Note 3. Goodwill

Goodwill is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

The Company determines the fair value using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions are subject to change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

In 2006, the Company performed the annual goodwill impairment test and it was determined that the carrying value of the goodwill established on the acquisition of Provigo Inc. in 1998 exceeded its respective fair value. As a result, the Company recorded in operating income a non-cash goodwill impairment charge of $800 relating to this goodwill. The Company expects no income tax deduction from this non-cash goodwill impairment charge. The determination that the fair value of goodwill was less than its carrying value resulted from a decline in market multiples, both from an industry and Company perspective, and a reduction of fair value as determined using the discounted cash flow methodology, incorporating both current Company and market assumptions, which in combination resulted in the goodwill impairment. This non-cash goodwill impairment charge is expected to be adjusted if necessary in the first half of 2007 and may result in a charge or credit to operating income in the consolidated statement of earnings and in the carrying value of goodwill on the balance sheet.

In the normal course of business, the Company may acquire from time to time franchisee stores and convert them to corporate stores. In 2006, the Company acquired 7 franchisee businesses (2005 – 7 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the business acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of fixed assets of $2 (2005 – nominal), other assets principally inventory of $2 (2005 – $3) and goodwill of $7 (2005 – $3) for cash consideration of $9 (2005 – $5), net of accounts receivable due from the franchisees of $2 (2005 – $1).

The consolidated balance sheet as at year end 2006 includes $4 (2005 – $4) of goodwill of independent franchisees that were consolidated by the Company pursuant to the requirements of AcG 15.

During 2005, the Company reduced goodwill by $41 due to the resolution of certain income tax matters previously accrued for as part of the Provigo Inc. purchase equation.

The following table discloses the changes in goodwill over 2006 and 2005.

	2006	2005
Balance, beginning of year	**$ 1,587**	$ 1,621
Goodwill acquired	**7**	7
Goodwill impairment	**(800)**	–
Other adjustments	–	(41)
Balance, end of year	**$ 794**	$ 1,587