

April 19, 2005

COMPUTER HORIZONS CORP.

Nasdaq: CHRZ

Rating: Speculative Buy

Price Target: \$7.6

Financial Summary		US\$ 'mn	2004	2005E	2006E
52-Week Range	\$2.81/\$4.64	Net revenues	262.5	471.6	706.7
Recent Price (4/19/05)	\$2.97	Operating income	(27.1)	9.1	36.1
Market Cap	92 Mn	Net income (loss)	(25.2)	9.1	29.2
Current Shares Outstanding	31.0 Mn	EPS, diluted	(\$0.82)	\$0.20	\$0.49
Avg. Daily Trading Volume (3m)	88,181	PE	N/M	14.8	6.1
Tangible Book Value (per share)	\$3.06				

Source: Finance Yahoo, SEC filings

We are maintaining our rating on CHRZ subsequent to the merger-of-equals announcements with Analysts International Corp (ANLY). Our first draft of the projected financials of the combined entity shows that CHRZ stock should benefit from a larger and more diversified sales base that ANLY brings. Even though the Chimes and the Federal segments of the company get "diluted," the overall effect is positive to CHRZ, because the two companies can become more profitable together, have a larger market cap and a more stable competitive position. The recent downwards revision of CHRZ revenue guidance for Q1Y05 only reinforces the need for smaller companies like CHRZ and ANLY to join forces to survive in the fiercely competitive environment. Though some may argue that the deal was not in favor of CHRZ based on book and net tangible book value per share, it is true that through this merger CHRZ gets revenues and market power.

Moreover, ANLY outlook for FY05 was very strong and this expected revenue growth has spill-over effects of CHRZ in our financial model. We expect that the combined entity will continue the aggressive acquisition policy each separate company pursued prior to the merger and that sales will increase at a strong pace in the short-to-medium term.

Our new DCF calculation shows a fair value per CHRZ share of \$6.7 and our twelve price target stands at \$7.6. The greatest risk the two companies face at the moment is the ability to finalize the transaction at reasonable costs and combining the operations of the two entities seamlessly. We will adjust our forecasts once CHRZ submits the S-4 form with more details on the specifics of the merger and the future strategy of the combined entity.

Valuation

First, we employed a new DCF model:

All figures in '000s USD, except per share data

MAJOR ASSUMPTIONS

Stock Price	\$2.97	Beta	0.86
Shares Outstanding, 000s end-of-FY06	60,005	Risk Premium	4.0%
Book Value of Net Debt, \$000s	\$0.00	Risk Free Rate (10 yr bond)	4.3%
Weighted Cost of Equity	9.2%	Small Cap Premium	1.5%
Long-term Equity Weight	100%	Cost of Equity	9.2%
WACC	9.2%	Terminal growth	4.0%

The inputs into the DCF model taken from the financial model for the combined entity are as follows:

000s USD	FYE05	FYE06	FYE07	Terminal Value
EBIT (1-T)	9,620	31,168	34,285	
Dep & Amort	8,619	8,964	9,412	
(-) Cap Ex	(6,097)	(7,798)	(8,912)	
(-) Changes in Non Cash Working Capital	887	(2,827)	(785)	
Free Cash Flow	13,029	29,506	34,000	404,884

Finally, the current fair value per share is \$6.7:

Discounted Cash Flow	
DCF stream	62,735
DC terminal value	310,589
Total DC Enterprise Value	373,323
(Less) Interest Liabilities	(30,000)
Equity Value	403,323
Equity Value Per Share	\$6.7

Our financial model was based on the information currently available separately from both companies and may be adjusted when the two companies issue a combined set of financial statements and more details about the expected structure of the combined entity. Otherwise, the current DCF-calculated fair value per share is \$6.7 and it rests on the superior revenue-generation capacity of the combined entity and improved profitability arising from economies of scale and cost efficiencies of a larger company.

