

**Bryce Chicoyne:** Thank you. Good afternoon. This is Bryce Chicoyne, Chief Financial Officer of Salary.com. Thank you for joining us today to discuss Salary.com's result for the third quarter of fiscal 2009.

With me on the call today is Kent Plunkett, Salary.com's Chief Executive Officer. During the course of this conference call we will discuss our business outlook and make other forward-looking statements regarding our current expectations of future events and the future financial performance of the company.

Our actual results may differ from those projected due to risk and uncertainties. Any forward-looking statements represent our estimates as of today and should not be relied upon as representing our estimates of any subsequent day. We assume no duty or obligation to update these forward-looking statements even though our situation may change in the future.

For additional information on risk factors, we encourage you to review our annual report on Form 10K for the fiscal year ended March 31, 2008 and other public filings. These filings are available on the SEC Website at [www.sec.gov](http://www.sec.gov).

Also during the call, the course of this call, we intend to discuss non-GAAP financial information. Reconciliations of GAAP and non-GAAP results are available in the press release we issued earlier today.

I would now like to turn the call over to Kent Plunkett, Chief Executive Officer of Salary.com.  
Kent.

**Kent Plunkett:** Thanks Bryce. Good afternoon and thank you for joining our discussion, Salary.com's third quarter results for fiscal 2009.

Salary.com reported our thirty-first consecutive quarter of sequential revenue growth. Revenue for the third quarter was \$11 million within our guided range. Revenue was up 20% year over year.

Non-GAAP net loss for the quarter was \$2.6 million, slightly better than our expectations. Calculated bookings defined as recognized revenue plus the change in total deferred revenue was up 21% from the period a year ago. Operating cash flow was a net outflow of \$3.7 million.

We are highly focused on returning operating cash flow to positive levels. We recently took aggressive action to achieve that goal. We believe we will be successful in our efforts based on the focused commitment of our management team in addition to the strength of our recurring revenue sources and large On-Demand customer base.

At the same time we are focused on positioning the company for an acceleration in growth as the economy stabilizes and recovers. From a macro perspective we see two trends that are dominating our management team's discussions and impact our strategic and competitive thinking.

On-Demand software has clearly won the day over installed software. Industry analysts believe that the growth rates for On-Demand HR applications will be significantly stronger than the growth rates for installed software for the foreseeable future. We believe On-Demand solutions

will supplant installed software during and after the current economic downturn just as the job boys crushed the newspaper classified eight years ago during and after the Internet bubble burst. Salary.com is well positioned to ride the On-Demand HR technology wave into the next decade. Second, economic headwinds are clearly causing many organizations to pause before they make incremental investments. And that has impacted HR's ability to adopt new systems. While we believe we are less impacted than some of our peers, we have pulled back on our previously accelerated sales and marketing spending levels and believe we will spend less this year on M&A and innovation in non-core product areas. However, we do not expect we will be cutting back on our customer service levels or investment in integrating an extended functionality of our product offerings.

From an overall perspective, we will be relying primarily upon cost controls, our recurring revenue in the long ROI tail on our recent investment in sales and marketing to return to generating cash flow positive results. At the same time, we believe that our focus on customer success, high service levels and product leadership will continue to do above average growth.

The roots of our confidence are based on the fact that our customers recognize the value proposition that On-Demand HR products present and they've remained active in pursuing compensation, competency, payroll/HRMS and talent management solutions from Salary.com.

As we disclosed in January, we recently took proactive and aggressive steps to meet our commitment to return to cash flow positive operation for fiscal 2010. Just after the New Year we made the difficult decision to reduce our total workforce by about 16% with the most significant cuts in our sales and marketing organizations, which had expanded considerably during fiscal 2009.

The progress we made with the sales and marketing initiatives launched early in the year was encouraging and we believe the company will realize payback from those investments for years to come.

But as the third quarter progressed we decided it was no longer fiscally prudent to proceed with our strategy in significantly expanding the size of our sales force.

