

BLUE NILE INC
Form DEF 14A
April 15, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. __)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Blue Nile, Inc.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

No fee required.

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4. Date Filed:

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BLUE NILE, INC.
705 Fifth Avenue South
Suite 900
Seattle, Washington 98104

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 17, 2011

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Blue Nile, Inc., a Delaware corporation (the Company). Notice is hereby given that the Annual Meeting will be held on Tuesday, May 17, 2011 at 11:00 AM Pacific Time at the Washington Athletic Club located at 1325 Sixth Avenue, Seattle, Washington 98101 for the following purposes:

1. To elect two directors to hold office until the 2014 Annual Meeting of Stockholders;
2. To approve an advisory resolution on executive compensation;
3. To conduct an advisory vote on the frequency of an advisory vote on executive compensation;
4. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as independent auditor for the Company for fiscal year ending January 1, 2012; and
5. To conduct any other business properly brought before the Annual Meeting.

These items of business are more fully described in the Proxy Statement accompanying this notice.

The record date for the Annual Meeting is March 31, 2011. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any adjournment thereof. For ten days prior to the Annual Meeting, a complete list of stockholders entitled to vote at the Annual Meeting will be available for examination by any stockholder, for any purpose relating to the Annual Meeting, during ordinary business hours at our principal offices located at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.

By Order of the Board of Directors,

Lauren Neiswender
General Counsel and Corporate Secretary

Seattle, Washington
April 15, 2011

You are cordially invited to attend the Annual Meeting in person. Directions to our Annual Meeting are available at <http://investor.blunenile.com>. Whether or not you expect to attend the Annual Meeting, please complete, date, sign and return the enclosed proxy or vote over the telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the Annual Meeting. A return

envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the Annual Meeting. Please note, however, that if your shares are held of record by a broker, bank or other agent and you wish to vote at the Annual Meeting, you must obtain a proxy issued in your name from that record holder.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 17, 2011. The Company's Proxy Statement and Annual Report to security holders for the fiscal year ended January 2, 2011 are also available at <http://investor.bluenile.com>.

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BLUE NILE, INC.
705 Fifth Avenue South
Suite 900
Seattle, Washington 98104

**PROXY STATEMENT
FOR THE 2011 ANNUAL MEETING OF STOCKHOLDERS**

Tuesday, May 17, 2011

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why am I receiving these materials?

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors of Blue Nile, Inc. (sometimes referred to as we, the Company or Blue Nile) is soliciting your proxy to vote at the 2011 Annual Meeting of Stockholders. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card or follow the instructions below to submit your proxy over the telephone or on the Internet.

We intend to mail this proxy statement and accompanying proxy card on or about April 15, 2011 to all stockholders of record entitled to vote at the Annual Meeting.

How do I attend the Annual Meeting?

The meeting will be held on Tuesday, May 17, 2011 at 11:00 AM. Directions to the Annual Meeting may be found at <http://investor.bluenile.com>. Information about how to vote in person at the Annual Meeting is discussed below.

Who may vote at the Annual Meeting?

Only stockholders of record at the close of business on March 31, 2011 will be entitled to vote at the Annual Meeting. On this record date, there were 14,588,679 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name. If on March 31, 2011 your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, please fill out and return the enclosed proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of Broker or Bank. If on March 31, 2011 your shares were held, not in your name, but rather in an account at a brokerage firm, bank or similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What proposals will be voted on at the meeting?

There are four proposals scheduled to be voted on at the meeting:

1. To elect two directors to hold office until the 2014 Annual Meeting of Stockholders (Proposal 1);
2. To approve an advisory resolution on executive compensation (Proposal 2);

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3. To conduct an advisory vote on the frequency of an advisory vote on executive compensation (Proposal 3); and
4. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as our independent auditor for fiscal year ending January 1, 2012 (Proposal 4).

We will also consider any other business that properly comes before the meeting. As of the record date, we are not aware of any other matters to be submitted for consideration at the meeting. If any other matters are properly brought before the meeting, the persons named in the enclosed proxy card or voter instruction card will vote the shares they represent using their best judgment.

How do I vote?

The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name. If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using the enclosed proxy card, vote by proxy over the telephone, or vote by proxy on the Internet. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person even if you have already voted by proxy.

- Ø To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.
- Ø To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.
- Ø To vote over the telephone, dial toll-free 1-800-776-9437, or, if you are calling outside the U.S., dial 1-718-921-8500, using a touch-tone phone and follow the recorded instructions. Please have your proxy card in hand when you call. Your vote must be received by 8:59 PM Pacific Time (11:59 PM Eastern Time) on Monday, May 16, 2011 to be counted.
- Ø To vote on the Internet, go to <http://www.voteproxy.com> to complete an electronic proxy card. Your vote must be received by 8:59 PM Pacific Time (11:59 PM Eastern Time) on Monday, May 16, 2011 to be counted.

We provide Internet proxy voting to allow you to vote your shares on-line, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

Beneficial Owner: Shares Registered in the Name of Broker or Bank. If on March 31, 2011 you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from Blue Nile. To vote by proxy card, simply complete and mail the proxy card according to the instructions provided to you to ensure that your vote is counted. Alternatively, you may vote by telephone or on the Internet as instructed by your broker, bank or other agent. To vote in person at the Annual Meeting, you must obtain from the record holder a valid proxy issued in your name and present it to our inspector of elections at the Annual Meeting.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 31, 2011.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and

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employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may revoke your proxy in any one of four ways:

- Ø You may submit another properly completed proxy card with a later date.
- Ø You may grant a subsequent proxy by telephone or through the Internet.
- Ø You may send a timely written notice that you are revoking your proxy to Blue Nile's Corporate Secretary at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.
- Ø You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy.

Your most current proxy card or telephone or Internet proxy is the one that is counted.

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by that organization.

When are stockholder proposals due for next year's Annual Meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 17, 2011 (120 calendar days prior to the anniversary of the mailing date of this proxy statement), to our Corporate Secretary at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104. In addition, stockholder proposals must otherwise comply with the requirements of Rule 14a-8 of the Securities and Exchange Act of 1934, as amended.

A stockholder proposal or nomination for director that will not be included in next year's proxy materials, but that a stockholder intends to present in person at next year's Annual Meeting, must comply with the notice, information and consent provisions contained in our Bylaws. In part, the Bylaws provide that to timely submit a proposal or nominate a director you must do so by submitting the proposal or nomination in writing to our Corporate Secretary at our principal executive offices no later than the close of business on February 17, 2012 (90 days prior to the first anniversary of the 2011 Annual Meeting Date) nor earlier than the close of business on January 18, 2012 (120 days prior to the first anniversary of the 2011 Annual Meeting date). In the event that we set an Annual Meeting date for 2012 that is not within 30 days before or after the anniversary of the 2011 Annual Meeting date, notice by the stockholder must be received no earlier than the close of business on the 120th day prior to the 2012 Annual Meeting and no later than the close of business on the later of the 90th day prior to the 2012 Annual Meeting or the 10th day following the day on which public announcement of the date of the 2012 Annual Meeting is first made. You are also advised to carefully review our Amended and Restated Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations, including the submission of certain information with respect

to proposed nominees and proponents of any stockholder proposals. You may obtain a copy of our Bylaws by mailing a request in writing to Blue Nile's Corporate Secretary at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.

