



Kent Plunkett
President, CEO and Chairman of the Board
Salary.com, Inc.

To Our Shareholders:

Thanks to our customers, investors and employee-owners, Salary.com was able to deliver a championship performance this year. We strengthened our position as the leader in on-demand compensation management with record growth in revenue and cash flow from operations, launched several new products and expanded our data offerings to include executive and global pay data. We capped our year by completing a successful initial public offering in February. I am pleased to share with our new public shareholders some of the key highlights of a successful year.

Financial Highlights

Our leadership position in compensation management resulted in strong financial results for the 2007 fiscal year. We posted our twenty-fourth consecutive quarter of revenue growth and fourth consecutive year of positive cash flow from operations. Our full year revenue increased 51% to \$23.0 million, continuing our pace of record sales growth. While continuing to invest to support future growth objectives, we increased cash flow from operations by 71% to \$3.1 million and expanded our cash flow margin to 13%. We also continued to increase our future business bookings at a faster rate than our revenue growth, driving deferred revenue to \$16.4 million at the end of the fiscal year, a 55% increase over the same period last year.

Our subscription-based, on-demand business model provides a high degree of visibility and predictability into our financial results. The economies of scale generated by our more mature product lines continue to provide the earnings leverage to support both ongoing investment in the next generation of compensation management solutions and increasing cash flow margins. We strengthened our balance sheet with the completion of our initial public offering in February 2007 and finished the fiscal year with \$49 million in cash.

Market Drivers Continue To Support Growth

It was a good year to be the leader in on-demand compensation management. We believe the macroeconomic trends have and will continue to drive market growth. Wage inflation, increased turnover and tightening labor markets have led corporations to increase funding for human resources departments. Regulatory and public pressure concerning pay-for-performance, executive compensation, visibility, accountability and control have also contributed to increased adoption of compensation management best practices and demand for supporting software and data services. Finally, human capital technology budgets are on the rebound after a long drought and on-demand software solutions are now widely accepted as viable options by corporate buyers. Salary.com revenues grew faster than the overall compensation management technology market in the fiscal year 2007. We expect to continue to benefit disproportionately from these macroeconomic trends in fiscal year 2008 and continue to outpace the category.

Leadership

Salary.com continued to assert its overall leadership as a compensation technology firm and invest in those niche areas where it can build best-of-breed software and proprietary data sets. Our sales efforts continued our momentum in new customer acquisition, retention and cross-selling. Salary.com extended its market share lead in on-demand compensation management software, market pricing data, small business compensation and interactive solutions. In the emerging market for talent management software, a premier analyst firm named Salary.com as one of the top-rated, pay-for-performance vendors. We expect the talent management market to evolve substantially and the group of top vendors to consolidate over the next 18 months.

We also established a strong position in two new business areas through acquisitions. In April 2006, we acquired the executive compensation product line of AON Consulting, Inc. Additionally, we closed the acquisition of ICR Limited, the premier survey house for compiling and reporting global technology industry compensation data in May 2007. With these acquisitions, we added hundreds of new customers and took a leadership position in two attractive growth markets. We remain committed to our philosophy of pursuing product and market share leadership in fiscal year 2008 and plan to continue our emphasis on cross-selling and up-selling products across our large customer base.

Product Highlights

Since our inception, we have been dedicated to designing innovative products that integrate data with software and help our customers win the war for talent. In fiscal year 2007, we added significant new data assets to our foundation and invested heavily to re-write our applications on a new technology platform that takes advantage of the capabilities that Ajax and other newer technologies offer to web-based application developers. We expect to launch a number of these products in fiscal year 2008 and keep Salary.com at the forefront of compensation technology.

Enterprise Compensation Management

CompAnalyst[®], our flagship product offering continues to experience strong demand and this year, we introduced advanced capabilities in the areas of pay analytics and executive compensation. In May 2006, we launched CompAnalyst Executive[™], creating the largest on-demand source of executive compensation data for over 10,000 public companies and 50,000 named executives. We expanded our compensation expertise globally with the acquisition of ICR Limited and its premier IPAS survey of global technology industry compensation data. Over 5,000 companies now participate in Salary.com surveys and report data for over 3.4 million incumbents across 70 countries. We intend to extend our premier product position in proprietary compensation data and software and add new applications that meet the needs of our compensation analyst customers.

Enterprise Talent Management

In 2007, we reached a critical mass of over fifty customers in the pay-for-performance market. We offer employers the ability to integrate compensation with performance through goal setting, automated performance management and compensation planning. We believe our ability to align corporate goals with employee performance and reward programs will be a critical advantage in this developing marketplace. There is significant activity in this emerging category and we are committed to continuing to build a great talent management solution for our customers.

Small Business

Salary.com is pioneering the underdeveloped market for on-demand compensation software and data solutions for small business owners. We sell enterprise-quality data and software solutions at prices that fit the budgets of smaller businesses. We plan to continue developing this market and our customer base and expect our business product line to be one of our faster growing businesses in fiscal year 2008.

Media

The Salary.com website continues to be one of the most powerful influencers in the human capital management industry. We generate up to three million unique monthly visitors across our destination site and on the 500+ co-branded compensation sections of sites we power such as Monster.com, Yahoo! HotJobs and The New York Times Company. We redesigned our entire destination site in fiscal year 2007. We plan to build relationships with more visitors, members and advertisers in fiscal year 2008. We believe that Salary.com is today the industry's best known compensation brand, and we expect that recognition to continue into fiscal 2008.

Customer Success

Today, we have a large and growing enterprise customer base with over 2,100 subscribers and includes 24% of the Fortune 500. We added 231 enterprise customers in the fourth quarter alone, including many marquee clients such as Black & Decker (US) Inc.; Chico's Retail Services, Inc.; eBay, Inc.; Ford Foundation; PricewaterhouseCoopers and Target Corporation. Our customer retention rates remain exceptional and Salary.com continues to succeed because we make our customers winners in the war for talent.

Looking Ahead

Our commitment for fiscal year 2008 is to expand on our market leadership position and continue to deliver best-of-breed, on-demand compensation solutions. We expect to grow our business by innovating new software applications, expanding our proprietary datasets, enhancing our sales capabilities and selectively acquiring key companies. Our large, diverse and loyal customer base provides a strong foundation for recurring and up-sell revenue, and we plan to continue investing to maintain our reputation as an excellent partner to our customers.

Our performance this year was made possible by our talented and committed employees—most of whom are shareholders themselves. It is their hard work and relentless focus on execution, innovation and customer care that built this business and provides the foundation for our continued success. Every time that a Salary.com employee walks into our building, they look into the eyes of other employee-owners. That is a constant and powerful reminder to all of us of the importance of executing at a level that measures up to expectations and sustains our success. I believe that Salary.com is well positioned to continue to deliver strong growth and long-term value creation to our shareholders, customers and employees and we thank you for your continued support.

Sincerely,



Kent Plunkett
Chief Executive Officer

Salary.com, Inc.