COMPANY NAME	Ticker	Share Price 4/15/05	M Cap, \$m 2/25/05	Price to Book	EV/ EBITDA	PE ttm	PE 2006	PSR ttm	PSR 2006
COMPUTER HORIZONS	CHRZ	2.97	92	0.73	N/A	N/A	6.11	0.20	0.13
ACCENTURE	ACN	22.50	21,108	9.10	7.30	17.00	14.20	1.41	1.24
ELECTRONIC DATA SYS	EDS	19.65	10,172	1.40	4.20	70.20	24.90	0.49	0.51
ADECCO SA ADR	ADO	13.10	9,783	4.60	12.70	25.70	13.50	0.45	N/A
COMPUTER SCIENCES	CSC	43.96	8,401	1.30	5.00	14.90	13.40	0.55	0.56
MANPOWER	MAN	39.97	3,593	1.70	8.90	16.70	12.10	0.24	0.20
MPS GROUP	MPS	9.27	951	1.10	12.30	27.30	13.20	0.67	0.48
KELLY SERVICES 'A'	KELYA	27.27	968	1.50	11.50	44.00	12.80	0.19	0.16
KEANE	KEA	11.77	730	1.60	7.10	19.00	15.50	0.80	0.66
CIBER	CBR	7.09	443	1.20	8.80	14.20	11.30	0.53	0.44
CDI	CDI	22.01	434	1.60	15.40	34.40	18.80	0.41	0.36
COMPUTER TASK GROUP	CTG	3.35	70	1.20	10.80	18.60	11.20	0.29	0.23
COMFORCE	CFS	2.03	34	NM	7.80	33.80	N/A	0.07	N/A
Average		18.50	4,724	2.39	9.32	27.98	14.63	0.51	0.48
... excl. outliers		18.50	4,724	1.40	9.32	23.18	13.60	0.55	0.48
Median		16.38	960	1.50	8.85	22.35	13.40	0.47	0.46
Employment services	-	14.58	1,018	2.30	13.20	24.80	17.80	0.39	0.44
IT consulting & Services	-	12.57	1,229	3.00	11.90	31.00	18.30	1.21	0.88
Data processing Services	-	25.50	4,027	4.30	10.40	27.20	19.90	1.69	1.49
S&P 500		1142.62	89,796	2.80	N/A	17.10	14.90	1.47	N/A
NASDAQ COMPOSITE		1908.15	46,491	3.50	N/A	25.80	20.20	3.86	N/A

Source: Baseline, Yahoo! Finance, Analyst Estimates

As done in the initiation report, we will calculate sum-of-parts multiples for CHRZ to reflect the value of the business more accurately. The merged entity will however have different business segmentation as ANLY comes with more of the basic/ undifferentiated revenues. We are estimating that FY06 revenues will be composed of 53% IT services, 42% Solutions and 5% Chimes. The forward ratios for the price target multiple derivation will be kept the same as in the initiation report:

	<i>Weight</i>	Forward PE	Forward PSR	EV/EBITDA
IT Services	53%	14.5	0.5	9
Solutions Group	42%	16.0	0.7	10
Chimes	5%	25.0	3.0	15
TOTAL	100%	15.6	0.7	9.7

Using the new sales structure and ratios, our ratio-based price target calculations are as follows:

\$0.49 EPS FY06	x	15.6x forward PER	=	\$7.6 price target
\$11.7 Sales per share FY06	x	0.7x forward PSR	=	\$8.2 price target
\$45.0M EBITDA FY05	x	9.7x EV/EBITDA ratio	=	\$436.5M EV or \$7.8 price target*