How many votes are needed to approve each proposal?

If a quorum is present, each proposal requires the votes described below to be approved.

Ø *Proposal 1 Election of Directors.* For the election of directors, the two nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Only votes For or Withheld will affect the outcome.

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- Ø *Proposal 2 Advisory Vote on Executive Compensation.* To be approved, the compensation of our named executive officers must receive For votes from the holders of a majority of our shares present and entitled to vote either in person or by proxy. You may vote For, Against, or Abstain from the proposal to approve the compensation of our named executive officers. If you Abstain from voting, it will have the same effect as an Against vote.
- Ø *Proposal 3 Advisory Vote on the Frequency of an Advisory Vote on Executive Compensation.* You may vote For Every Three Years, For Every Two Years, or For Every Year, or Abstain. To be approved, the proposal for the frequency of the advisory vote on the compensation of our named executive officers must receive For votes from the holders of a majority of our shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote for each of the options.
- Ø *Proposal 4 Ratification of Deloitte & Touche LLP as Independent Auditor.* To be approved, the ratification of Deloitte & Touche LLP as our independent auditor for fiscal year ending January 1, 2012 must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid Annual Meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares of stock entitled to vote are present at the Annual Meeting or represented by proxy. On the record date, there were 14,588,679 shares of common stock outstanding and entitled to vote. Thus, the holders of 7,294,340 shares of common stock must be present in person or represented by proxy at the Annual Meeting to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other agent) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. In the absence of a quorum, the Annual Meeting may be adjourned either by the chairman of the meeting or by vote of the holders of a majority of shares present at the meeting in person or represented by proxy.

What if I return a proxy card but do not make specific choices?

If you are a stockholder of record and return a signed and dated proxy card without marking any voting selections, your shares will be voted as recommended by the Board of Directors. The Board of Directors unanimously recommends a vote:

1. FOR the election of the two nominees for director (Proposal 1);
2. FOR approval of the advisory resolution on executive compensation (Proposal 2);
3. To conduct an advisory vote on executive compensation EVERY THREE YEARS (Proposal 3); and
4. FOR the ratification of the selection of Deloitte & Touche LLP as our independent auditor for fiscal year ending January 1, 2012 (Proposal 4).

If any other matter is properly presented at the Annual Meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using her best judgment.

If your shares are held in street name and you do not instruct your broker on a timely basis on how to vote your shares, your brokerage firm, in its discretion may either leave your shares unvoted or vote your shares on routine matters. The election of directors, the advisory approval of executive compensation, and the advisory vote on the frequency of the advisory vote on executive compensation are non-routine matters. Consequently, without your voting instructions, your brokerage firm cannot vote your shares on these proposals. These unvoted shares, called broker non-votes, refer to shares held by brokers who have not received voting instructions from their clients, and who do not have discretionary authority to vote on these matters because they are non-routine matters. In tabulating the voting results for the election of directors, the advisory approval of executive compensation, and the advisory vote of the frequency of the advisory

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vote on executive compensation, shares that constitute broker non-votes are not considered entitled to vote on such proposals. Accordingly, broker non-votes will not affect the outcome of the vote on these proposals.

The proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 1, 2012 is considered a routine matter.

Whether or not your brokerage firm can vote or does vote your shares on your behalf on any proposal, your shares will be counted as present for the purpose of determining a quorum.

How can I find out the results of the voting at the Annual Meeting?

Votes will be counted by a representative of our independent inspector of elections appointed for the Annual Meeting. Preliminary voting results will be announced at the Annual Meeting. We will publish final voting results on a Form 8-K that we expect to file within four business days after our Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish the preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

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Proposal 1

Election Of Directors

Our Board of Directors is divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. Vacancies on the Board of Directors may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board of Directors to fill a vacancy in a class, including a vacancy created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified.

Our Board of Directors presently has eight members. There are two directors in the class whose terms of office expire in 2011, Eric Carlborg and Mark Vadon. Mr. Carlborg has served as a director since 2005 and was previously elected by the stockholders. Mr. Vadon has served as a director since our inception in March 1999 and was previously elected by the stockholders.

Mr. Carlborg has been designated by our Board of Directors as an Audit Committee financial expert. In addition, the Board of Directors affirmatively determined that Mr. Carlborg is an independent director and independent Audit Committee member within the independent meaning of the applicable NASDAQ Stock Market LLC (Nasdaq) listing standards. Mr. Carlborg brings extensive financial expertise and tremendous leadership to our Board of Directors and Audit Committee. Mr. Vadon has served as chairman of the Board of Directors since our inception in March 1999. He brings a deep understanding and expertise of the business and provides valuable strategic leadership to the business. On the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Mr. Carlborg and Mr. Vadon to stand for election at the 2011 Annual Meeting. If elected at the 2011 Annual Meeting, each of Mr. Carlborg and Mr. Vadon would serve until the 2014 Annual Meeting and until his successor is elected and qualified, or, if sooner, until the director's death, resignation or removal. If elected, Mr. Carlborg would be an independent non-employee director. If elected, Mr. Vadon would not be considered an independent director because he is employed by us as our executive chairman. It is our policy to invite and encourage directors and nominees for director to attend the Annual Meeting. Mr. Vadon and Ms. Irvine attended the 2010 Annual Meeting.

For the election of directors, the two nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Only votes For or Withheld will affect the outcome. In the unexpected event that a nominee is unable or unwilling to serve as a nominee at the time of the Annual Meeting, the persons named as proxies may vote for a substitute nominee chosen by us. Alternatively, the Board of Directors may decide to reduce the size of the Board of Directors. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that any nominee will be unable or unwilling to serve.

Below is a biography of each nominee and each director whose term will continue after the Annual Meeting. The biographies below include information, as of the date of this proxy statement, regarding specific and particular experience, qualifications, attributions or skills of each director that led the Nominating and Corporate Governance Committee to recommend the director nominees to the Board of Directors and to conclude that each of the other directors should continue to serve as members of our Board of Directors.

In addition to the individual information set forth below, all of our directors, including our nominees, must exemplify the highest levels of ethics and integrity, have a demonstrated willingness to devote sufficient time and energy to serving on our Board of Directors and Committees of the Board of Directors, and have a commitment to rigorously representing the long-term interests of our stockholders.

Nominees for Election for a Three-year Term Expiring at the 2014 Annual Meeting

Mark Vadon

Mark Vadon, age 41, co-founded Blue Nile and has served as Chairman of the Board of Directors since its inception in March 1999. He has served as the Company's Executive Chairman since February 2008 and served as the Company's Chief Executive Officer from March 1999 to February 2008. From March 1999 to February 2007, Mr. Vadon was also Blue Nile's President. From December 1992 to March 1999, Mr. Vadon was a consultant for Bain & Company, a management consulting firm. In 2009, Mr. Vadon founded Zulily, Inc., a private-sale shopping site for moms, and

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serves as its Chairman of the Board of Directors. Mr. Vadon holds a B.A. in Social Studies from Harvard University and an M.B.A. from Stanford University. Mr. Vadon serves as our Chairman of the Board of Directors. Mr. Vadon founded Blue Nile over ten years ago and brings to the Board of Directors a deep understanding and expertise of the business and the strategic vision for the business. Further, Mr. Vadon's experience and tenure both on the Board of Directors and at the Company provides the Board of Directors with critical leadership and institutional knowledge. Mr. Vadon's expertise and experience with Blue Nile make him exceptionally well suited to serve as our Chairman of the Board of Directors.