However, the investments we made earlier in the year helped to expand market awareness of the breadth of our offerings and considerably grow our pipeline of new prospects.

Our pipeline today is far larger than it was a year ago. And we now have a smaller more focused sales force that allows us to pursue this expanded set of opportunities with our best and brightest salesmen.

Notably in this environment we have reduced visibility of when individual deals actually close and some deals are pushing out as customers await budget approval.

In addition, a number of customers are choosing to delay or slowdown implementations and services projects, which is having an impact on our ability to recognize revenue that has been booked. We are confident we can continue to make the adjustments necessary to manage through these changes in buyer behavior successful.

We also believe that reducing costs, investing in our core customers and products and returning to our disciplined bootstrapping roots will allow us to continue reasonable growth while positioning the company to benefit in the eventual economic recovery.

Turning to our customer highlights and metrics, Salary.com added over 250 new enterprise customers bringing the total to over 3500 at the end of Q3 including approximately 50 customers through our acquisition of Genesys.

We are pleased to see the level of large deal activity remain strong in Q3 despite the challenging macro environment. In Q3 we saw 11 deals worth more than \$100,000 in value compared to seven a year ago. And one of these transactions was over \$250,000.

Overall contract links and deal sizes remain consistent with prior quarters. We also continued to see a higher level of bundling indicating that our efforts at cross selling were bearing fruit. Some marquee names that became Salary.com customers in the third quarter include Burlington Coat Factory, Live Nation, Office Max, PerkinElmer and Xerox Corporation.

We are also making progress on our major accounts distribution with ADP. Through this channel partnership dozens of new customers are now taking advantage of our compensation management solutions.

In addition, while we felt come increased pressure on renewals including customers seeking more flexible payment terms, our retention rate remained above 90% on a rolling four-quarter basis.

Given the fiscal 2009 investment in sales and marketing, we would like to share some of the proof points that indicate to us that the investment we made has worked.

In the third quarter we had one of our best talent management and new business acquisition month ever. In fact, approximately 60% of new talent manager deals this year were sourced in part or entirely through our new marketing lead generation initiatives.

Our prospecting database grew by approximately 60% last calendar year. Marketing source deals had a higher close rate and approximately 40% higher average contract value than non-marketing source deals.

Our print advertising campaigns generated best in class results in advertising effectiveness studies conducted by Harvey Research. Salary.com scored one and a half times the average on brand recall and 1.8 times the average on (ad recalls).

Our industry analyst program resulted in our inclusion in 22 reports by firms like Gartner, IDC, Forrester and Bersin up from just five mentions the prior year. And the number of new business leads that resulted from analysts' recommendations to the client rose dramatically.

We also shared the big stage for the HR technology shootout among the top management fleet vendors and we're featured on the Bill Kutik radio show for our vision of where the industry is headed.

As an example, our talent manager and HR suite coverage IDC wrote recently that Salary.com's strengths include deep compensation data and functionality, strong competency framework and available libraries, affordability for partners and a broad partner base.

We believe it is clear that the increased marketing program worked and that our investment has ignited momentum that can be sustained even with a dramatically reduced marketing spend line.

Since going public almost two years ago, Salary.com has demonstrated our ability to build on our leadership position and compensation management by expanding our efforts in talent management competencies and now HRMS and payroll.

This has expanded our addressable market opportunity from \$2 billion at IPO to over \$40 billion two years later. Our vision has been to expand our suite of HR offerings and gradually develop the leading On-Demand HR platform that a company could adopt.

When we arrived we wanted to be the most configurable, have the lowest cost of operations and have created a wide moat by bringing data and software together. That vision is coming together and the market moment has swung solidly in favor of the true multi-tenant On-Demand solutions.

In Q3 we added transactional human capital management to our compensation and strategic talent management offerings with the acquisition of Genesys software, a boutique payroll of benefits and HRMS services.

Genesys HCM is one of our more significant acquisitions from a size perspective both in terms of historical revenue purchase price and also from a strategic point of view. Genesys adds

transactional HCM capabilities to our suite including payroll, benefits and tax services. Must have functionalities that all companies need.

