KNOT INC
Form 10-Q
August 08, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

or

x TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER: 000-28271

THE KNOT, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**13-3895178**
(State of incorporation)	(I.R.S. Employer Identification Number)

462 Broadway, 6th Floor
New York, New York 10013
(Address of Principal Executive Officer and Zip Code)

(212) 219-8555
(Registrant□s Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of □accelerated filer and large accelerated filer□ in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of August 3, 2007, there were 31,453,085 shares of the registrant□s common stock outstanding.

Item 1. Financial Statements (Unaudited)

THE KNOT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 2006 (Note 1
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,736,578	$ 73,633
Short-term investments	50,856,884	7,000
Accounts receivable, net of allowances of $1,418,476 and $707,567 at June 30, 2007 and December 31, 2006, respectively	11,663,250	9,742
Inventories	2,098,603	1,345
Deferred production and marketing costs	394,452	584
Deferred tax assets, current portion	5,966,517	8,369
Other current assets	1,140,794	1,499
Total current assets	116,857,078	102,174
Property and equipment, net	8,078,651	9,375
Intangible assets, net	32,832,491	34,015
Goodwill	33,280,261	33,853
Deferred tax assets	22,009,534	24,489
Other assets	290,189	341
Total assets	$ 213,348,204	$ 204,250
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 7,709,963	$ 7,661
Deferred revenue	11,821,100	10,497
Current portion of long-term debt	50,733	50
Total current liabilities	19,581,796	18,209
Deferred tax liabilities	14,534,508	15,013
Long term debt	55,173	55
Other liabilities	499,761	547
Total liabilities	34,671,238	33,826
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	
Common stock, $0.01 par value; 100,000,000 shares authorized; 31,417,909 shares and 31,129,628 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	314,179	311
Additional paid-in capital	190,764,096	188,908
Accumulated deficit	(12,401,309)	(18,795
Total stockholders’ equity	178,676,966	170,424
Total liabilities and stockholders’ equity	$ 213,348,204	$ 204,250

See accompanying notes.

THE KNOT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,				Six Months Ended June 30,			
		2007		**2006**		**2007**		**2006**
Net revenues:								
Online sponsorship and advertising	$	12,521,087	$	8,354,105	$	23,297,544	$	16,153
Registry services		3,356,596		84,157		5,116,587		142
Merchandise		6,499,767		4,813,046		11,130,280		7,892
Publishing and other		6,108,790		4,477,627		9,970,443		8,291
Total net revenues	$	28,486,240	$	17,728,935	$	49,514,854	$	32,480
Cost of revenues:								
Online sponsorship and advertising	$	438,349	$	294,819	$	776,930	$	607
Registry services		—		—		—		
Merchandise		3,108,766		2,337,972		5,273,856		3,888
Publishing and other		2,103,614		1,425,165		3,616,050		2,690
Total cost of revenues	$	5,650,729	$	4,057,956	$	9,666,836	$	7,186
Gross profit		22,835,511		13,670,979		39,848,018		25,293
Operating expenses:								
Product and content development		3,306,326		1,828,038		6,450,299		3,613
Sales and marketing		6,447,209		4,368,057		12,337,337		9,082
General and administrative		3,986,588		3,326,193		8,071,635		6,588
Depreciation and amortization		2,198,306		452,629		4,305,901		824
Total operating expenses		15,938,429		9,974,917		31,165,172		20,109
Income from operations		6,897,082		3,696,062		8,682,846		5,184
Interest income, net		1,236,279		363,240		2,223,204		663
Income before income taxes		8,133,361		4,059,302		10,906,050		5,847
Provision for income taxes		3,373,400		173,177		4,511,842		276
Net income	$	4,759,961	$	3,886,125	$	6,394,208	$	5,571
Net earnings per share—basic	$	0.15	$	0.17	$	0.21	$	
Net earnings per share—diluted	$	0.15	$	0.15	$	0.19	$	
Weighted average number of common shares outstanding								
Basic		30,898,378		23,173,216		30,855,336		23,129
Diluted		32,759,935		25,783,965		32,795,590		25,681

See accompanying notes.

THE KNOT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2007	2006
Operating activities		
Net income	$ 6,394,208	$ 5,571,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,373,268	763,035
Amortization of intangibles	1,932,633	61,767
Stock-based compensation	1,049,973	689,166
Deferred income taxes	4,084,800	—
Non-cash services expense	—	297,222
Reserve for returns	1,872,922	1,271,691
Allowance for doubtful accounts	181,669	20,414
Other non-cash charges	30,161	95,693
Changes in operating assets and liabilities:		
Accounts receivable	(3,631,755)	(1,270,424)
Inventories	(708,007)	(259,062)
Deferred production and marketing costs	189,758	(203,762)
Other current assets	359,057	66,002
Other assets	51,278	(1,127,695)
Accounts payable and accrued expenses	(272,978)	(455,695)
Deferred revenue	1,390,630	939,546
Other liabilities	(48,032)	(24,929)
Net cash provided by operating activities	15,249,585	6,434,442
Investing activities		
Purchases of property and equipment	(1,291,064)	(1,932,895)
Purchases of short-term investments	(75,881,884)	(1,500,000)
Proceeds from sales of short-term investments	32,025,000	3,450,000
Acquisition of business, net of cash acquired	100,573	—
Net cash (used in) provided by investing activities	(45,047,375)	17,105
Financing activities		
Proceeds from issuance of common stock	186,315	95,511
Proceeds from exercise of stock options and warrants	715,042	430,044
Net cash provided by financing activities	901,357	525,555
(Decrease) increase in cash and cash equivalents	(28,896,433)	6,977,102
Cash and cash equivalents at beginning of period	73,633,011	17,685,067
Cash and cash equivalents at end of period	$ 44,736,578	$ 24,662,169

See accompanying notes.

THE KNOT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company's management in accordance with U.S. generally accepted accounting principles for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting only of normally recurring adjustments) considered necessary for a fair presentation have been included.

The accompanying condensed consolidated balance sheet and financial information as of December 31, 2006 is derived from audited financial statements but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2006.

The Company has only achieved operating income in recent periods and has an accumulated deficit of $12,401,309 as of June 30, 2007. The Company believes that its current cash and cash equivalents will be sufficient to fund its working capital and capital expenditure requirements for the foreseeable future. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to maintain profitable operations and/or raise additional financing through public or private equity financings, or other arrangements with corporate sources, or other sources of financing to fund operations. However, there is no assurance that the Company will maintain profitable operations or that additional funding, if required, will be available to the Company in amounts or on terms acceptable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

Preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year.

EARNINGS PER SHARE

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share.* Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of stock options, restricted common stock, warrants and other potentially dilutive financial instruments, only in the periods in which the effects are dilutive. For the three months ended June 30, 2007 and 2006, the weighted average number of shares used in calculating diluted earnings per share includes stock options, restricted common stock and warrants to purchase common stock of 1,861,557 and 2,610,749, respectively. For the six months ended June 30, 2007 and 2006, the weighted average number of shares used in calculating diluted earnings per share includes stock options, restricted common stock and warrants to purchase common stock of 1,940,254 and 2,552,268, respectively. The calculation of earnings per share for the three and six months ended June 30, 2007 excludes a weighted average number of stock options of 148,681 and 74,341, respectively, because to include them in the calculation would be antidilutive.

SEGMENT INFORMATION

The Company operates in one reportable segment because it is organized around its online and offline media and e-commerce service lines. These service lines do not have operating managers who report to the chief operating decision maker. The chief operating decision maker generally reviews financial information at a consolidated results of operations level but does review revenue and cost of revenue results of the individual service lines.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. Cash, cash equivalents and short-term investments are deposited with three major financial institutions. The Company's customers are primarily concentrated in the United States. The Company performs on-going credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

For the three and six months ended June 30, 2007, one customer accounted for 10% and 9% of net revenues, respectively. No other customer accounted for more than 2% of revenue for the three and six months ended June 30, 2007 and 2006. As of June 30, 2007 and December 31, 2006, one customer accounted for approximately 12% and 10%, respectively, of accounts receivable.

STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment,* using the modified prospective method. Under this method, previously reported amounts are not restated. SFAS No. 123(R) requires the measurement of compensation expense for all stock awards granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service periods for awards expected to vest. Under the modified prospective method, the Company recognizes compensation expense for all stock awards granted after December 31, 2005, and for awards granted prior to January 1, 2006 that remained unvested as of that date or which may be subsequently modified. The fair value of restricted stock is determined based on the number of shares granted and the quoted price of the Companys common stock, and the fair value of stock options granted is determined using the Black-Scholes valuation model, which is consistent with the Companys valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123 and SFAS No. 148.

The Company continues to recognize stock-based compensation for service-based graded-vesting stock awards granted prior to January 1, 2006 using the accelerated method prescribed by Financial Accounting Standards Board (FASB) *Interpretation No. 28.* As permitted under SFAS No. 123(R), for stock awards granted after December 31, 2005, the Company has adopted the straight-line attribution method. In addition, effective January 1, 2006, the Company has included an estimate of stock awards to be forfeited in the future in calculating stock-based compensation expense for the period. The cumulative effect of this accounting change for forfeitures was not material due to the significant reduction in both the number of personnel receiving stock awards and the aggregate amount of stock awards granted by the Company in 2004 and 2005.

Total stock-based compensation expense related to all of the Companys stock awards was included in various operating expense categories for the three and six months ended June 30, 2007 and 2006, as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Product and content development	$ 122,000	$ 25,000	$ 240,000	$ 54,000
Sales and marketing	116,000	68,000	218,000	122,000
General and administrative	339,000	268,000	592,000	513,000
Total stock-based compensation expense	$ 577,000	$ 361,000	$ 1,050,000	$ 689,000

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes- An Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of *uncertain* tax positions recognized in an enterprise’s financial statements in accordance with SFAS 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. The Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not impact the Company’s operating results or financial position.

The Company is subject to taxation in the United States and various state and local jurisdictions, and as of June 30, 2007, the Company’s tax returns have not been examined by any income taxing authorityAs a result of the ongoing use of tax loss carryforwards, all of the Company’s prior U.S. Federal and more significant state and local returns remain subject to examination. Through June 30, 2007, the Company has not recorded any interest and penalties related to uncertain tax positions.

RECLASSIFICATION

The Company has reclassified registry services revenue from merchandise revenue in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2006, to conform to the current year’s presentation.

3. ACQUISITIONS

WeddingChannel

On September 8, 2006, the Company completed the acquisition of WeddingChannel.com, Inc. (“WeddingChannel”), through the merger of IDO Acquisition Corporation, a wholly-owned subsidiary of the Company, with and into WeddingChannel. The Company undertook the acquisition to increase the Company’s market share and provide the Company additional opportunities to leverage its core assets including its audience and local and national sales forces. In addition, the Company undertook the acquisition to enhance the services the Company is able to provide engaged couples and their wedding guests, through WeddingChannel’s registry offerings. The purchase price for all of the capital stock and stock options of WeddingChannel was approximately $82.0 million, representing cash paid of $60.9 million, the issuance of 1,144,144 shares of common stock valued at $18.6 million and direct transaction costs of $2.5 million. The purchase price included a working capital adjustment of $2.9 million. The value of the common stock portion of the purchase price was determined based on the market price of the Company’s common stock at the time the Company made its determination to pay the primary consideration, as defined in the merger agreement, which fixed the consideration for the outstanding capital stock and stock options of WeddingChannel. The purchase price reflects a reduction of $808,000 and 5,732 shares of common stock based upon a final determination of WeddingChannel’s working capital, as defined, as of September 8, 2006. In addition, approximately $5.9 million in cash and 109,268 shares of common stock included in the purchase price are currently held in an escrow account and are subject to certain deductions in the event indemnification claims are successfully asserted by the Company pursuant to the merger agreement.

In connection with this acquisition, the Company also recorded estimated liabilities of $1.2 million, primarily for costs resulting from a plan to involuntarily terminate certain employees of WeddingChannel and for the cost of remaining lease obligations for acquired facilities to be closed or for acquired space leased which exceeds the Company’s current or projected needs due to staff reductions. As of June 30, 2007, approximately $1.1 million of these estimated liabilities have been paid.

The estimated cost of the acquisition has been allocated to the assets acquired and liabilities assumed of WeddingChannel based on a preliminary determination of their fair values. These fair values are subject to change based on the Company’s final analysis.

The following table summarizes the preliminary cost allocation at the date of acquisition:

Current assets	$	19,746,000
Property and equipment		5,430,000
Intangible assets		35,570,000
Goodwill		22,558,000
Deferred tax assets		20,915,000
Other assets		22,000
Total assets acquired	$	104,241,000
Current liabilities	$	6,125,000
Deferred tax liabilities		14,901,000
Total liabilities acquired		21,026,000
Total estimated cost	$	83,215,000

The acquisition of WeddingChannel was a stock transaction for tax purposes, which results in different book and tax bases. Accordingly, the purchase price allocation includes $14.9 million of deferred tax liabilities related to the tax effect of the preliminary differences in the book and tax bases of property and equipment and acquired intangibles other than goodwill. In addition, a deferred tax asset of $22.7 million, associated with a reduction in a portion of the valuation allowance previously recorded by WeddingChannel with respect to its net operating carryforwards has been recorded. To the extent further reductions in the valuation allowance are recorded, the offsetting credit would reduce goodwill.

The results of operations for WeddingChannel have been included in the Company's condensed consolidated statements of operations since September 8, 2006. The following unaudited pro forma financial information presents a summary of the results of operations assuming the acquisition of WeddingChannel occurred on January 1, 2006:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Net revenues	$ 26,020,472	$ 45,801,094
Net income	$ 4,616,393	$ 5,447,889
Net earnings per share - basic	$ 0.18	$ 0.21
Net earnings per share - diluted	$ 0.16	$ 0.19

Pro forma adjustments have been made to reflect depreciation and amortization using asset values recognized after applying purchase accounting adjustments and related tax effects as well as to eliminate legal fees incurred in connection with the litigation between the Company and WeddingChannel, which was withdrawn following the acquisition. Direct transaction and other costs related to the acquisition, a gain on the sale of an investment and losses from discontinued operations, all of which were recorded by WeddingChannel prior to September 8, 2006, have been eliminated from the pro forma financial information. The pro forma earnings per share amounts are based on the pro forma weighted average number of shares outstanding which include the shares issued by the Company as a portion of the total consideration for the acquisition and the shares sold on August 15, 2006 by the Company in connection with a follow-on offering, the net proceeds from which were used to fund a portion of the cash consideration for the acquisition.

The pro forma consolidated financial information is presented for information purposes only. The pro forma consolidated financial information does not reflect the effects of any anticipated changes to be made by the Company to the operations of the combined companies, including synergies and cost savings and does not include one time charges expected to result from the acquisition. The pro forma consolidated financial information should not be construed to be indicative of results of operations or financial position that actually would have occurred had the acquisition been consummated as of the date indicated or the Company's future results of operations or financial position.

Lilaguides

On July 25, 2006, the Company acquired the publishing business and related assets of OAM Solutions, Inc., the publisher of the *Lilaguides*, local information guides for parents, for $2.1 million, which includes direct transaction costs. The acquisition represented the Companys first significant step into the business of catering to the needs of first-time parents. The cost of this acquisition was allocated to the assets acquired based upon a determination of their fair values as follows:

Current assets	$	8,700
Property and equipment		14,300
Tradename		83,000
Other intangibles		168,000
Goodwill		1,817,000
Total cost	$	2,091,000

This acquisition would not have had a material impact with respect to the condensed consolidated results of operations for the three and six months ended June 30, 2006, had the acquisition been consummated on January 1, 2006.