Eric Carlborg

Eric Carlborg, age 47, has served as a director since February 2005. Since June 2010, Mr. Carlborg has served as a partner at August Capital, an investment company. From April 2006 to June 2010, Mr. Carlborg served as a partner at Continental Investors LLC, an investment company. From September 2005 to March 2006, Mr. Carlborg served as Chief Financial Officer of ProvideCommerce, Inc., an e-commerce company. From July 2001 to October 2004, Mr. Carlborg was a Managing Director of Investment Banking with Merrill Lynch & Co., a financial services company. Prior to his tenure at Merrill Lynch, Mr. Carlborg served in various executive financial positions, including Chief Financial Officer at Authorize.net, Inc. and Chief Strategy Officer at Go2Net, Inc., providers of Internet products and services. Mr. Carlborg also previously served as Chief Financial Officer for Einstein/Noah Bagel Corp., a food service company. Mr. Carlborg previously served as a member of the Board of Directors of Big Lots, Inc., a Fortune 500 retailer. Mr. Carlborg holds a B.A. from the University of Illinois and an M.B.A. from the University of Chicago. Mr. Carlborg serves as the Chair of our Audit Committee. Mr. Carlborg's extensive background in accounting and financial management is valuable to our Board of Directors and Audit Committee. Additionally, Mr. Carlborg has a deep understanding of our financials and our business, which make him an especially valuable and effective Audit Committee Chair. Mr. Carlborg has been designated by our Board of Directors as an Audit Committee financial expert.

**The Board Of Directors Unanimously Recommends
A Vote In Favor Of Each Named Nominee (Proposal 1).**

Directors Continuing in Office Until the 2012 Annual Meeting

Mary Alice Taylor

Mary Alice Taylor, age 61, has served as a director since March 2000 and served as Blue Nile's lead independent director from May 2004 through February 2011. Ms. Taylor has been an independent business executive since October 2000. She held a temporary assignment as Chairman and Chief Executive Officer of Webvan Group, Inc., an e-commerce company, from July 2001 to December 2001. Prior to that, she served as Chairman and Chief Executive Officer of HomeGrocer.com, an e-commerce company, from September 1999 until she completed a sale of the company to Webvan Group, Inc. in October 2000. From January 1997 to September 1999, Ms. Taylor served as Corporate Executive Vice President of Worldwide Operations and Technology for Citigroup, Inc., a financial services organization. Ms. Taylor also served as Senior Vice President of Federal Express Corporation, a delivery services company, from September 1991 until December 1996. Ms. Taylor also serves on the Board of Directors of Allstate Corporation, an insurance company. Ms. Taylor formerly served on the Board of Directors of Autodesk Inc., a design software company, and Sabre Holdings, an Internet travel services company. Ms. Taylor holds a B.S. in Finance from Mississippi State University. Ms. Taylor served as our lead independent director from May 2004 through February 2011 and is the Chair of the Nominating and Corporate Governance Committee. She also serves as a member of our Audit Committee. Ms. Taylor is a seasoned business leader and director. Her executive leadership experience, including her role as Chief Executive Officer, provides the Board of Directors with valuable operational, financial, and executive leadership skills. Her tenure and in-depth knowledge about our business made her exceptionally well suited to serve as our lead independent director. Ms. Taylor has been designated by our Board of Directors as an Audit Committee financial expert.

Michael Potter

Michael Potter, age 49, has served as a director since October 2007 and has served as our lead independent director since February 2011. Mr. Potter served as Chairman and Chief Executive Officer of Big Lots, Inc., a Fortune 500 retailer, from June 2000 to June 2005. Prior to serving as Chief Executive Officer, Mr. Potter served in various capacities at Big Lots, including the role of Chief Financial Officer. Prior to Big Lots, Mr. Potter held various positions

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at The Limited, Inc., May Department Stores, and Meier & Frank, all retail companies. Mr. Potter currently serves on the Board of Directors of Coldwater Creek, Inc., a triple channel retailer of women's apparel, gifts and accessories. Mr. Potter formerly served on the Board of Directors of Newegg, Inc., an online-only retailer specializing in high-tech products, and Big Lots, Inc. Mr. Potter holds an M.B.A. from Capital University in Ohio and a B.S. in Finance and Management from the University of Oregon. Mr. Potter serves on our Audit Committee and Compensation Committee. Mr. Potter brings a wealth of retail experience to the Board of Directors. Additionally, his experience as a Chief Executive Officer and former director of a Fortune 500 retailer provides the Board of Directors with valuable leadership skills, operational experience, and strategic planning experience. His prior experience as a Chief Financial Officer also provides valuable financial expertise to the Board of Directors and to the Audit Committee. Mr. Potter's leadership, tenure, and experience make him extremely well qualified to serve as our lead independent director. Mr. Potter has been designated by our Board of Directors as an Audit Committee financial expert.

Steve Scheid

Steve Scheid, age 57, has served as a director since October 2007. Mr. Scheid currently serves as Chairman of the Board of Janus Capital Group, Inc., an asset management company. From April 2004 until December 2005, Mr. Scheid served as Chief Executive Officer and Chairman of the Board of Janus. Mr. Scheid joined the Janus Board in December 2002 and was appointed Chairman in January 2004. Mr. Scheid served as Vice Chairman of The Charles Schwab Corporation and President of Schwab's retail group from 2000 to 2002. Prior thereto, Mr. Scheid headed Schwab's financial products and services group and was the firm's Chief Financial Officer from 1996 through 1999. From 2001 to 2002, Mr. Scheid served on the Federal Advisory Council, which provides oversight to the Federal Reserve Board in Washington, D.C. Mr. Scheid has served as a founding partner of Strategic Execution Group, LLC, a consulting firm, since April 2007. Mr. Scheid formerly served on the Board of Directors of PMI Group, Inc., an international provider of credit enhancement products and Autodesk, Inc., a design software company. Mr. Scheid holds a B.S. from Michigan State University. Mr. Scheid serves as the Chair of our Compensation Committee. Mr. Scheid has a deep expertise in finance, retail strategies, risk management, and investment services. Additionally, he provides the Board of Directors with valuable executive leadership experience. Mr. Scheid has a deep understanding of and tremendous experience with executive compensation packages making him an exceptionally valuable and effective Compensation Committee Chair.

Directors Continuing in Office Until the 2013 Annual Meeting

Diane Irvine

Diane Irvine, age 52, has served as a director since May 2001, and has served as Blue Nile's Chief Executive Officer since February 2008 and as President since February 2007. She served as the Company's Chief Financial Officer from December 1999 to September 2007. From February 1994 to May 1999, Ms. Irvine served as Vice President and Chief Financial Officer of Plum Creek Timber Company, Inc., a timberland management and wood products company. From September 1981 to February 1994, Ms. Irvine served in various capacities, most recently as a partner, with Coopers and Lybrand LLP, an accounting firm. Ms. Irvine formerly served on the Board of Directors of Ticketmaster Entertainment, Inc., a live entertainment ticketing and marketing company, and Davidson Companies, an investment banking and asset management company. Ms. Irvine holds a B.S. in Accounting from Illinois State University and an M.S. in Taxation from Golden Gate University. Ms. Irvine's experience and tenure at Blue Nile provides the Board of Directors with critical insights into the Company's day-to-day operations, organizational development and structure, and short and long-term strategic opportunities and challenges. Additionally, Ms. Irvine brings substantial leadership skills and financial expertise to the Board of Directors.

