(9,102)	(68,687)	(11,587)
<b>Cash flows from operating activities</b>	<b>90,592</b>	<b>95,058</b>	<b>53,840</b>	<b>80,794</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of non-capital tax losses	-	-	(10,559)	-
Purchase of property, plant and equipment	(4,682)	(7,382)	(10,530)	(21,878)
Addition of intangible assets	(2,152)	(3,182)	(6,040)	(8,893)
Investing cash flows of discontinued operations	(3,289)	(1,267)	(7,936)	(3,789)
<b>Cash flows used in investing activities</b>	<b>(10,123)</b>	<b>(11,831)</b>	<b>(35,065)</b>	<b>(34,560)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Notes payable	-	-	5,280	-
Repayment of long-term debt	(335)	(356)	(1,047)	(1,983)
Interest received	15	54	109	177
Proceeds from share issuances	-	1,093	578	2,274
Repurchase of common shares	-	-	-	(387)
Purchase of shares in subsidiary	-	(5,714)	(3,009)	(9,286)
Dividends paid	(2,776)	(2,742)	(8,315)	(8,193)
Financing cash flows of discontinued operations	50,604	7,628	75,082	12,401
<b>Cash flows from (used in) financing activities</b>	<b>47,508</b>	<b>(37)</b>	<b>68,678</b>	<b>(4,997)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2,422)	(369)	(68)	(492)
<b>Net increase in cash and cash equivalents during the period</b>	<b>125,555</b>	<b>82,821</b>	<b>87,385</b>	<b>40,745</b>
Cash and cash equivalents, beginning of period	45,491	61,822	83,661	103,898
<b>Cash and cash equivalents, end of period</b>	<b>171,046</b>	<b>144,643</b>	<b>171,046</b>	<b>144,643</b>
<b>Cash and cash equivalents attributable to:</b>				
Continuing operations	148,610	136,648	148,610	136,648
Discontinued operations	22,436	7,995	22,436	7,995