The provision for estimated returns is significant for retail sales where books are sold with a right of return. As books are shipped a provision is recorded for returns. This provision is estimated by management, based primarily on historic sales performance of that type of book and the author. Books are returned over time and are adjusted against the returns provision. On a quarterly basis the actual return experience is used to assess the adequacy of the provision.

The impact of the variance between the original estimate for returns and the actual experience is reported in a period subsequent to the original sale. This can have either a positive (if the actual experience is better than estimated) or negative (if the actual experience is worse) impact on reported results. A change in market conditions can therefore have a compounded effect on the book publishing results. If the market sales are declining, the estimate being made for returns on current period sales will generally be higher and the adjustment to the returns provision for prior period sales is likely to be negative (i.e. the market has softened since the original estimate was made).

Series books are on sale for approximately one month and returns are normally received within one year, with more than 95% received within the first six months. Harlequin has been publishing series books for more than 20 years and has significant experience in projecting returns for this business. Single title books are on sale for several months and, as a result, experience a longer return period. The single title publishing program has grown over the past decade. Harlequin's experience with the returns patterns and methodology used by management to project returns for single title books has also evolved over that time period. For these books, there is more variation in net sale rates between titles, even for the same author. As a result, the estimate for returns on these titles has more variability than that for the series titles.

At December 31, 2004, the returns provision deducted from accounts receivable on the consolidated balance sheets was $111 million ($101 million in 2003). A 1% change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2004 would result in a $4.0 million change in reported 2004 revenue.

VALUATION OF GOODWILL

Under Canadian GAAP, goodwill is not amortized but is assessed for impairment at the reporting unit level at least on an annual basis. Goodwill is assessed for impairment using a two-step approach. The first step is to assess whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. If the fair value of the reporting unit is less than the carrying value, the second step is required. The second step is a comparison of the fair value of goodwill to its carrying amount. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and a charge for impairment must be recognized immediately.

Reporting units are identified based on the nature of the business and the level of integration between operations. Torstar uses a market approach to determine the fair value of its reporting units. This approach uses several factors including normalized or projected earnings and price earnings multiples. Comparable transactions are reviewed for appropriate price earnings multiples. The fair value of an asset is defined as the amount at which it could be bought or sold in a current transaction between willing parties.

Torstar has completed its annual impairment test and no adjustment for impairment was required.

ACCOUNTING FOR EMPLOYEE FUTURE BENEFITS

The cost of defined benefit pension and other retirement benefits earned by employees is actuarially determined each year based on management's estimates of the long-term rate of investment return on plan assets and future compensation and health care costs. Management applies judgment in the selection of these estimates, based on regular reviews of historical investment returns, salary increases and health care costs. Expectations regarding future economic trends and business conditions, including inflation rates are also considered.

The discount rate used in measuring the liability and expected healthcare costs is prescribed to be equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the duration of the benefit obligation.

Management's estimates, along with a sensitivity analysis of changes in these estimates on both the benefit obligation and the benefit expense are further discussed under "Pension Obligations" and are disclosed in Note 12 of the consolidated financial statements.