Leslie Lane

Leslie Lane, age 43, has served as a director since December 2008. Mr. Lane has served as Vice President and Managing Director of the Nike Foundation at Nike, Inc., a leading designer, marketer and distributor of authentic athletic footwear, apparel, equipment and accessories, since June 2010. From October 2006 to June 2010, he served as

Vice President and General Manager of Global Running for Nike, Inc. From March 2004 to October 2006, he served as the Director of Nike Global Footwear Finance and Strategic Planning and, from March 2003 to March 2004, he served as the Director of Nike Subsidiaries. From 1998 to 2002, Lane held various positions at Roll International Corporation, a private holding company, including serving as the Chief Operating Officer of PomWonderful LLC, the Chief Financial Officer of Paramount Citrus, and the Vice President of Strategy of Roll International Corporation. From 1990 to 1998, Lane was a consultant with Bain & Company. He holds an M.A. in Chemistry from Oxford University and an M.B.A. from Harvard University. Mr. Lane is a member of our Audit Committee and Nominating and Corporate Governance Committee. Mr. Lane has a strong background in building a customer-centric brand. His experience provides the Board of Directors with valuable insights into strategic branding and marketing opportunities both domestically and internationally. Further, Mr. Lane's deep financial expertise and experience is valuable to the Board of Directors

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and the Audit Committee. Mr. Lane has been designated by our Board of Directors as an Audit Committee financial expert.

Ned Mansour

Ned Mansour, age 62, has served as a director since December 2008. Mr. Mansour served as President of Mattel, Inc., a worldwide leader in the design, manufacture and marketing of family products, until his retirement in March 2000. He joined Mattel in 1978 as a senior attorney and held numerous positions before becoming President, including President of Corporate Operations, President of Mattel USA, Chief Administrative Officer, and Executive Vice President and General Counsel. Mr. Mansour currently serves on the Board of Directors of the Ryland Group, one of the nation's largest homebuilders. In addition, Mr. Mansour previously served as a member of the Board of Directors of Mattel and Big Lots, Inc., a Fortune 500 retailer. He holds a B.A. in Finance from the University of Southern California and a J.D. from the University of San Diego School of Law. Mr. Mansour serves on our Compensation Committee and our Nominating and Corporate Governance Committee. Mr. Mansour brings a wealth of experience in retail operations, international expansion, marketing, and corporate governance. Additionally, having served as a President of a large retailer and a director at several large companies, Mr. Mansour brings valuable executive leadership experience to the Board of Directors.

Independence of The Board of Directors

As required under the Nasdaq listing standards, a majority of the members of a listed company's Board of Directors must qualify as independent, as affirmatively determined by the Board of Directors. Our Board of Directors consults with our legal counsel to ensure that the Board of Directors' determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of Nasdaq, as in effect, from time to time.

Consistent with these considerations, after reviewing all relevant transactions and relationships between each director, or any of his or her family members, and us, our senior management and our independent auditor, the Board of Directors affirmatively determined that the following six directors are independent directors within the meaning of the applicable Nasdaq listing standards: Mary Alice Taylor, Eric Carlborg, Leslie Lane, Ned Mansour, Michael Potter, and Steve Scheid. In making this determination, the Board of Directors found that none of these directors had a material or other disqualifying relationship with us. In determining the independence of Mr. Carlborg, the Board of Directors considered that August Capital, LLC, an investment company in which Mr. Carlborg serves as a partner, had acquired a less than 10% interest in Zulily, Inc., a company that Mr. Vadon founded and currently serves as chairman of its Board of Directors. In determining the independence of Mr. Potter, the Board of Directors considered that Mr. Potter serves on the Board of Directors of Zulily, Inc. The Board of Directors deemed that the relationships between Mr. Carlborg and Zulily, Inc. and Mr. Potter and Zulily, Inc. would not interfere with the exercise of independent judgment by Mr. Carlborg or Mr. Potter in carrying out each of their responsibilities as a director of Blue Nile. Mr. Vadon, our executive chairman, and Ms. Irvine, our chief executive officer and president, are not independent directors by virtue of their employment with us.

The Board of Directors Role in Risk Oversight

There are risks inherent in every business and our Board of Directors has oversight over how we manage the risks associated with our business. Our Board of Directors has delegated to the Audit Committee the primary responsibility for the oversight of our risks. The Audit Committee Chair reports to the full Board of Directors the process the Audit Committee and management went through to fulfill its oversight responsibilities and the results from the process. The Audit Committee's Charter provides, in relevant part, that it will review and discuss with management and with our independent auditors, as appropriate, our guidelines and policies with respect to risk assessment and risk management, including our major financial risk exposures and the steps taken by management to monitor and control these

exposures.

At least annually, the Audit Committee evaluates our risks and the management of our risks. In 2010, management presented to the Audit Committee our Enterprise Risk Management assessment tool. In connection with its review, the Audit Committee went through the risks identified by management, the process management used to identify and rate risks, the mitigation strategies for each of the material risks, and the relevant action items. The Chair of the Audit Committee then reported to the Board of Directors the process it and management went through and discussed the material findings from the review. The Board of Directors believes that the process that it goes through to oversee the

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management of risks allows it to understand the critical risks facing the business, evaluate our risk management process and ensure that they are functioning adequately, and foster a culture of risk awareness.

Meetings of the Board of Directors

The Board of Directors met five times during fiscal year 2010. Each Board member attended 75% or more of the aggregate of the meetings of the Board of Directors and meetings of the committees on which he or she served, held during the period for which he or she was a director or committee member.

As required under applicable Nasdaq listing standards, in fiscal year 2010, our independent directors met at least four times in regularly scheduled executive sessions at which only independent directors were present. The lead independent director for fiscal year 2010, Mary Alice Taylor, presided over the executive sessions. Persons interested in communicating with the independent directors with their concerns or issues may address correspondence to a particular director or to the independent directors generally, in care of Blue Nile's Corporate Secretary at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104. If no particular director is named, letters will be forwarded, depending on the subject matter, to the Chair of the Audit Committee, Compensation Committee or Nominating and Corporate Governance Committee, as applicable.

Information Regarding the Board of Directors and its Committees

In April 2004, our Board of Directors documented the governance practices followed by us and our Board of Directors by adopting the Corporate Governance Policies of the Board of Directors (the "Governance Policies"). The Governance Policies provide the Board of Directors with the necessary authority to review and evaluate our business operations, as needed, and they are designed to facilitate the Board of Directors' independent decision making authority. The Governance Policies are intended to align the interests of directors and management with those of our stockholders. The Governance Policies, among other things, set forth the practices the Board of Directors will follow with respect to the selection of directors, the independence of the directors, meetings of the Board of Directors, committees of the Board of Directors, and the responsibilities of the Board of Directors. The Governance Policies were adopted to, among other things, reflect changes to the Nasdaq listing standards and Securities and Exchange Commission rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The Corporate Governance Policies of the Board of Directors, as well as the charters for each committee of the Board of Directors, may be viewed on our website at www.bluenile.com in the corporate governance section of our investor relations page.