There were several strategic reasons for this combination. They are local, located here in Boston as we are; a true multi-tenant service bureau architecture; and positioned to provide a positive contribution to operating cash flow during fiscal 2010.

Additionally we think they are a technology jewel. We believe they may have among the best core payroll calculation engine, multi-tenant rules engine of any independent payroll software company.

Furthermore they are just completing a five-year transformation from software firm to a SAS services firm and have recored their core software to a powerful On-Demand SAS application; so state of the art in configurability and flexibility.

For example, Genesys easily handles complex payroll municipalities and hospitals where other systems and services fall down. We started showing off our new user interface and experience just this month.

Salary.com now provides full transactional HR services offering including tax, benefits, garnishments, printing as well as core payroll and HRMS. Salary.com services are competitive against the major services providers and differentiated by data, our strategic talent management capability and our true multi-tenant On-Demand technology.

According to industry analysts approximately 4% of companies decide to switch payroll providers every year, even in a recession there are substantial deals available to close. We have already begun to add a strong new sales capability to this exciting product line with the addition of several experience payroll industry executives.

Finally we believe the best of breed On-Demand HR vendors need to become a single database system of record for all of human resources in order to remain competitive long term.

We have become the first mover from the On-Demand strategic talent management category leading the way towards what we see as an On-Demand transformational convergence where the strategic talent management vendors consolidate into and with the transactional providers of payroll and HRMS services.

The resulting consolidation creates a customer proposition where HR has the best of strategic talent management, data and transactional HR offerings integrated in a single platform and sharing a single system of record database for all of HR. And we believe Salary.com is the true multi-tenant On-Demand company leading the way.

In summary, we achieved our 31st executive quarter of revenue growth. We took decisive action in the current environment to contain costs while still retaining the ability to drive growth.

We expanded our sales pipeline and are focused on driving new customers that make business sense to acquire and in cross selling our growing platform of HCM tools as our footprint inside the HR organization has expanded.

Salary.com has assumed a leadership position as an early mover in the transformational convergence on On-Demand strategic talent management applications with HRMS and payroll transactions services. We believe we have now assembled the critical pieces to fulfill this vision of a comprehensive On-Demand HR platform.

We remain fully committed to generating positive operating cash flow from operations in fiscal 2010 and we are focused on positioning the company for an acceleration in growth as the economy stabilizes and recovers.

With that, I thank you and now turn the call back over to Bryce.

**Bryce Chicoyne:** Thank you Kent. Let me start with our third quarter results. Revenue was \$11 million, which was within our guided range. Our subscription revenue was \$10.3 million, an increase of 21% over a year ago. Our advertising revenue was \$735,000, which was up slightly compared to a year ago.

While we do not breakout revenue from Genesys for any acquisition individually, the revenue contribution from the Genesys acquisition, which closed in mid-December, was not material.

Our reported revenue for the third quarter was negatively impacted by foreign exchange rates and to a similar degree customer driven delivery delays.

On a non-GAAP basis, which excludes the amortization of intangible assets and stock based compensation, cost of revenues was \$2.3 million and represented an increase of 32% year over year. Gross margin was 79.5% in the quarter, up from 77.9% in the second quarter.

Total operating expenses were \$11.3 million, up 29% year over year. Our non-GAAP net loss was \$2.6 million or 16 cents per share based on an average diluted share account of 15.6 million shares.

Our earnings release issued earlier today includes GAAP and non-GAAP - GAAP to non-GAAP reconciliations for the non-GAAP financial information I just mentioned.

On a GAAP basis including the amortization of intangible assets and stock based compensation expenses, operating expenses for the third quarter of 2009 were \$13.2 million compared to \$10.5 million for the same period a year ago.

GAAP net loss was \$5.2 million or 33 cents per share. This is compared to a net loss of \$3.1 million or 22 cents per share for the same period a year ago and was slightly better than our expected range.

