

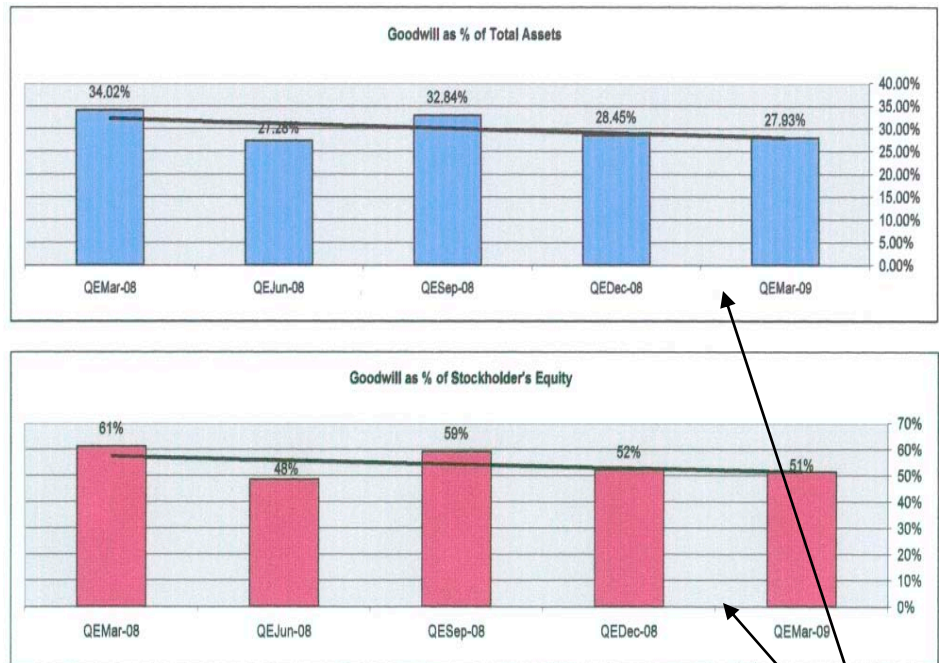
The Merriam Report© displays changes in Goodwill (an intangible asset) each as a percentage of Total Assets and as a percentage of Stockholder's Equity.

Goodwill is an intangible asset and subject to annual tests for possible impairment.

Determining the value of goodwill is hazy at best, when you consider it's inclusive to patents, brand names, trademarks, etc., above and beyond book value.

Thus, consider goodwill as the cost of an investment in excess of its book value.

Generally speaking, goodwill ratios differ from industry to industry.



Trendlines in the charts above represent exponential changes to goodwill over the rolling five quarters reviewed.

In the case of Harris Corp. (HRS) pictured here, we like that goodwill levels (as % of assets and equity) are showing an exponential decline over the rolling five periods shown. This can be seen in the trend lines above.

Investors will want to keep an eye on future changes in a company's goodwill figures and here's why.

When company X buys company Y, company X will likely pay some measure of premium (either as a multiple of sales, EBITDA, etc.) to acquire the assets of Y. Physical assets can be depreciated and/or sold over time, whereas intangible assets are required to be periodically tested for impairment.

In the event the acquiring company (X) pays more than the asset is worth and the asset loses intrinsic value later, management is required to take a charge against the "impaired" asset, thus reducing both equity and intangible asset value.

More importantly, intangible assets do not directly participate in income production so the write-down against the impairment would be a non-cash charge. However, it will still reduce equity and asset value on the balance-sheet.