4. SHIPPING AND HANDLING CHARGES

For the three months ended June 30, 2007 and 2006, merchandise revenues included outbound shipping and handling charges of approximately $926,000 and $708,000, respectively. For the six months ended June 30, 2007 and 2006, merchandise revenues included outbound shipping and handling charges of approximately $1,573,000 and $1,160,000, respectively.

5. INVENTORY

Inventory consists of the following:

		June 30, 2007		December 31, 2006
Raw materials	$	320,269	$	194,122
Finished goods		1,778,334		1,151,028
	$	2,098,603	$	1,345,150

6. GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2007, based upon a preliminary determination of the fair values of assets acquired and liabilities assumed in connection with the WeddingChannel acquisition, are as follows:

Balance as of December 31, 2006	$ 33,853,840
Acquisition of WeddingChannel.com, Inc. (see Note 3):	
Adjustments to purchase price and additional direct transaction costs	(137,272)
Adjustments to fair value of assets acquired other than goodwill	(436,307)
Balance as of June 30, 2007	$ 33,280,261

The Company completed its most recent goodwill impairment test as of October 1, 2006. No impairment of goodwill was indicated at that time. Under SFAS No. 142, the Company is required to perform goodwill impairment tests on at least an annual basis or more frequently if circumstances dictate. There can be no assurance that future goodwill impairment tests will not result in a charge to income.

7. INTANGIBLE ASSETS

	June 30, 2007				D
	Gross Cost Carrying Amount	Accumulated Amortization	Net Cost	Gross Cost Carrying Amount	
Indefinite lived intangibles:					
Tradenames	$ 15,220,000	$ --	$ 15,220,000	$ 15,220,000	$
Amortizable intangibles:					
Customer and advertiser Relationships	5,610,000	514,380	5,095,620	4,940,000	
Developed technology and patents	12,280,000	1,999,000	10,281,000	12,280,000	
Trademarks and Tradenames	211,920	82,877	129,043	211,920	
Service contracts and Other	3,328,000	1,221,172	2,106,828	3,248,000	
	21,429,920	3,817,429	17,612,491	20,679,920	
Total	$ 36,649,920	$ 3,817,429	$ 32,832,491	$ 35,899,920	$

Definite lived intangible assets are amortized over their estimated useful lives as follows:

Customer and advertiser relationships	4 to 10 years
Developed technology and patents	5 years
Trademarks and tradenames	3 to 5 years
Service contracts and other	1 to 7 years

The increase in the gross cost carrying amount of intangibles for the six months ended June 30, 2007 resulted from adjustments to the appraised fair value of assets acquired in connection with the acquisition of WeddingChannel (see Note 3).

Amortization expense was $941,000 and $32,000 for the three months ended June 30, 2007 and 2006, respectively, and $1.9 million and $62,000 for the six months ended June 30, 2007 and 2006, respectively. Estimated annual amortization expense is $3,812,000 in 2007, $3,635,000 in 2008, $3,598,000 in 2009 $3,524,000 in 2010, $2,375,000 in 2011, $555,000 in 2012 and $2,046,000, thereafter.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	June 30, 2007	December 31, 2006
Accounts payable	$ 2,694,111	$ 2,156,070
Professional services	501,442	536,602
Compensation and related benefits	1,322,151	1,658,577
Other accrued expenses	3,192,259	3,309,774
	$ 7,709,963	$ 7,661,023

9. LONG-TERM DEBT

Long-term debt as of June 30, 2007 consists of the following:

Note due in annual installments of $60,000 through October 2008,		
based on imputed interest of 8.75%	$	105,906
Less current portion		50,733
Long term-debt, excluding current portion	$	55,173

Maturities of long-term obligations during the two years ending June 30, 2009 are as follows: 2008— $50,733 and 2009— $55,173. Interest expense was approximately $2,000 and $3,000 for the three months ended June 30, 2007 and 2006, respectively. Interest expense was approximately $5,000 and $7,000 for the six months ended June 30, 2007 and 2006, respectively.

10. STOCK PLANS

The 1999 Stock Incentive Plan (the "1999 Plan") was adopted by the Board of Directors and approved by the stockholders in November 1999, as a successor plan to the Company's 1997 Long Term Incentive Plan (the "1997 Plan"). All options under the 1997 Plan have been incorporated into the 1999 Plan. The 1999 Plan became effective upon completion of the Company's initial public offering of its common stock and was amended and restated as of March 27, 2001.

Under the terms of the 1999 Plan, 3,849,868 shares of common stock of the Company were initially reserved for incentive stock options, nonqualified stock options (incentive and nonqualified stock options are collectively referred to as "options"), stock appreciation rights, stock issuances (which may be subject to the attainment of designated performance goals or service requirements ("restricted stock"), or any combination thereof. On May 15, 2001, the Company's stockholders approved a further increase of 1,000,000 to the number of shares reserved for issuance under the 1999 Plan. Through June 30, 2007, an additional 2,458,304 shares were added to the reserve pursuant to the automatic share increase provisions of the 1999 Plan. The shares reserved under the 1999 Plan automatically increase on the first trading day in January of each calendar year by an amount equal to two percent (2%) of the total number of shares of the Company's common stock outstanding on the last trading day of December in the prior calendar year, but in no event will this annual increase exceed 1,000,000 shares (or such other lesser number determined by the Board of Directors). Awards may be granted to such non-employee directors, officers, employees and consultants of the Company as the Compensation Committee of Board of Directors shall in its discretion select. Only employees of the Company are eligible to receive grants of incentive stock options. Options are granted at the fair market value of the stock on the date of grant. Options vest over periods up to four years and have terms not to exceed 10 years. Restricted stock awards vest over periods ranging from one to four years.

The 2000 Non-Officer Stock Incentive Plan (the "2000 Plan") was approved by the Board of Directors in June 2000. Under the terms of the 2000 Plan, 435,000 shares of common stock of the Company have been reserved for nonqualified stock options, stock issuances (which may be restricted stock) or any combination thereof. Awards may be granted to employees (other than officers or directors of the Company) and consultants and other independent advisors who provide services to the Company. Options are granted at the fair market value of the stock on the date of grant. Generally, options have vested over a four-year period and have terms not to exceed 10 years. Currently, there are no unvested options outstanding under the 2000 Plan.

The Employee Stock Purchase Plan (the "ESPP") was adopted by the Board of Directors and approved by the stockholders in November 1999 and became effective upon completion of the Company's initial public offering of its common stock. The Compensation Committee of the Board of Directors administers the ESPP. The ESPP permits a participating employee to make contributions to purchase shares of common stock by having withheld from his or her salary an amount between 1 percent and 15 percent of compensation. Under the ESPP, eligible employees of the Company may elect to participate on the start date of an offering period or subsequent semi-annual entry date, if any, within the offering period. On each purchase date during an offering period, a participating employee's contributions will be used to purchase up to 1,000 shares of the Company's common stock for such participating employee at a 15 percent discount from the fair market value, as defined in the ESPP, of such stock. Each offering period is determined by the plan administrator and may not exceed two years. The

Company initially reserved 300,000 shares of common stock under the ESPP. The shares reserved automatically increase on the first trading day in January of each calendar year by the lesser of the (i) the number of shares of common stock issued under the ESPP in the immediately preceding calendar year, (ii) 300,000 shares or (iii) such other lesser amount approved by the Board of Directors. Through June 30, 2007, 377,897 shares were issued under the ESPP and 365,767 shares were added to the reserve pursuant to the automatic share increase provision.