Included in these GAAP figures for the third quarter of fiscal 2009 was amortization of intangible assets of \$898,000 and stock based compensation expenses of \$1.7 million. For the same period in fiscal 2008 amortization of intangible assets was \$593,000 and stock based compensation expenses were \$1.6 million.

Turning to our balance sheet - Cash and cash equivalents were \$23.5 million, down from \$28 million at the end of Q2. As we expected, our operating cash flow in the quarter was a net outflow.

Cash used in operations was \$3.7 million. The decrease in cash was largely due to our operating losses in the third quarter and from normal quarter-to-quarter variability in working capital accounts of approximately \$2 million.

As I will discuss in our guidance, we expect Q4 cash flow to improve over Q3 and anticipate positive operating cash flow in fiscal 2010 resulting from the approximate \$10 million in annualized cost savings we implemented with our workforce reduction in Q4.

Cash was also impacted by share repurchases. On December 15 we announced a \$2.5 million share repurchase program and in the last two weeks of the quarter we've repurchased approximately 25,000 shares at an average price of \$2.10 per share.

We have repurchased well over that amount already in Q4 and remain active in our repurchase program.

Our cash balances are conservatively managed and primarily held in money market funds comprised of U.S. Government securities, as cash preservation is our primary goal.

Our accounts receivable balance was \$7.5 million compared to \$5.1 million at the end of the second quarter. The majority of the increase in accounts receivable related to the balances we acquired in our acquisition of Genesys.

Our DSOs excluding the impact of Genesys were 41 days and are in line with our historical level in the 40-day range. Overall collections remain strong.

Total deferred revenue was \$27.3 million, up from \$24 million at the end of Q2. Using the change in deferred revenue plus recognized revenue as a proxy for bookings, our bookings grew 21% year over year.

As of the end of the third quarter, our headcount was 612 people. Today the figure is just over 500 as a result of our workforce reduction implemented earlier in the quarter.

Turning to our outlook for the fourth quarter and the year, we do not anticipate a meaningful change in the macro environment and expect that customers may continue to delay the completion of implementations impacting revenue recognition but not cash flow.

For the fourth quarter of fiscal 2009 Salary.com is anticipating revenue in the range of \$11 to \$11.8 million. Please note that with our recent acquisitions of InfoBasis and Genesys we are required to discount considerable portions of acquired deferred revenue balances. This discounting impacts the amount of revenue we can recognize from these acquisitions essentially for the first year of the acquisition.

On a non-GAAP basis we expect net loss to be in the range of \$3.2 to \$4.0 million and on a GAAP basis we anticipate the net loss to be between \$8.7 to \$9.5 million. The non-GAAP net loss excludes approximately \$1.2 million in amortization of intangible assets, \$3.3 million in stock based compensations charges and about \$1.0 million in severance costs we announced earlier in the quarter. We currently estimate that the weighted average shares outstanding will be 16.1 million shares for the fourth quarter of fiscal 2009.

Translating that into full year expectations, we anticipate revenue to be in the range of \$42.2 to \$43.0 million for the year. On a non-GAAP basis we expect the net loss to be between \$12.2 and \$13 million while on a GAAP basis we expect the net loss to be between \$26.3 and \$27.1 million. We expect that the weighted average of shares outstanding will be 15.5 million shares for the year. And we anticipate that operating - the operating cash outflow to be between \$6 million and \$8 million on a full year basis. Additionally, looking to fiscal 2010, we are reiterating our expectation for positive operating cash flow. We will provide more details on revenue growth expectations and other metrics for fiscal 2010 during our fourth quarter conference call.

We remain optimistic about our long-term prospects and believe that Salary.com is well positioned to weather today's economic environment and emerge as a stronger market leader as the economy improves.

We remain very encouraged about our long-term prospects as our leadership position in the On-Demand HCM marketplace continues to expand. We are managing costs to reflect our commitment to positive cash flow in 2010 despite a less predictable environment. And we are prepared to make further adjustments as necessary.

As a result we believe Salary.com will emerge from the downturn with a stronger competitive position and proven best in breed technology across our comprehensive On-Demand solution set.

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