

April 13 2005

## COMPUTER HORIZONS CORP.

Nasdaq: CHRZ

Rating: Speculative Buy

Price Target: Under Review

Symbol	CHRZ
Last Trade (04/13/05)	\$ 3.15
Low/High 52 weeks	\$3.06/\$4.64
Average Volume (3m)	57,045
Market Capitalization	\$ 97.69 Mn
Shares Outstanding	30.9 Mn

Source: Finance Yahoo, SEC filings

**We are maintaining our rating on CHRZ subsequent to the merger-of-equals announcements with Analysts International Corp (ANLY). At this stage we are evaluating the financial implications of the merger for the surviving entity (CHRZ) at the end of which we will produce another update with a financial forecast for the combined entity and a price target. A preliminary analysis shows some potential benefits from the merger: more complete business offering; wider customer base; benefits from both vertical and horizontal integration; and cost savings opportunities.**

**Considering the favorable outlook of both companies for FY05, the combined revenues will likely exceed \$670 Mn and net income \$9 Mn, without correcting for positive impacts of synergies. For FY06, the bottom line changes will be more spectacular, considering roughly \$15 Mn in savings.**

### Computer Horizons and Analysts International Announce an Agreement to Combine in a Merger-of-Equals Transaction

#### Agreement to Combine with ANLY in a Merger-of-Equals Transaction

On April 13, CHRZ and Analysts International Corporation (ANLY), announced that they had executed a definitive agreement to combine in a merger-of-equals transaction to create one of the largest IT Professional Services firms in the United States, with combined 2004 revenues of approximately \$600 million. CHRZ will be considered the surviving entity for accounting and legal purposes.

#### Recent results

	ANLY			CHRZ			Consolidated		
	FY03	FY04	% chg	FY03	FY04	% chg	FY03	FY04	% chg
Revenue, \$ Mn	331.9	341.6	2.9%	245.2	262.5	7.1%	577.1	604.1	4.7%
Gross margin	22.7%	23.6%	0.9%	29.4%	31.2%	1.8%	25.5%	26.9%	1.4%
Operating margin	-0.5%	1.1%	1.6%	6.2%	6.2%	0.0%	2.4%	3.3%	1.0%
Net Margin	-0.5%	1.1%	1.6%	-7.0%	-9.6%	-2.6%	-3.2%	-3.5%	-0.3%
diluted EPS	\$(0.06)	\$0.16	n/m	\$(0.56)	\$(0.82)	n/m			

Source: SEC filings

The combined company will employ approximately 5,000 billable consultants with 50 offices in 28 states, plus offices in Canada, UK and India. It will also have a sizable government practice comprising of a variety of federal, state and local government departments and agencies with annual revenues of approximately \$65 million. The combined company will be headquartered in Minneapolis, Minnesota.

***Terms of agreement***

Under the terms of the agreement, ANLY's shareholders will receive 1.15 shares of Computer Horizons' common stock for each share of Analyst International's common stock. CHRZ's shareholders will own approximately 52% of the combined company, while ANLY's shareholders will own the remaining 48%. The transaction is expected to be accretive to earnings in 2006. It is expected that the process will be completed by the end of the third quarter of CY05.

The transaction is subject to both CHRZ's and ANLY's shareholders' approval and to appropriate regulatory approvals and other customary closing conditions. However, the Boards of Directors of both CHRZ and ANLY have unanimously approved the proposed merger.

***Expected Benefits***

Both companies hope that this combination will provide the needed strength to build a top-tier IT professional services firm. It will also help to maximize the value of some assets like Chimes, the government services practice and the IT Solutions centers. Both companies have complementary businesses with limited client overlapping.

The merger is also expected to result in approximately \$15 million in synergy savings, a substantial portion of which relates to public company costs and elimination of duplicative facilities and infrastructure which finally will result in improvements of earnings.

***New Management team***

The management of the new company will consist of executives of both companies and will be led by a management team consisting of William J. Murphy as CEO (CEO and President of CHC) and Jeffery P. Baker as President and COO (President of Analysts International). The Board of Directors will be composed of five directors from each merging firm, with Michael J. LaVelle from ANLY and Earl Mason from CHRZ serving as co-chairmen of the new Board of Directors.

***ANLY's profile***

Analysts International Corporation is a diversified information technology consulting and services firm operating in the U.S., Canada and the U.K. ANLY's service offerings include business solutions, such as application development and integration, infrastructure services including network support, security and connectivity, and full-service staffing. In January 2005, ANLY acquired the assets of Cincinnati-based WireSpeed Networks LLC, a technology company specializing in IP Telephony and wireless networking.

**FY 05 Guidance Combined**

Based on both ANLY's and CHRZ's guidance, we are expecting combined revenue for FY05 to reach \$670-680 Mn, while earnings per share to range between \$0.15-0.2, considering approximately 60 million of shares outstanding.

<b>FY 05 outlook</b>	<b>ANLY</b>	<b>CHRZ</b>	<b>Combined</b>
Revenue	\$390 Mn	\$280-290 Mn	\$670-680 Mn
Net income	\$6-7.5 Mn	\$3-4.5 Mn	\$9-12.0 Mn
EPS	\$0.25-0.31	\$0.1-0.14	\$0.15-0.2

**Other events**

In March, RGII Technologies, Inc, a CHRZ wholly-owned subsidiary, announced that is had been selected as part of a team to provide program support to the H-60 Helicopters Program Office, PMA-299, located at the Naval Air Systems Command (NAVAIRSYSCOM) in Patuxent River, MD. RGII Technologies, Inc. also announced that it had been selected as part of a team to provide program and financial support to the Office of Naval Research (ONR).

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**Sergiu Lisnic, CFA** is a senior analyst with Spelman Research. Prior to joining the company, he worked as an analyst for Evanston Capital Advisors for a year and a half, and subsequently served for two years as a financial analyst with a gas distribution and a FMCG company. He was primarily responsible for financial statement analysis, budgeting and reporting to shareholders. He earned the CFA title in September 2003.

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