The following table represents a summary of the Company's stock option activity under the 1999 and 2000 Plans and related information, without regard for estimated forfeitures, for the six months ended June 30, 2007:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2006	1,853,976	$ 2.76
Options granted	410,000	18.26
Options exercised	(211,833)	2.09
Options canceled	(2,659)	3.53
Options outstanding at June 30, 2007	2,049,484	$ 5.93

The weighted average grant-date fair value of options granted during each of the three and six months ended June 30, 2007, was $5.95. No options were granted in 2006. The fair value of options which vested during the three months ended June 30, 2007 and 2006 was $1.99 and $1.77, respectively. The fair value of options which vested during the six months ended June 30, 2007 and 2006 was $1.99 and $1.77, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2007 and 2006 was $3.4 million and $1.2 million, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was $4.7 million and $2.3 million, respectively.

The following table summarizes information about options outstanding at June 30, 2007:

	Options Outstanding			**Options Exercisable**	
Range of exercise price	**Number Outstanding as of June 30, 2007**	**Weighted Average Remaining Contractual Life (In Years)**	**Weighted Average Exercise Price**	**Number Exercisable as of June 30, 2007**	**Weighted Average Exercise Price**
$0.42 to $1.03	432,809	3.55	$ 0.89	432,809	$ 0.89
$1.37 to $4.10	1,108,675	6.12	3.37	1,098,108	3.36
$4.80 to $9.00	98,000	6.70	5.56	50,776	6.08
$18.26	410,000	9.91	18.26	--	--
	2,049,484	6.37	$ 5.93	1,581,693	$ 2.77

The weighted average remaining contractual life of options exercisable as of June 30, 2007 was 5.41 years.

As of June 30, 2007, there were 2,220,973 shares available for future grants under the 1999 Plan and 270,418 shares available for future grants under the 2000 Plan.

The aggregate intrinsic value of stock options outstanding at June 30, 2007 was $29.2 million, of which $27.5 million relates to vested awards. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the quoted price of the Company's common stock as of June 30, 2007. The following table summarizes nonvested stock option activity for the six months ended June 30, 2007:

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	Shares	Weighted Average Exercise Price
Nonvested options outstanding at December 31, 2006	173,447	$ 4.24
Granted	410,000	18.26
Vested	(112,997)	3.97
Canceled	(2,659)	3.53
Nonvested options outstanding at June 30, 2007	467,791	$ 16.60

The weighted average grant-date fair value of ESPP rights arising from elections made by ESPP plan participants was $6.28 during the three and six months ended June 30, 2007, and $8.81 during the three and six months ended June 30, 2006. During the six months ended June 30, 2006, ESPP rights to approximately 13,000 shares were granted to employees who elected to change their payroll percentage deductions effective February 1, 2006, as permitted semi-annually within the offering period in effect at that date under the ESPP plan. These ESPP rights were treated as modified stock awards which had a weighted average grant-date value of $10.60. The fair value of ESPP rights that vested during the three and six months ended June 30, 2006 was $3.96, and during the three and six months ended June 30, 2007 was $4.26. On January 31, 2007, the Company issued 12,130 shares at a weighted average price of $15.32 under the ESPP.

The intrinsic value of shares purchased through the ESPP on January 31, 2007 and of outstanding ESPP rights as of June 30, 2007 was $180,000 and $38,000, respectively. The intrinsic value of the ESPP rights is calculated as the discount from the quoted price of the Company's common stock, as defined in the ESPP, which was available to employees as of the respective dates.

As of June 30, 2007, there was $2.4 million of unrecognized compensation cost related to nonvested stock options and ESPP rights, net of estimated forfeitures, which is expected to be recognized over a weighted average period of 2.88 years.

The fair value for options and ESPP rights have been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Six Months Ended June 30,			
	2007		2006	
	Options	ESPP Rights	Options	ESPP Rights
Weighted average expected option lives	4.0 years	0.5 years	N/A	0.5 years
Risk-free interest rate	4.83%	5.16%	N/A	4.60%
Expected volatility	32.1%	20.3%	N/A	25.8%
Dividend yield	0%	0%	N/A	0%

Expected volatility is based on the historical volatility of the market price of the Company's stock. The expected lives of options granted are based on analyses of historical employee termination rates and option exercises. The risk-free interest rates are based on the expected option lives and the corresponding U.S. treasury yields in effect at the time of grant. The fair value for ESPP rights includes the option exercise price discount from market value provided for under the ESPP.

During the three months ended June 30, 2007 and 2006, the Company recorded $133,000 and $144,000, respectively, of compensation expense related to options and ESPP rights. During the six months ended June 30, 2007 and 2006, the Company recorded $190,000 and $272,000, respectively, of compensation expense related to options and ESPP rights and received cash from the exercise of options and ESPP rights of $832,000 and $526,000, respectively, for which the Company issued new shares of common stock.

As of June 30, 2007 and 2006, there were 468,000 and 236,500 service-based restricted stock awards outstanding, respectively. During the three months ended June 30, 2007 and 2006, 52,000 shares and 7,500 shares, respectively, of restricted stock were awarded at weighted average grant-date fair values of $19.87 and $15.57, respectively. During the six months ended June 30, 2007 and 2006, 56,000 shares and 201,500 shares, respectively, of restricted stock were awarded at weighted average grant-date fair values of $20.25 and $11.58, respectively. During the three and six months ended June 30, 2007, 7,500 and 2,500 shares of restricted stock vested, respectively. During the three and six months ended June 30, 2007, 4,000 shares of restricted stock were canceled. The aggregate intrinsic value of restricted shares at June 30, 2007 was $9.4 million. The intrinsic value for restricted shares is calculated based on the par value of the underlying shares and the quoted price of the Companys common stock as of June 30, 2007.

As of June 30, 2007, there was $4.7 million of total unrecognized compensation cost related to nonvested restricted shares, net of estimated forfeitures, which is expected to be recognized over a weighted average period of 3.0 years. During the three months ended June 30, 2007 and 2006, the Company recorded $445,000 and $216,000, respectively, of compensation expense related to restricted shares. During the six months ended June 30, 2007 and 2006, the Company recorded $860,000 and $417,000 of compensation expense related to restricted shares.

The tax benefit attributable to all recorded stock-based compensation was $228,000 and $146,000 for the three months ended June 30, 2007 and 2006, respectively, and $415,000 and $279,000 for the six months ended June 30, 2007 and 2006, respectively. Through June 30, 2007, the Company has not recorded any tax benefits attributable to tax deductions generated from the exercise of employee stock options, vesting of restricted stock and the exercise of stock warrants in excess of related stock-based compensation, non-cash services expense and non-cash sales and marketing expense recorded for financial reporting purposes. In accordance with SFAS No. 123(R), the tax benefits for these deductions are recognized when they result in a reduction to current taxes payable and will be accounted for as additional paid-in-capital.

11. AGREEMENT WITH COLLAGES. NET, INC. (Collages)

In March 2005, the Company entered into a Marketing Services Agreement (the Agreement) with Collages, a provider of hosting and website development services to professional photographers. Under the Agreement, which has a term of three years, the Company delivers online and print advertising services to Collages in exchange for having received Collages Series A Preferred Stock, which vests over the first two years of the Agreement. Through June 30, 2007, the fair value of the marketing services to be provided over the term of the Agreement approximated the fair value of Series A Preferred Stock received.

Since inception of the Agreement through June 30, 2007, the Company has earned approximately $1.4 million in revenue pursuant to the Agreement. The Company has deferred recognition of this revenue since the realization of the resulting asset, representing an equity investment in Collages, is not reasonably assured.

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is engaged in legal actions arising in the ordinary course of business and believes that the ultimate outcome of these actions will not have a material effect on its results of operations, financial position or cash flows.