*Assuming end-of-FY05 cash balance of \$30 mil and 60 million shares outstanding

OUR PRICE TARGET IS AN EQUAL-WEIGHT AVERAGE OF THE FOUR METHODOLOGIES EMPLOYED ABOVE: DCF, PE, PSR AND EV/EBITDA, NAMELY \$7.6. IT SEEMS THAT THE SUPERIOR GROWTH PROMISED BY ANLY AND THE ECONOMIES OF SCALE OF OPEARATING TWO SMALLER COMPANIES UNDER THE UMBRELA OF A LARGER ENTITY SHOULD PAY OFF. EVEN THOUGH THE CHRZ+ANLY COMBINED ENTITY DILLUTES THE INDIVIDUAL VALUES OF THE "DIFFERENTIATED" CHIMES AND FEDERAL SEGMENTS, WE CAN SEE THAT THE BENEFITS OF SMALLER ADMINISTRATIVE COSTS PER DOLLAR OF SALES AND THE SHEER SIZE OF THE NEW ENTITY WILL PAY OFF. EVEN THOUGH COSTS WILL NORMALLY INCREASE IN FY05 AS THE TWO COMPANIES COMBINE AND REORGANIZE THEIR OPERATIONS, STARTING WITH FY06 THE GREATER CHRZ ENTITY MAY SEE ITS STOCK PRICE MORE THAN DOUBLE FROM THE CURRENT VALUE. THE GREATEST RISK TO THE ABOVE-DERIVED PRICE TARGET IS THE "MERGER" RISK AND THE ABILITY TO SEAMLESSLY INTEGRATE THE OPERATIONS OF THE TWO COMPANIES.

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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More information about Spelman Research Associates, Ltd., 545 Madison Avenue, Suite 200, New York City, NY 10028
Phone: (212) 838 5520 Fax: (212) 838 5350 Web: www.spelmanresearch.com Email: info@spelmanresearch.com

Financial Projections

Statement of Operations*	2004	Q1FY05E	Q2FY05E	Q3FY05E*	Q4FY05E*	2005E*	2006E*
USD '000, for the period ended	31-Dec-04	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Dec-05	31-Dec-06
IT Services	131,204	28,888	35,164	-	-	-	-
Solutions Group	108,231	24,402	27,870	-	-	-	-
Chimes	23,092	6,186	6,765	-	-	-	-
TOTAL REVENUES	262,527	59,476	69,798	173,097	169,249	471,620	706,708
COSTS AND EXPENSES:							
IT Services	106,591	23,399	28,834	-	-	-	-
Solutions Group	72,619	16,105	18,673	-	-	-	-
Chimes	1,396	402	433	-	-	-	-
Direct costs	180,605	39,906	47,940	129,759	126,769	344,374	525,268
Selling, general and administrative	85,141	19,387	20,928	36,754	36,723	113,793	142,055
Amortization of intangibles	1,695	483	483	683	683	2,332	2,812
Restructuring charges	2,859	-	-	1,000	1,000	2,000	500
Special charges (credits)	19,367	-	-	-	-	-	-
Total cost & expenses	289,668	59,777	69,351	168,196	165,175	462,499	670,635
INCOME/(LOSS) FROM OPERATIONS	(27,141)	(301)	447	4,901	4,074	9,120	36,073
NORMALIZED OPERATING INCOME	(4,914)	(301)	447	5,901	5,074	11,120	36,573
Total OTHER INCOME / (EXPENSE):	(676)	35	35	20	20	110	200
INCOME/(LOSS) BEFORE INCOME TAXES	(27,817)	(266)	482	4,921	4,094	9,230	36,273
Income tax	(2,690)	-	-	-	-	-	(6,914)
INCOME / (LOSS) BEFORE MINORITY INTEREST	(25,127)	(266)	482	4,921	4,094	9,230	29,359
Minority Interest	(45)	(35)	(35)	(35)	(35)	(140)	(170)
NET INCOME / (LOSS)	(25,172)	(301)	447	4,886	4,059	9,090	29,189
Key Financials							
EBITDA	(20,625)	1,389	2,137	6,837	6,010	16,374	45,037
Operating Margin	-10.3%	-0.5%	0.6%	2.8%	2.4%	1.9%	5.1%
Net Profit Margin	-9.6%	-0.5%	0.6%	2.8%	2.4%	1.9%	4.1%
EBITDA margin	-7.9%	2.3%	3.1%	4.0%	3.6%	3.5%	6.4%
Per Share statistics							
Net Loss Basic & Diluted	(\$0.82)	(\$0.01)	\$0.01	\$0.08	\$0.07	\$0.20	\$0.49
SHARES OUTSTANDING:	30,870	31,161	31,261	59,305	59,505	45,308	60,005

*ANLY operations are included starting with Q3FY05