

CHEYENNE SOFTWARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax asset and liability at June 30, 1995 and 1994 are as follows:

	1995	1
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	(In thousa	
Deferred tax assets:		
Allowance for doubtful accounts receivable	\$ 487	
Accrual for product returns and exchanges	646	
Other	267	

	\$ 1,400	
	=====	
Deferred tax liabilities:		
Fixed assets depreciation	853	
Equity in earnings of Gates/FA	--	
Other	499	

	\$ 1,352	
	=====	

Management of the Company has determined, based upon historical pre-tax earnings and expected taxable income in the future, that it is more likely than not that the Company will realize its deferred tax assets and therefore, no valuation allowance is warranted.

The following is a reconciliation of the provision for income taxes to the "expected" amounts computed by applying the statutory Federal income tax rate to the Company's income before income taxes:

	1995		1994	
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			(In thousands)	
Computed "expected" income tax expense	\$ 21,966	35.0%	\$ 17,248	35.0%
Increase (decrease) in income taxes resulting from:				
State income taxes, net of Federal benefit	2,037	3.3	1,500	3.0
Foreign income tax rate differential	428	.7	--	--
Excess tax gain on sale of Gates/FA common stock	1,779	2.8	--	--
Equity in earnings of Gates/FA	--	--	--	--
Foreign Sales Corporation (FSC) benefit	(809)	(1.3)	(1,244)	(2.5)
Tax-exempt investment income	(919)	(1.5)	(452)	(.9)
Research and development tax credit	(227)	(.4)	(374)	(.8)
Other	--	--	64	.2