13. WARRANT EXERCISE

In October 2004, the Company retained Allen & Company LLC (Allen) as a financial advisor for a period of two years with respect to various matters. In consideration for Allens services and a cash payment of $1,100, the Company issued warrants to Allen to purchase 220,000 shares of the Companys common stock at $3.79 per share, subject to certain anti-dilution provisions. The warrants became fully exercisable in October 2005. The warrants expire in October 2010.

On February 8, 2007, the Company issued 18,050 shares of common stock upon the exercise of a portion of the warrant by Allen and received proceeds of approximately $68,000.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements relating to future events and the future performance of The Knot based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results and timing of various events could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, as more fully described in this section and elsewhere in this report. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

The Knot, Inc. is a leading lifestage media company targeting couples planning their weddings and future lives together. Our flagship brand, The Knot, is the nation's leading wedding resource, reaching over a million engaged couples each year through the most visited wedding website TheKnot.com, The Knot national and local wedding magazines, The Knot books (published by Random House and Chronicle), and television programming bearing The Knot name. We also own WeddingChannel.com, the second most visited wedding website overall and the most visited wedding gift registry website, which further increases our share of the bridal market. Our brand, The Nest, focuses on the newlywed-to-pregnancy lifestage with popular lifestyle website TheNest.com, The Nest magazine, a home décor book series with Clarkson Potter, and baby offshoot, TheNestBaby.com. Other websites under The Knot, Inc. umbrella are party planning site PartySpot.com; teen-oriented PromSpot.com; online personals site GreatBoyfriends.com; local baby site Lilaguide.com; and e-commerce and service sites for the wedding category such as ShopforWeddings.com, WeddingTracker.com, and GiftRegistryLocator.com.

Milestones

We commenced operations in 1996. In 2000, we acquired Weddingpages, Inc., the nation's largest local wedding magazine publisher, helping us to extend The Knot brand on the local level. In November 2004, with the launch of TheNest.com, we extended our audience relationship beyond weddings with the first online destination for newly married couples. In 2006, we acquired businesses including personal wedding website WeddingTracker.com and local baby resource Lilaguide, which have allowed us to deepen the relationship with both our core audience and advertisers.

In September 2006, we acquired WeddingChannel.com, Inc. The acquisition of WeddingChannel increases our market share and provides us additional opportunities to leverage core assets including our commerce operations and local and national sales forces. WeddingChannel's registry offerings also enhance the services we are able to provide our audience of engaged couples and their wedding guests. We intend to maintain WeddingChannel.com as a separate website and continue to offer WeddingChannel's services ranging from planning content and interactive tools to convenient, comprehensive shopping and community participation. The results of operations for WeddingChannel have been included in our consolidated statements of operations since the acquisition date.

In May 2007, we took our first steps into the baby space with the launch of TheNestBaby.com, a hip new web site for soon-to-be-parents. The site specifically targets first time parents from fertility through pregnancy, birth and the first year and facilitates community by enabling moms in each stage to meet each other and to share local advice. Like TheKnot.com, the baby site provides content and tools surrounding the big event, featuring checklists, personal blogs, message boards, articles and a baby shop for personalized gifts and supplies.

Strategy

Our strategy is to expand our position as a leading lifestage media company providing comprehensive information, services and products to couples from engagement through pregnancy on multiple platforms that keep in step with the changing media landscape.

Increase Our Market Share and Leverage Assets. Acquiring companies or services that are complementary to our business increases our leverage with advertisers as well as our ability to satisfy our customers. The acquisition of WeddingChannel has significantly increased our share of the online bridal audience and provides additional opportunities to leverage our local and national sales forces as well as our wedding merchandise offerings. WeddingChannel's registry search platform will also enhance the service we are able to provide all of our engaged couples and their wedding guests. The launch of PartySpot.com leverages our technologies as well as our local sales force and vendor relationships to provide local party planning information to families hosting rehearsal dinners, bar mitzvahs, sweet sixteens and graduation parties.

Deepen Our Relationship with Our Audience. A large and active membership base is critical to our success. Annual new membership has remained consistent in recent years. Membership enrollment in 2006 was approximately 1.2 million and 768,000 for The Knot and WeddingChannel websites, respectively. Membership enrollment is free and gives members the use of important services such as free personal wedding webpages, message boards, interactive planning tools, wedding checklists and wedding gown databases. Our priority in the wedding space is to increase the depth of member engagement with our sites through new content and product offerings, additional interactive premium services, and active community participation. We also acquire and create properties to expand our services. Our websites, WeddingTracker.com and Wed-o-rama.com, allow us to offer our engaged couples premium personal wedding webpage design and hosting for a fee.

Expand into Other Life Stages and Services. In the first years of marriage, The Knot members will spend even more than they did on their weddings as they buy and furnish homes, organize their finances and start having children. With TheNest.com, we are now extending our relationship with our core membership base — and new advertiser categories -- by providing access to services and products relevant to newlyweds and growing families. Getting pregnant is another intense event for young married couples, and we believe there is an opportunity to continue serving our audience as they enter this significant life stage. The launch of TheNestBaby.com extends our social network to provide pregnant moms and new parents with essential information such as stage-by-stage advice, expert Q&As, interactive tools, 30,000 product reviews, and checklists, as well as local events listings and resource reviews in 26 local markets powered by sibling site Lilaguide.com.

Leverage Brands and New Media Platforms. Maintaining our strong brands is critical to attracting and expanding both our online and offline user base and securing our leading position in the bridal market and beyond. Distribution on new media platforms is a key effort in our brand building. We have been a leader in the production and distribution of high quality video content online. This branded wedding video content has been popular on TheKnot.com and has also gained us increased visibility on distribution partner portal MSN. In 2004, we partnered with Comcast, the nation's leading cable and broadband provider, to launch The Knot Weddings channel, the first-ever all-weddings Video-on-Demand service. In April 2007, we kicked off our strategic partnership with Style Network with our branded TV special, “My Celebrity Wedding by The Knot,” a new spin-off which showcased a wedding inspired by a celebrity ceremony, planned by The Knot’s Editor-In-Chief, Carley Roney.

Aggressive public relations outreach is another key tool we use to promote our brands. In the last twelve months, Carley Roney, as a leading wedding and lifestyle expert, has appeared on more than 35 national and local television programs promoting The Knot, The Nest and The Nest Baby brands. In addition, in spring 2007, our WeddingChannel brand was featured during a seven week wedding series on Fox Television’s daytime show *Mike & Juliet*.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities on an on-going basis. We evaluate these estimates including those related to revenue recognition, allowances for doubtful accounts, inventory provisions, impairment of intangible assets, including goodwill, and deferred taxes. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

We derive revenues from the sale of online sponsorship and advertising programs, from commissions earned in connection with the sale of gift registry products, from the sale of merchandise and from the publication of magazines.

Online sponsorship programs are designed to integrate advertising with online editorial content. Sponsors can purchase the exclusive right to promote products or services on a specific online editorial area and can purchase a special feature on our sites. These programs commonly include banner advertisements and direct e-mail marketing. Sponsors can also promote their services and products within the programming on our streaming video channel, The Knot TV.

Online advertising includes online banner advertisements and direct e-mail marketing as well as placement in our online search tools. This category also includes online listings, including preferred placement and other premium programs, in the local area of our websites for local wedding and other vendors. Local vendors may purchase online listings through fixed term contracts or open-ended subscriptions.

Certain elements of online sponsorship and advertising contracts provide for the delivery of a minimum number of impressions. Impressions are the featuring of a sponsor's advertisement, banner, link or other form of content on our sites. To the extent that minimum guaranteed impressions are not met, we are generally obligated to extend the period of the contract until the guaranteed impressions are achieved. If this occurs, we defer and recognize the corresponding revenues over the extended period.

Registry services revenue represents commissions earned in connection with the sale of products from gift registries under agreements with certain retail partners where we are not primarily obligated in a transaction, not subject to inventory risk and amounts earned are determined using a fixed percentage. This commission revenue is recognized when the products are sold by the retail partners.