Leadership Structure. The Board of Directors does not have a policy on whether the role of the chairman and chief executive officer should be separate, but currently our former chief executive officer, Mr. Vadon, is serving as our chairman. The role of the chairman and chief executive officer became separate in February 2008, when Mr. Vadon transitioned from our chief executive officer to our executive chairman. The Board of Directors believes that this leadership structure is appropriate at this time as it allows our chief executive officer, Ms. Irvine, to focus on her management responsibilities. Additionally, the Board of Directors believes that Mr. Vadon's role as the chairman of the Board is appropriate given his responsibilities over our long-term strategic planning. Mr. Vadon is not considered an independent director. Our Governance Policies provide that to the extent that there is not an independent chairman, the Board of Directors will designate an independent director to serve as lead independent director. From May 2004 through February 2011, the Board of Directors designated Ms. Taylor to serve as our lead independent director. In February 2011, the Board of Directors designated Mr. Potter to serve as our lead independent director. Pursuant to our Governance Policies, except to the extent otherwise deemed appropriate by the Board of the Directors, the lead director has the following responsibilities: (i) in conjunction with the chief executive officer, establish any agenda for meetings of the independent directors, (ii) preside over the meetings of the independent directors, and (iii) coordinate the activities of the other independent directors and to perform various other duties. Typically, there is a meeting of the independent directors in conjunction with every meeting of the Board of Directors and in 2010 each meeting of the

Board of Directors included a non-management executive session. This allows the directors to speak candidly on any matter of interest, without the executive chairman, chief executive officer, or any other members of management present.

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Committees. The Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The following table provides membership and meeting information for fiscal year 2010 for each of the committees of the Board of Directors:

Name	Audit	Compensation	Nominating and Corporate Governance
Eric Carlborg	X *		
Diane Irvine			
Leslie Lane	X		X
Ned Mansour		X	X
Michael Potter**	X	X	
Steve Scheid		X *	
Mary Alice Taylor	X		X *
Mark Vadon			
Total meetings in fiscal year 2010	10	8	3

* Committee Chairperson

** Lead Independent Director as of February 2011. Ms. Taylor was the lead independent director from May 2004 through February 2011.

Below is a description of each committee of the Board of Directors. Each committee has authority to engage legal counsel or other experts or consultants, as it deems appropriate, to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the applicable rules and regulations regarding independence and that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment.

Audit Committee

The Audit Committee of the Board of Directors oversees our corporate accounting and financial reporting processes and audits of our financial statements. For this purpose, the Audit Committee performs functions, including, among other things:

evaluating the performance of and assessing the qualifications of the independent auditor;

determining and approving the engagement of the independent auditor;

reviewing all relationships between the prospective auditors, or their affiliates and the Company, or persons in financial oversight roles at the Company, that may reasonably be thought to bear on independence, and to discuss with the prospective auditors the potential effects of such relationships on the independence of the prospective auditors;

determining whether to retain or terminate the existing independent auditor or to appoint and engage a new independent auditor;

evaluating the systems of internal control over financial reports;

reviewing and approving the retention of the independent auditor to perform any proposed permissible non-audit services;

monitoring the rotation of partners of the independent auditor on our audit engagement team as required by law;

reviewing and approving or rejecting transactions between us and any related parties;

conferring with management and the independent auditor regarding the effectiveness of our internal controls over financial reporting;

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establishing procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

reviewing our annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing our disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Four directors comprise the Audit Committee: Mr. Carlborg (chairman), Mr. Lane, Mr. Potter and Ms. Taylor. The Audit Committee met ten times during fiscal year 2010. The Audit Committee has adopted a written charter that is available on our website, www.bluenile.com, in the corporate governance section of our investor relations page.

Our Board of Directors annually reviews the Nasdaq listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The Board of Directors has also determined that each of Mr. Carlborg, Mr. Lane, Mr. Potter, and Ms. Taylor, qualifies as an audit committee financial expert, as defined in applicable Securities and Exchange Commission rules. In making this determination, the Board of Directors made a qualitative assessment of Mr. Carlborg, Mr. Lane, Mr. Potter and Ms. Taylor's level of knowledge and experience based on a number of factors, including their respective formal education, experience, business acumen, and independence.

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Audit Committee Report⁽¹⁾

The Audit Committee reviewed and discussed the audited financial statements for fiscal year 2010 with management of Blue Nile. The Audit Committee has also discussed with Blue Nile's independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from Blue Nile's independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with Blue Nile's independent registered public accounting firm's independence. Based on the foregoing, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in Blue Nile's Annual Report on Form 10-K for the fiscal year ended January 2, 2011.

Date: April 15, 2011

Respectfully submitted,

Eric Carlborg, Chairman
Leslie Lane
Michael Potter
Mary Alice Taylor

(1) The material in this report is not soliciting material, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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Compensation Committee

The Compensation Committee acts on behalf of the Board of Directors to review, adopt, and oversee our compensation strategy, policies, plans, and programs, including:

review and approval of corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management and evaluation of performance in light of these objectives;

review and approval of the compensation and other terms of employment of our executive officers and other senior management; and

administration of our equity compensation plans, incentive compensation plans, and other similar plans.

The Compensation Committee also reviews with management our Compensation Discussion and Analysis and considers whether to recommend that it be included in our proxy statement.

Three directors comprise the Compensation Committee: Mr. Scheid (chairman), Mr. Mansour, and Mr. Potter. Our Board of Directors has determined that all of the members of the Compensation Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The Compensation Committee met eight times during fiscal year 2010. The Compensation Committee has adopted a written Compensation Committee charter that is available on our website, www.bluenile.com, in the corporate governance section of our investor relations page.

The agenda for each Compensation Committee meeting is generally developed by the chair of the Compensation Committee, in consultation with the chief executive officer, the executive chairman, and the general counsel, as appropriate. The Compensation Committee meets regularly in executive session. From time to time, various members of management as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice, or otherwise participate in the Compensation Committee meetings. The charter of the Compensation Committee grants the Compensation Committee full access to all of our books, records, facilities and personnel, as well as authority to obtain, at our expense, advice and assistance from internal and external legal, accounting, or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist it in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

Under its charter, the Compensation Committee may form, and delegate authority to, subcommittees, as appropriate. In 2004, the Compensation Committee formed the Stock Award Committee. Four executives comprise the Stock Award Committee: our chief executive officer, our executive chairman, our chief financial officer, and our general counsel. The Compensation Committee delegated authority to the Stock Award Committee grant within ranges approved by the Compensation Committee: (1) stock options to newly hired non-executive employees, and (2) merit awards to existing non-executive employees at such times as are specifically authorized. The purpose of this delegation of authority is to enhance the flexibility of our option administration and to facilitate the timely grant of options to non-executive employees within specified limits approved by the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

Messrs. Scheid, Mansour, and Potter were the only members of the Compensation Committee during the fiscal year ended January 2, 2011. None of the Compensation Committee's members has at any time been an officer or employee

of Blue Nile. None of our executive officers serve, or in the past fiscal year has served, as a member of the Board of Directors or Compensation Committee of any entity that has one or more of its executive officers serving on our Board of Directors or Compensation Committee. None of the Compensation Committee's members is or was a participant in a related person transaction in the past fiscal year (see Transactions with Related Persons included herein for a description of our policy on related person transactions).

