

April 29, 2005

COMPUTER HORIZONS CORP.

Nasdaq: CHRZ

Rating: Speculative Buy

Price Target: Maintained at \$7.6

Symbol	CHRZ
Last Trade (04/28/05)	\$ 2.76
Low/High 52 weeks	\$2.62/\$4.64
Average Volume (3m)	89,318
Market Capitalization	\$86 Mn
Shares Outstanding	31.2 Mn

Source: Yahoo! Finance, SEC filings

We are maintaining our rating on CHRZ at Speculative Buy and are reiterating the target price of \$7.6, pending the submittal of form S-4 by the two companies. Both CHRZ and ANLY reported Q1FY05 results in line with most recent guidance. However, during April 2005, the management of both companies revised the Q1FY05 guidance downwards. Nonetheless, CHRZ seems confident in 2005 business prospects as it has reaffirmed its full 2005 guidance. We see some softness in the industry that seems to have affected the share price of both CHRZ and ANLY.

We still believe that CHRZ may emerge as a stronger business after the merger with ANLY. CHRZ announced that it intends to file the S-4 form with the SEC during May 2005 to disclose more information about the upcoming merger-of-equals with ANLY. At that time, we will have more detailed financial info about the merger so that we can better evaluate the feasibility of the combined business and to quantify potential synergies.

- ◆ For Q1FY05, CHRZ reported consolidated revenues of \$66.5 million, or 11.5% year-over-year growth over Q1FY04. CHRZ lowered its Q1FY05 guidance on April 19, 2005 explaining this by seasonality in the “commercial” segment, which this year shifted from December 2004 to January 2005. The “commercial” segment added only 8.7%, the “federal” segment posted 20.6% year-over-year revenue growth, but the latter is mainly attributable to the acquisition of AIM. For the Chimes segment, Q1FY05 was a strong quarter, with 18.9% year-over-year growth and 10% vs. the prior quarter. Management relates the strong performance to the new customer implementations during Q4FY04. CHRZ has bright outlook for Chimes in 2005. CHRZ envisages accelerating revenues because six new customers and service expansions at four existing customers happened during Q1FY05. Currently, Chimes is the most important contributor to the consolidated net results.
- ◆ For Q1FY05, CHRZ posted breakeven net income of \$330 thousand, or EPS of \$0.01, vs. net loss of \$566 thousand, or \$(0.02) per share in the comparable 2004 quarter. CHRZ related the break-even results to approximately \$1 million reduction in SG&A from the previous quarter. In addition, Q1FY05 net income contains a bad-debt recovery item of \$439 thousand or \$0.01 in EPS. CHRZ’s balance remained strong at March 31, 2005, with no significant debt and \$31.4 million in cash (or \$1/share).

CHRZ - Financial Results

\$000's	Q1FY04	Q1FY05	%Chg
Total revenues	59,706	66,573	11.5%
<i>Commercial</i>	44,783	48,671	8.7%
<i>Federal</i>	9,570	11,539	20.6%
<i>Chimes</i>	5,353	6,363	18.9%
Gross Profit	18,901	20,985	11.0%
Operating Income	(894)	333	n/m
Net Income (Loss)	(566)	330	n/m
Gross profit margin	31.7%	31.5%	-0.2 pp.
Operating margin	-1.5%	0.5%	2.0 pp.

Source: company press release

- ◆ ANLY reported the Q1FY05 revenue of \$79.1 million. The revenue was lower than the \$85.4 million in Q1FY04 and the \$83 million in the previous quarter. According to an earlier ANLY announcement, one large sub-supplier refused to re-sign distribution contract for 2005. Nonetheless, the next quarter product sales promise growth driven by successful IP Telephony projects. ANLY stresses a lot on this business area and collaborations with Cisco.
- ◆ ANLY boosted investments in sales force and recruiting resources during Q4FY04 and continued to do so in Q1FY05, anticipating to capitalize on the market opportunities. As a result, ANLY's free cash flow turned from a positive \$1.8 million in Q4FY04 into a negative \$1 million for the last reported quarter.

ANLY- Financial Results

\$000's	Q1FY04	Q1FY05	%Chg
Total revenue	85,394	79,099	-7.4%
Operating (loss) income	456	(722)	n/m
Net (loss) income	454	(706)	n/m
Basic (loss) income	\$0.02	(\$0.03)	n/m
Operating margin	0.5%	-0.9%	-1.4 pp.

Source: press release

Source: company press release

Management outlook

CHRZ expects the Q2FY05 revenue to range between \$69 and \$71 million, and EPS, excluding the amortization of intangibles and special charges, to range between \$0.01 and \$0.03. For the entire 2005, CHRZ's management has reaffirmed its guidance on both revenue and earnings.

For ANLY, management expects the Q2FY05 consolidated revenues to range between \$80 and \$82 million. Given the large investments in sales and staff during the last 6 months, ANLY foresees the Q2FY05 EPS between (\$0.02) and break-even.

Recent developments

On April 21, 2005, ANLY began the implementation of the wireless project for the sheriff's department of Clark County in Kentucky. ANLY will install special laptop computers into law enforcement cruisers and will integrate web-based applications to allow wireless access to the office database. The contract stipulates shipments of hardware components as well as the upgrade of the systems platform, data storage, security protection and data transmission maintenance.

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.