Merchandise revenue generally includes the selling price of wedding supplies through our websites as well as related outbound shipping and handling charges since we are the primary party obligated in a transaction, are subject to inventory risk, and we establish our own pricing and selection of suppliers. Merchandise revenues are recognized when products are shipped to customers, reduced by discounts as well as an allowance for estimated sales returns.

Publishing revenue primarily includes print advertising revenue derived from the publication of national and regional magazines. These revenues are recognized upon the publication of the related magazines, at which time all material services related to the magazine have been performed. Additionally, publishing revenues are derived from the sale of magazines on newsstands and in bookstores, and from author royalties received related to book publishing contracts. Revenues from the sale of magazines are recognized when the magazines are shipped, reduced by an allowance for estimated sales returns. Author royalties, to date, have been derived primarily from publisher royalty advances that are recognized as revenue when all of our contractual obligations have been met which is typically upon the delivery to, and acceptance by, the publisher of the final manuscript.

For contracts with multiple elements, including programs which combine online and print advertising components, we allocate revenue to each element based on evidence of its fair value. Evidence of fair value is the normal pricing and discounting practices for those deliverables when sold separately. We defer revenue for any undelivered elements and recognize revenue allocated to each element in accordance with the revenue recognition policies set forth above.

Revenue for which realization is not reasonably assured is deferred.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. As of June 30, 2007 and December 31, 2006, our allowance for doubtful accounts amounted to $538,000 and $462,000, respectively. In determining these allowances, we evaluate a number of factors, including the credit risk of customers, historical trends and other relevant information. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Inventory

In order to record our inventory at its lower of cost or market, we assess the ultimate realizability of our inventory, which requires us to make judgments as to future demand and compare that with current inventory levels. We record a provision to adjust our inventory balance based upon that assessment. If our merchandise revenues grow, the investment in inventory would likely increase. It is possible that we would need to further increase our inventory provisions in the future.

Goodwill and Other Intangibles

As of June 30, 2007, we had recorded goodwill and other intangible assets of $66.1 million, which included estimated goodwill and other intangible assets of $55.2 million arising from our acquisition of WeddingChannel in September 2006. In our most recent assessment of impairment of goodwill as of October 1, 2006, we made estimates of fair value using multiple approaches. In our ongoing assessment of impairment of goodwill and other intangible assets, we consider whether events or changes in circumstances such as significant declines in revenues, earnings or material adverse changes in the business climate, indicate that the carrying value of assets may be impaired. As of June 30, 2007, no impairment indicators were noted. Future adverse changes in market conditions or poor operating results of strategic investments could result in losses or an inability to recover the carrying value of the investments, thereby possibly requiring impairment charges in the future.

Deferred Tax Asset Valuation Allowance

As of September 30, 2006, we had maintained a valuation allowance with respect to certain deferred tax assets as a result of uncertainties associated with our future profitability. We had reduced a portion of the valuation allowance previously recorded by WeddingChannel with respect to its net operating loss carryforwards based on the recognition and timing of reversal of certain estimated deferred tax liabilities recorded as a result of the acquisition. See Note 3 to the Condensed Consolidated Financial Statements for additional information.

During the three months ended December 31, 2006, we continued to evaluate the need for a valuation allowance against our remaining net deferred tax assets. We considered many factors as part of our assessment including our recent earnings experience by taxing jurisdiction, expectations of future taxable income resulting from the completion of our business planning process for 2007 and the status of the integration activities and related identified cost synergies associated with the acquisition of WeddingChannel.

As of December 31, 2006, we concluded, based upon our assessment of positive and negative evidence, that it was more likely than not that an additional portion of our net deferred tax assets will be realized and, accordingly, we recorded a non-cash tax benefit in the fourth quarter of 2006 of $9.4 million resulting from the reversal of a portion of the valuation allowance. As of December 31, 2006, we also recorded a deferred tax asset related to certain acquired tax loss carryforwards of WeddingChannel of $21.9 million which resulted in a reduction of goodwill associated with the acquisition. The acquired tax loss carryforwards of WeddingChannel are subject to a limitation on future utilization under Section 382 of the Internal Revenue Code. We currently estimate that the effect of Section 382 will generally limit the amount of the loss carryforwards of WeddingChannel which is available to offset future taxable income to approximately $3.6 million annually. The overall determination of the annual loss limitation is subject to interpretation, and therefore, the annual loss limitation could be subject to change.

As of June 30, 2007, we continued to maintain a valuation allowance for deferred tax assets associated with certain state net operating loss carryforwards of WeddingChannel. To the extent further reductions to this valuation allowance are recorded, the offsetting credit would reduce goodwill.

As of June 30, 2007, we had recorded deferred tax assets of $28.0 million. The realization of these deferred tax assets depends upon our ability to continue to generate taxable income in the future, as well as other factors including limitations which may arise from changes in our ownership. The valuation allowance may need to be adjusted in the future if facts and circumstances change causing a reassessment of the realization of the deferred tax assets.

Stock-Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, using the modified prospective method. Under this method, previously reported amounts are not restated. SFAS No. 123(R) requires the measurement of compensation expense for all stock awards granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service periods for awards expected to vest. Under the modified prospective method, we recognize compensation expense for all stock awards granted after December 31, 2005, and for awards granted prior to January 1, 2006 that remained unvested as of that date or which may be subsequently modified.

The fair value of restricted stock is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. The calculation for fair value of stock options requires considerable judgment including the estimation of stock price volatility, expected option lives and risk-free investment rates. We develop estimates based on historical data and market information which may change significantly over time and, accordingly, have a large impact on valuation.

We will continue to recognize stock-based compensation for service-based graded-vesting stock awards granted prior to January 1, 2006 using the accelerated method prescribed by FASB *Interpretation No. 28.* As permitted by SFAS No. 123(R), for stock awards granted after December 31, 2005, we have adopted the straight-line attribution method. In addition, effective January 1, 2006, we have included an estimate of stock awards to be forfeited in the future in calculating stock-based compensation expense for the period. The cumulative effect of this accounting change for forfeitures as of January 1, 2006 was not material due to the significant reduction in both the number of personnel receiving stock awards and the aggregate amount of stock awards granted by us in 2004 and 2005. We consider several factors when estimating future forfeitures, including types of awards, employee level and historical experience. Actual forfeitures may differ substantially from our current estimates.

Results of Operations

General

Net revenue and operating expenses of WeddingChannel have been included in our condensed consolidated statements of operations since September 8, 2006.

Net Revenues

Net revenues increased to $28.5 million and $49.5 million for the three and six months ended June 30, 2007, respectively, from $17.7 million and $32.5 million for the corresponding periods in 2006.

Online sponsorship and advertising revenues increased to $12.5 million and $23.3 million for the three and six months ended June 30, 2007, respectively, as compared to $8.4 million and $16.2 million for the corresponding periods in 2006. Revenue from local vendor online advertising programs increased by $2.2 million and $4.4 million for the three and six months ended June 30, 2007, respectively, or by approximately 42% when compared to the corresponding periods in 2006. The increases were primarily the result of an increase in the number and average spending of local vendor clients, including the addition of local vendors acquired through WeddingChannel, as well as the continuing impact of price increases. In addition, there was an increase of $1.9 million and $2.7 million in national online sponsorship and advertising revenue for the three and six months ended June 30, 2007, or approximately 65% and 48%, respectively, when compared to the corresponding periods in 2006 due, in part, to the addition of WeddingChannel national accounts. Online sponsorship and advertising revenues amounted to 44% and 47% of our net revenues for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, online sponsorship and advertising revenues amounted to 47% and 50% of our net revenues, respectively.