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Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for, among other things:

- identifying, reviewing and evaluating candidates to serve as directors;
- recommending candidates to the Board of Directors for election to the Board of Directors;
- reviewing and evaluating incumbent directors;
- considering recommended director nominees and proposals submitted by stockholders;
- establishing policies and procedures to facilitate stockholder communications with the Board of Directors;
- evaluating the performance, authority, operations, charter and composition of each standing committee and the performance of each committee member and recommending changes, as it deems appropriate;
- developing and periodically reviewing a management succession plan;
- establishing and carrying-out a process for the periodic review of the performance of the Board of Directors and its committees and management;
- assessing the independence of directors;
- evaluating the need for a plan or program for the continuing education of directors;
- reviewing significant regulatory, legal or other initiatives and matters that may materially impact us;
- developing and reviewing our corporate governance principles;
- evaluating our directors and officers liability insurance; and
- overseeing our policies and practices regarding philanthropic and political activities.

Three directors comprise the Nominating and Corporate Governance Committee: Ms. Taylor (chairwoman), Mr. Lane and Mr. Mansour. All members of the Nominating and Corporate Governance Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The Nominating and Corporate Governance Committee met three times during fiscal year 2010. The Nominating and Corporate Governance Committee has adopted a written charter that is available on our website, www.bluenile.com, in the corporate governance section of our investor relations page.

Criteria for Nominees. The Nominating and Corporate Governance Committee reviews the experience and characteristics appropriate for members of the Board of Directors and director nominees in light of the Board of Directors' composition at the time, and skills and expertise needed at the Board of Directors and committee levels. The Nominating and Corporate Governance Committee also considers such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to our affairs, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of our stockholders. However, the Nominating and

Corporate Governance Committee retains the right to modify these qualifications from time to time. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee must be independent under Nasdaq listing standards, applicable Securities and Exchange Commission rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee uses its network of contacts to compile a list of potential candidates, but may also engage, if it

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deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible nominees after considering the function and needs of the Board of Directors. The Nominating and Corporate Governance Committee meets to discuss and consider the nominees and then selects a nominee or nominees for recommendation to the Board of Directors by majority vote.

To date, the Nominating and Corporate Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director nominees. To date, the Nominating and Corporate Governance Committee has not received a timely recommendation for a director nominee from a stockholder or stockholders holding more than 5% of our voting stock.

The Nominating and Corporate Governance Committee will consider properly submitted director nominees recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates nominees based on whether or not the nominee was recommended by a stockholder. Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board of Directors may do so by delivering a written recommendation to the Nominating and Corporate Governance Committee at the following address: 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104, Attention: Corporate Secretary, at least 120 days prior to the anniversary date of the mailing of our proxy statement for the last Annual Meeting of Stockholders. Our Bylaws contain other specific requirements to properly submit a director nomination to our stockholders. A recommendation of a nominee to the Nominating and Corporate Governance Committee shall not be deemed to satisfy the nomination requirements set forth in our Bylaws.

Diversity. While the Nominating and Corporate Governance Committee does not have a formal diversity policy for Board membership, the Committee seeks directors who represent a mix of backgrounds and experiences that will enhance the quality of the Board's deliberations and decisions. The Nominating and Corporate Governance Committee identifies qualified potential candidates without regard to any candidate's race, color, disability, gender, national origin, religion or creed. As part of the process of identifying candidates, the Nominating and Corporate Governance Committee evaluates how a particular candidate would strengthen and increase the diversity of the Board in terms of that candidate's possible contribution to the Board of Directors' overall balance of perspectives, backgrounds, knowledge, experience, skill sets and expertise in substantive matters pertaining to our business.

Stockholder Communications With The Board Of Directors

Our Board of Directors has adopted a formal process by which stockholders may communicate with the Board of Directors or any of our individual directors. Stockholders who wish to communicate with the Board of Directors may do so by sending written communications addressed to the Corporate Secretary of Blue Nile at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104. All communications will be compiled by our Corporate Secretary and submitted to the Board of Directors or the individual directors, as applicable, on a periodic basis.

Code Of Ethics

We have adopted the Blue Nile, Inc. Code of Ethics that applies to all officers, directors and employees, including our chief executive officer, chief financial officer, controller, and persons performing similar functions. The Code of Ethics is available on our website at www.bluenile.com in the corporate governance section of our investor relations page. If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of the Code of Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website and file a Current Report on Form 8-K to the extent required by law and the Nasdaq listing standards.

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Proposal 2

Advisory Vote On Executive Compensation

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (*Dodd-Frank Act*), we are asking our stockholders to vote, on an advisory basis, on the compensation of our named executive officers as described in this proxy statement. This proposal, commonly known as a *say-on-pay* proposal, gives our stockholders the opportunity to express their views on the compensation of our named executive officers.

As described in detail under the heading *Compensation Discussion and Analysis*, our executive compensation program is designed to attract, motivate and retain our named executive officers, who are critical to our success. We urge our stockholders to read the *Compensation Discussion and Analysis* and the tables and narrative that follow for additional details about our executive compensation program, including information about the fiscal year 2010 compensation paid to our named executive officers.

Record Financial Results for 2010. Our executives have successfully managed us through the recent dramatic economic downturn, and we believe our compensation program for our named executive officers was instrumental in helping us achieve strong financial performance. Our fiscal 2010 financial results were highlighted by the following:

Net sales growth of 10.2% to \$332.9 million;

Growth in international sales of 30.4% to \$43.3 million.

Record gross profit of \$71.9 million;

Operating income rose 10.0% to \$21.3 million;

Net income increased 10.5% to \$14.1 million;

Earnings per diluted share increased 11.9% to \$0.94;

Non-GAAP Adjusted EBITDA growth of 7.5% to \$31.3 million; and

Record non-GAAP free cash flow of \$39.8 million.

Our strong earnings and operational excellence helped drive our year-end balance of cash, cash equivalents, and short term investments of \$113.3 million, compared to \$93.1 million at the end of 2009. We have no long-term indebtedness. We believe we are well positioned to reward our stockholders over the long-term.

Fiscal Year 2010 Compensation Program Highlights. As discussed in more detail under the heading *Compensation Discussion and Analysis*, we believe that our executive compensation program is reasonable, competitive and strongly focused on pay for performance principles. The Compensation Committee measures performance and sets goals and objectives on the basis of financial and individual results that it believes will position us for long-term sustainable success. We believe that the fiscal year 2010 compensation of our named executive officers was appropriate and aligned with our 2010 results. Our fiscal year 2010 compensation program highlights are set forth below.

On average, 72% of the total compensation paid to our named executive officers was in the form of variable or *at risk* compensation. Variable compensation is tied to the achievement of our performance goals or stock price

appreciation.

We continue to emphasize stock options as a key element of our compensation program, so that our named executive officers are only rewarded when our stock price increases.