Registry services revenue was $3.4 million and $5.1 million for the three and six months ended June 30, 2007, respectively, as compared to $84,000 and $143,000 for the corresponding periods in 2006. The increases are primarily the result of commissions earned from WeddingChannel's retail partners. Registry services revenue amounted to 12% and 10% of our net revenues for the three and six months ended June 30, 2007, respectively, and less than 1% of our net revenues for each of the corresponding periods in 2006.

Merchandise revenues, which consist primarily of the sale of wedding supplies, increased to $6.5 and $11.1 million for the three and six months ended June 30, 2007, respectively, as compared to $4.8 million and $7.9 million for the corresponding periods in 2006. The 2007 revenue amounts include $1.7 million and $3.1 million sold through the WeddingChannel store for the three and six month periods, respectively. In addition, revenues for The Knot Wedding Shop increased by $134,000 and $385,000 or 3% and 5% for the three and six months ended June 30, 2007, respectively, as compared to the corresponding periods in the prior year, generally due to an increase in average order size. The sale of wedding supplies to wholesale customers decreased by $72,000 and $163,000 for the three and six months ended June 30, 2007, respectively, as compared to the corresponding periods in prior year. Subsequent to August 2006, we are no longer pursuing wholesale customers. Merchandise revenues amounted to 23% and 27% of our net revenues for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, merchandise revenue was 23% and 24% of our net revenues, respectively.

Publishing and other revenues increased to $6.1 million and $10.0 million for the three and six months ended June 30, 2007, respectively, as compared to $4.5 million and $8.3 million for the corresponding periods in 2006.

Local print revenue increased by $1.1 million and $1.2 million for the three and six months ended June 30, 2007, respectively. These increases included approximately $753,000 of revenue contributed by our inaugural annual publication, *The Knot Best of Weddings,* which was published in April 2007. The remaining increases were primarily the result of an increase in pricing and increased revenue associated with the local section of our national *The Knot Weddings* magazine offset, in part, by the elimination of one local market in 2007. For the three months ended June 30, 2007, national print revenue increased by approximately $145,000 due, in part, to revenue contributed by The Nest magazine. For the six months ended June 30, 2007, national print revenue was relatively flat compared to the prior year, primarily as a result of a decrease in the number of advertising pages in our February issue of *The Knot Weddings* magazine offset, in part, by an increase in pricing and by a small amount of revenue contributed by *The Nest* magazine. For the three and six months ended June 30, 2007, we recorded revenue of $389,000 associated with the April WeddingChannel Couture Show. Publishing and other revenue amounted to 21% and 25% of our net revenues for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, publishing and other revenue was 20% and 26% of our net revenues, respectively.

Cost of Revenues

Cost of revenues consists of the cost of merchandise sold, including outbound shipping costs, costs related to the production of national and regional magazines and The Knot TV, payroll and related expenses for our personnel who are responsible for the production of online and offline media, and costs of Internet and hosting services.

Cost of revenues increased to $5.7 million and $9.7 million for the three and six months ended June 30, 2007, respectively, as compared to $4.1 million and $7.2 million for the corresponding periods in 2006. The cost of revenues from the sale of merchandise increased by $771,000 and $1.4 million for the three and six months ended June 30, 2007, primarily due to the increases in wedding supplies revenue. Publishing and other cost of revenue increased by $678,000 and $925,000 for the three and six months ended June 30, 2007, primarily due to production costs associated with *The Nest* and *The Knot Best of Weddings m*agazines. As a percentage of our net revenues, cost of revenues was 20% for each of the three and six months ended June 30, 2007, as compared to 23% and 22% for the respective periods in 2006. Margin improvements in 2007 resulting from a higher mix of registry services revenue and higher margins for merchandise revenue due to price increases were offset, in part, by lower margins for publishing and other revenue due to the investment in *The Nest* magazine.

Product and Content Development

Product and content development expenses consist primarily of payroll and related expenses for editorial, creative and information technology personnel and computer hardware and software costs.

Product and content development expenses increased to $3.3 million and $6.5 million for the three and six months ended June 30, 2007, as compared to $1.8 million and $3.6 million for the three and six months ended June 30, 2006. These increases include $979,000 and $2.0 million, respectively, in expenses associated with WeddingChannel, primarily for personnel and related expenses. The remaining increases were primarily due to additional investments for other information technology and editorial staff. As a percentage of our net revenues, product and content development expenses increased to 12% and 13% for the three and six months ended June 30, 2007, respectively, from 10% and 11% for the corresponding periods in 2006.

Sales and Marketing

Sales and marketing expenses consist primarily of payroll and related expenses for sales and marketing, customer service, registry and public relations personnel, as well as the costs for promotional activities and fulfillment and distribution of merchandise and magazines.

Sales and marketing expenses increased to $6.4 million and $12.3 million for the three and six months ended June 30, 2007, respectively, as compared to $4.4 million and $9.1 million for the corresponding periods in 2006. These increases include $931,000 and $1.8 million, respectively, in expenses associated with WeddingChannel, primarily for personnel and related expenses. Other personnel and related costs increased by $509,000 and $892,000 for the three and six months ended June 30, 2007, primarily as a result of investments in national and local sales staff, in part, as additional support for sales efforts for new initiatives, including The Nest. Also, for the three and six months ended June 30, 2007, we incurred $319,000 and $600,000, respectively, for fulfillment expenses for *The Nest* magazine. As a percentage of our net revenues, sales and marketing expenses decreased to 23% and 25% for the three and six months ended June 30, 2007, respectively, from 25% and 28% for the corresponding periods in 2006.

General and Administrative

General and administrative expenses consist primarily of payroll and related expenses for our executive management, finance and administrative personnel, legal and accounting fees, facilities costs, insurance and bad debt expenses.

General and administrative expenses increased to $4.0 million and $8.1 million for the three and six months ended June 30, 2007, respectively, as compared to $3.3 million and $6.6 million for the corresponding periods in 2006. These increases include $281,000 and $765,000, respectively, of costs associated with WeddingChannel for personnel and related costs and other administrative expenses. Other personnel and related costs increased by $247,000 and $430,000 for the three and six months ended June 30, 2007 to support the growth of the Company. Computer software costs, credit card fees, recruiting costs and bad debt expense also increased in 2007 by aggregate amounts of $281,000 and $554,000, respectively, as compared to the comparable periods in 2006. For the three and six months ended June 30, 2006, we incurred higher consulting costs associated with the development of a formal disaster recovery plan for the Company and with respect to Sarbanes-Oxley compliance. These costs aggregated $241,000 and $342,000 for the respective periods. As a percentage of our net revenues, general and administrative expenses decreased to 14% and 16% for the three and six months ended June 30, 2007, respectively, from 19% and 20% for the corresponding periods in 2006.

Stock-Based Compensation

Total stock-based compensation expense related to all of the Company's stock awards was included in various operating expense categories for the three and six months ended June 30, 2007 and 2006, as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Product and content development	$ 122,000	$ 25,000	$ 240,000	$ 54,000
Sales and marketing	116,000	68,000	218,000	122,000
General and administrative	339,000	268,000	592,000	513,000
Total stock-based compensation expense	$ 577,000	$ 361,000	$ 1,050,000	$ 689,000

As of June 30, 2007, total unrecognized estimated compensation expense related to nonvested stock options, restricted shares and ESPP rights was $7.1 million, which is expected to be recognized over a weighted average period of 3.0 years.

Depreciation and Amortization

Depreciation and amortization consists of depreciation and amortization of property and equipment and capitalized software, and amortization of intangible assets related to acquisitions.

Depreciation and amortization increased to $2.2 million and $4.3 million for the three and six months ended June 30, 2007, respectively, as compared to $453,000 and $825,000 for the corresponding periods in 2006. For the three and six months ended June 30, 2007, we recorded additional depreciation and amortization of property, equipment, capitalized software and intangible assets of $1.6 million and $3.1 million, respectively, related to the assets acquired as a result of the WeddingChannel acquisition. The remaining increases in 2007 were due to increasing capital expenditures during calendar year 2006, including amounts for additional computer hardware and software to establish secondary back-up systems in connection with the development of a formal disaster recovery plan.