Based on our fiscal year 2010 results, on average, our named executive officers received 50% of their target cash incentive bonus awards. In contrast, in fiscal year 2008, when we did not achieve our financial goals due to the global economic recession, our executives did not earn any cash incentive bonus awards. In addition, most of our

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named executive officers did not receive an increase in their base salaries and target bonus awards in fiscal year 2009 due to the economic recession.

Our named executive officers were not provided with any executive perquisites, and were only provided with minimal perquisites that were also provided to all of our regular full-time employees.

The Compensation Committee regularly reviews the compensation program for our executives to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders' interests and current market practices. We believe that our executive compensation program has been effective at encouraging the achievement of positive results, appropriately aligning pay and performance, and in enabling us to attract and retain very talented executives.

Advisory Vote and Board Recommendation. We request stockholder approval of the 2010 compensation of our named executive officers as disclosed in this proxy statement pursuant to the Securities and Exchange Commission's compensation disclosure rules (which disclosure includes the Compensation Discussion and Analysis, the compensation tables, and the narrative disclosures that accompany the compensation tables within this proxy statement). This vote is not intended to address any specific element of compensation, but rather the overall compensation of our named executive officers and the compensation philosophy, policies and practices described in this proxy statement.

Accordingly, we ask that you vote **FOR** the following resolution at this meeting:

RESOLVED, that the stockholders of Blue Nile, Inc. approve, on an advisory basis, the compensation of the named executive officers, as disclosed in Blue Nile's proxy statement for the 2011 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2010 Summary Compensation Table, and the other related tables and disclosure within this proxy statement.

To be approved, the compensation of our named executive officers must receive **For** votes from the holders of a majority of our shares present and entitled to vote either in person or by proxy. You may vote **For**, **Against**, or **Abstain** from the proposal to approve the compensation of our named executive officers. As an advisory vote, the outcome of the vote on this Proposal is not binding upon us. However, our Compensation Committee, which is responsible for designing and administering our executive compensation program, values the opinions expressed by our stockholders in their vote on this Proposal and will consider the outcome of this vote when making future compensation decisions for our named executive officers.

**The Board Of Directors Unanimously Recommends
A Vote of For the compensation of our named executive officers (Proposal 2).**

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Proposal 3

Advisory Vote On The Frequency Of An Advisory Vote On Executive Compensation

Pursuant to the Dodd-Frank Act, we also are asking our stockholders to provide their input with regard to the frequency of future stockholder advisory votes on our executive compensation program, such as the proposal contained in Proposal 2 above. In particular, we are asking whether the advisory vote on executive compensation should occur every three years, every two years, or every year.

Our Board of Directors believes that an advisory vote on our executive compensation should be conducted every three years, or on a triennial basis. As described in the Compensation Discussion and Analysis section below, one of the core principles of our executive compensation program is to ensure our executives' interest are aligned with our stockholders' interest to create long-term sustainable value. This principle is exemplified by the Compensation Committee's focus on long-term incentive compensation. Accordingly, we believe that a triennial vote on our executive compensation program best correlates with our focus on long-term performance and value creation, while avoiding over-emphasis on short-term variations in compensation and business results.

Additionally, a triennial vote will provide us with sufficient time to thoughtfully respond to stockholder sentiments and implement any necessary changes. We carefully consider changes to our compensation program to ensure consistency and the continued effectiveness of our program. We believe that a triennial vote is an appropriate frequency to provide our Compensation Committee with sufficient time to thoughtfully consider and implement appropriate changes to our compensation program.

Finally, offering the advisory vote every three years will improve the ability of institutional funds that hold shares in a large number of public companies to exercise their voting rights in a more deliberate, thoughtful and informed way. We believe that institutions will be able to provide us with more meaningful input on our compensation program, if they are not simultaneously required to evaluate the compensation program of every public company, every year.

If there are any concerns about our executive compensation during the interval between say-on-pay votes, stockholders are encouraged to bring their concerns to us, our Board of Directors, or our Compensation Committee at any time. Please refer to Stockholder Communications with the Board of Directors, in this proxy for information about communicating with the Board of Directors.

We request that our stockholders select, Every Three Years when voting on the frequency of advisory votes on executive compensation. Although the advisory vote is non-binding, our Board of Directors and Compensation Committee will review the results of the vote and take them into consideration when making a determination concerning the frequency of advisory votes on executive compensation.

Stockholders may cast a vote on the preferred voting frequency by selecting the option of Every Three Years. Every Two Years, or Every Year or stockholders may Abstain from voting in response to the resolution set forth below.

RESOLVED, that the stockholders determine, on an advisory basis, whether the preferred frequency of an advisory vote on the executive compensation of the Company's named executive officers as set forth in the Company's proxy statement should be every three years, every two years, or every year.

The Board Of Directors Unanimously Recommends That You Vote For The Option of Every Three Years on The Proposal Recommending The Frequency of The Advisory Vote on Executive Compensation (Proposal 3).

Table of Contents**Proposal 4****Ratification Of Selection Of Independent Auditor**

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP as our independent auditor for fiscal year ending January 1, 2012 and has further directed that management submit the selection of the independent auditor for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP has served as our independent auditor since 2006. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the selection of Deloitte & Touche LLP as our independent auditor. The Audit Committee, however, is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent auditor at any time during the year if they determine that such a change would be in best interest of our stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of Deloitte & Touche LLP. Abstentions will have the same effect as a vote against this proposal.

Principal Accountant Fees and Services

The following table represents aggregate fees billed to us for the fiscal years ended January 2, 2011 and January 3, 2010 by Deloitte & Touche LLP, our principal accountant for each of these fiscal years. All fees described below were approved by the Audit Committee.

	Fiscal Year Ended	
	January 2, 2011	January 3, 2010
Audit Fees (1)	\$569,910	\$571,083
Audit-related Fees		
Tax Fees (2)	25,628	23,309
All Other Fees (3)	2,190	2,190
Total Fees	\$597,728	\$596,582

- (1) Audit Fees consist of fees we paid to Deloitte & Touche LLP for (a) the audit of our annual financial statements included in our 2010 10-K and review of financial statements included in our Quarterly Reports on Form 10-Q; (b) the audit of our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects; (c) services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements.

- (2) Tax fees in fiscal 2010 relate to 2009 federal, state and foreign tax return preparation. Tax fees in fiscal 2009 relate to 2008 federal, state and foreign tax return preparation.
- (3) Other fees paid consist of a subscription to an online technical accounting research tool.

Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditor. These policies generally provide for the pre-approval of specified services in the defined categories of audit services, audit-related services, and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent auditor or on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be

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reported to and ratified by the full Audit Committee at its next scheduled meeting. As such, the engagement of Deloitte & Touche LLP to render all of the services described in the categories above was approved by the Audit Committee in advance of rendering those services or approved by a delegate and subsequently ratified by the Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of services other than audit services by Deloitte & Touche LLP is compatible with maintaining the principal accountant's independence.

**The Board Of Directors Unanimously Recommends
A Vote In Favor Of Proposal 4.**

Table of Contents**Security Ownership of
Certain Beneficial Owners And Management**

The following table sets forth certain information regarding the ownership of our common stock as of March 11, 2011, except as otherwise indicated, by: (i) each director and nominee for director; (ii) each of our named executive officers (as defined herein); (iii) all of our executive officers, directors and nominees for director as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Blue Nile, 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.