Interest Income

Interest income, net of interest expense, increased to $1.2 million and $2.2 million for the three and six months ended June 30, 2007, respectively, as compared to $363,000 and $663,000 for the corresponding periods in 2006. The increase was primarily the result of higher funds available for investment, including proceeds from the issuance of common stock in connection with the completion of a private placement in July 2006.

Provision for Taxes on Income

The effective tax rate for each of the three and six months ended June 30, 2007, was approximately 41% which differed from the amount computed by applying the Federal statutory income tax rate primarily due to state income taxes, net of Federal benefit, and non-deductible stock-based compensation expense.

Prior to December 31, 2006, we had maintained a valuation allowance with respect to certain deferred tax assets related to net operating loss carryforwards as a result of uncertainties associated with our future profitability. As of December 31, 2006, we concluded, based upon our assessment of positive and negative evidence, that it was more likely than not that an additional portion of our net deferred tax assets would be realized and, accordingly, we recorded a non-cash tax benefit in the fourth quarter of 2006 of $9.4 million resulting from the reversal of a portion of the valuation allowance. During 2006, we also utilized approximately $14.0 million of our net operating loss carryforwards. Accordingly, for the three and six months ended June 30, 2006, our provision for income taxes was $173,000, and $276,000 respectively, primarily due to operating income generated in certain states.

Liquidity and Capital Resources

As of June 30, 2007, our cash, cash equivalents and short-term investments amounted to $95.6 million. We currently invest primarily in short-term debt instruments that are highly liquid, of high-quality investment grade, and have maturities ranging from one to six months, with the intent to make such funds readily available for operating purposes.

Net cash provided by operating activities was $15.2 million for the six months ended June 30, 2007. This resulted primarily from the net income for the period of $6.4 million, depreciation, amortization, stock-based compensation and deferred income taxes of $9.4 million and a decrease in other current assets of $359,000. These sources of cash were offset, in part, by an increase in inventory of $753,000 in anticipation of higher seasonal sales of wedding supplies in the second and third quarters and a decrease in accounts payable and accrued expenses of $273,000. Net cash provided by operating activities was $6.4 million for the six months ended June 30, 2006. This resulted primarily from the net income for the period of $5.6 million, depreciation, amortization, non-cash services expense and stock-based compensation of $1.8 million, and a decrease in accounts receivable, net of deferred revenue, of $961,000 due to improved collection efforts and further credit card usage by local vendors. These sources of cash were offset, in part, by an increase in other assets of $1.1 million due primarily to legal and other costs associated with the acquisition of WeddingChannel, a decrease in accounts payable and accrued expenses of $456,000 and an increase in deferred production and marketing expenses of $204,000. Inventory also increased by $163,000 due to higher seasonal sales of wedding supplies in the second and third quarters.

Net cash used in investing activities was $45.0 million for the six months ended June 30, 2007, due primarily to purchases of short-term investments, net of proceeds from sales, of $43.9 million, and purchases of property and equipment of $1.3 million. Net cash provided by investing activities was $17,000 for the six months ended June 30, 2006 due primarily to the sale of short-term investments, net of purchases, of $2.0 million offset, in part, by purchases of property equipment and software of $1.9 million.

Net cash provided by financing activities was $901,000 and $526,000 for the six months ended June 30, 2007 and 2006, respectively, primarily due to proceeds from the issuance of common stock in connection with the exercise of stock options and warrants and through our Employee Stock Purchase Plan.

We currently believe that our current cash and cash equivalents will be sufficient to fund our working capital and capital expenditure requirements for the foreseeable future. Our ability to meet our obligations in the ordinary course of business is dependent upon our ability to maintain profitable operations and/or raise additional financing through public or private equity financings, or other arrangements with corporate sources, or other sources of financing to fund operations. However, there is no assurance that we will maintain profitable operations or that additional funding, if required, will be available to us in amounts or on terms acceptable to us.

Contractual Obligations and Commitments

We do not have any special purposes entities or capital leases and, other than operating leases, which are described below, we do not engage in off-balance sheet financing arrangements.

In the ordinary course of business, we enter into various arrangements with vendors and other business partners principally for magazine production, inventory purchases, computer equipment, host services and bandwidth.

As of June 30, 2007, we had no material commitments for capital expenditures.

As of June 30, 2007, we had commitments under non-cancelable operating leases amounting to approximately $4.5 million.

As of June 30, 2007, other long-term liabilities of $500,000 primarily represented accruals to recognize rent expense on a straight-line basis over the respective lives of four of our operating leases under which rental payments increase over the lease periods. These accruals will be reduced as the operating lease payments, summarized in the table of contractual obligations below, are made.

Our contractual obligations as of June 30, 2007 are summarized as follows:

		Payments due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
		(in thousands)			
Long term debt	$ 106	$ 51	$ 55	$ —	$ —
Operating leases	4,502	1,221	2,070	1,211	—
Purchase commitments	3,129	2,958	171	—	—
Total	$ 7,737	$ 4,230	$ 2,296	$ 1,211	$ —

Seasonality

We believe that the impact of the frequency of weddings from quarter to quarter results in lower registry services and merchandise revenues in the first and fourth quarters.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market rate or price risks.

We are exposed to some market risk through interest rates related to the investment of our current cash, cash equivalents and short-term investments of approximately $95.6 million as of June 30, 2007. These funds are generally invested in highly liquid debt instruments. As such instruments mature and the funds are re-invested, we are exposed to changes in market interest rates. This risk is not considered material, and we manage such risk by continuing to evaluate the best investment rates available for short-term, high quality investments.

We have no activities related to derivative financial instruments or derivative commodity instruments, and we are not currently subject to any significant foreign currency exchange risk.

Item 4. Controls and Procedures

The Company□s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company□s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and to ensure that such information is accumulated and communicated to the Companys management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Companys internal control over financial reporting during the quarter ended June 30, 2007 identified in connection with the evaluation thereof by the Companys management, including the Chief Executive Officer and Chief Financial Officer, that has materially affected, or is reasonably likely to materially affect, the Companys internal control over financial reporting.

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Knot is engaged in legal actions arising in the ordinary course of business and believes that the ultimate outcome of these actions will not have a material effect on its results of operations, financial position or cash flows.

Item 1A. Risk Factors

Risks that could have a negative impact on our business, results of operations and financial condition include without limitation, (i) The Knots unproven business model, (ii) The Knots history of significant losses, (iii) risks related to The Knots recent acquisition of WeddingChannel, (iv) the significant fluctuation to which The Knots quarterly revenues and operating results are subject, (v) the seasonality of the wedding industry and (vi) other factors detailed in documents The Knot files from time to time with the SEC. A more detailed description of each of these and other risk factors can be found under the caption Risk Factors in our most recent Annual Report on Form 10-K, filed on March 13, 2007. There have been no material changes to the risk factors described in the Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 23, 2007.

The stockholders elected Sandra Stiles and Charles Baker to the class of directors whose terms expire at the 2010 Annual Meeting of Stockholders or until their successors are elected and have qualified.

The stockholders ratified the appointment of Ernst & Young LLP as the Companys independent registered public accounting firm for the calendar year ending December 31, 2007.

Shares of common stock were voted as follows:

Director Nominee or Proposal	For	Against/Withheld	Abstentions
Sandra Stiles	26,865,167	949,244	0
Charles Baker	27,563,711	250,700	0
Ratification of Auditors	27,728,862	78,720	6,829

Item 6. Exhibits

31.1	Certification of Chairman and Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman and Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2007	THE KNOT, INC.
	By: /s/ Richard Szefc Richard Szefc Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

EXHIBIT INDEX

Number	**Description**
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