Beneficial Owner	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Marathon Asset Management LLP (2) Orion House, 5 Upper St. Martin s Lane London, WC2H 9EA, United Kingdom	2,335,629	16.2 %
Capital World Investors (3) 333 South Hope Street Los Angeles, CA 90071	1,703,575	11.8 %
Morgan Stanley (4) 1585 Broadway New York, NY 10036	1,656,490	11.5 %
FMR LLC (5) 82 Devonshire Street Boston, MA 02109	1,491,709	10.4 %
Baron Capital Group, Inc. (6) 767 Fifth Avenue, 49th Floor New York, NY 10153	1,408,350	9.8 %
Zevenbergen Capital Investments LLC (7) 601 Union Street, Suite 4600 Seattle, WA 98101	1,059,191	7.4 %
BlackRock, Inc. (8) 40 East 52nd Street New York, NY 10022	1,028,872	7.2 %
T. Rowe Price Associates, Inc (9) 100 East Pratt Street, 10th Floor Baltimore, MD 21202	842,010	5.8 %
SMALLCAP World Fund, Inc (10)	829,140	5.8 %

333 South Hope Street
 Los Angeles, CA 90071

Bank of New York Mellon Corporation (11) One Wall Street, 31st floor New York, NY 10286	724,363	5.0 %
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Officers and Directors

Mark Vadon (12)	725,520	4.8 %
Diane Irvine (13)	531,032	3.5 %
Vijay Talwar (14)		*
Dwight Gaston (15)	136,099	*
Susan Bell (16)	97,564	*
Marc Stolzman (17)		*
Mary Alice Taylor (18)	51,869	*

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Beneficial Owner	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Eric Carlborg (19)	27,687	*
Leslie Lane (20)	13,093	*
Ned Mansour (21)	8,041	*
Michael Potter (22)	17,996	*
Steve Scheid (23)	19,005	*
All executive officers and directors as a group (16 persons) (24)	1,768,263	10.9 %

* Less than one percent.

- (1) Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 14,588,032 shares outstanding on March 11, 2011, provided that any additional shares of common stock that a stockholder has the right to acquire within 60 days after March 11, 2011 are deemed to be outstanding for the purpose of calculating that stockholder's beneficial ownership percentage, but are not deemed outstanding for computing the ownership percentage of any other person other than the executive officers and directors as a group.
- (2) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 3, 2011 on behalf of M.A.M. Investments Ltd. (M.A.M.), Marathon Asset Management (Services) Ltd. (Marathon Ltd.), Marathon Asset Management LLP (Marathon LLP), William James Arah (Arah), Jeremy John Hosking (Hosking) and Neil Mark Ostrer (Ostrer). According to the report, M.A.M., Marathon Ltd., Marathon LLP, Arah, Hosking and Ostrer each beneficially owns an aggregate of 2,335,629 shares and has shared voting power with respect to 1,770,792 shares and shared dispositive power with respect to 2,335,629 shares. Marathon Ltd, an owner of Marathon LLP, is a wholly owned subsidiary of M.A.M and, as such, shares with M.A.M. the voting and dispositive power as to all shares beneficially owned by Marathon Ltd. Arah, Hosking and Ostrer are directors and indirect owners of Marathon Ltd and owners and executive committee members of Marathon LLP.
- (3) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 14, 2011 on behalf of Capital World Investors. According to the report, Capital World Investors, a division of Capital Research and Management Company (CRMC) is deemed to be the beneficial owner of 1,703,575 shares as a result of CRMC acting as investment adviser to various investment companies registered under the Investment Company Act of 1940. Capital World Investors has sole voting and dispositive power over 1,703,575 shares.
- (4) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 9, 2011 on behalf of Morgan Stanley and Morgan Stanley Investment Management Inc. Morgan Stanley Investment Management, Inc. is a wholly-owned subsidiary of Morgan Stanley. According to the report, Morgan Stanley beneficially owns an aggregate of 1,656,490 shares and has sole voting power with respect to 1,574,497 shares and sole dispositive power with respect to 1,656,490 shares and Morgan Stanley Investment Management, Inc. beneficially owns an aggregate of 1,631,422 shares and has sole voting power with respect to

1,549,429 and sole dispositive power with respect to 1,631,422 shares.

- (5) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 14, 2011 on behalf of FMR LLC and Edward C. Johnson 3d. Edward C. Johnson 3d is the Chairman of FMR LLC and he and members of his family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. According to the report, FMR LLC and Edward C. Johnson 3d each has sole dispositive power with respect to 1,491,709 shares and FMR LLC has sole voting power with respect to 56,663 shares. Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR LLC and an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 1,435,046 shares as a result of acting as investment advisor to various investment companies. The ownership of one investment company, Fidelity Mid Cap Stock Fund, amounted to 1,000,000 shares as of the reporting date.

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- (6) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 14, 2011 on behalf of Baron Capital Group, Inc. (BCG), BAMCO, Inc. (BAMCO), Baron Capital Management, Inc. (BCM), Baron Growth Fund (BGF), and Ronald Baron. According to the report, BCG has beneficial ownership over 1,408,350 shares, BAMCO has beneficial ownership over 1,377,500 shares, BCM has beneficial ownership over 30,850 shares, BGF has beneficial ownership over 1,060,000 shares and Ronald Baron has beneficial ownership over 1,408,350 shares. BCG, BAMCO, BCM, BGF and Ronald Baron each share voting power with respect to 1,326,350, 1,297,500, 28,850, 1,060,000 and 1,326,350 shares, respectively. BCG, BAMCO, BCM, BGF and Ronald Baron each have shared dispositive power with respect to 1,408,350, 1,377,500, 30,850, 1,060,000 and 1,408,350 shares, respectively. BAMCO and BCM are subsidiaries of BCG. BGF is an advisory client of BAMCO. Ronald Baron owns a controlling interest in BCG.
- (7) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 14, 2011 on behalf of Zevenbergen Capital Investments LLC (Zevenbergen). According to the report, Zevenbergen has sole voting power over 550,691 shares and sole dispositive power over 1,059,191 shares. Zevenbergen disclaims beneficial ownership of 1,059,191 shares.
- (8) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 3, 2011 on behalf of BlackRock, Inc. According to the report, BlackRock, Inc. beneficially owns an aggregate of 1,028,872 shares. BlackRock, Inc. has sole voting and dispositive power over 1,028,872 shares.
- (9) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 9, 2011 on behalf of T.Rowe Price Associates, Inc. According to the report, T. Rowe Price Associates, Inc. beneficially owns an aggregate of 842,010 shares. T.Rowe Price Associates, Inc. has sole voting and dispositive power over 181,210 shares and 842,010 shares, respectively.
- (10) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 14, 2011 on behalf of SMALLCAP World Fund, Inc. (SWF). According to the report, SWF is an investment company registered under the Investment Company Act of 1940, and is advised by Capital Research and Management Company. SWF is deemed to be the beneficial owner of 829,140 shares and has sole voting power over 829,140 shares.
- (11) This information is as of December 31, 2010 and is based solely on information reported on a Schedule 13G filed on February 3, 2011 on behalf of Bank of New York Mellon Corporation. According to the report, the shares are beneficially owned by the direct and indirect subsidiaries of The Bank of New York Mellon. The Bank of New York Mellon is deemed to be the beneficial owner of 724,363 shares and has sole voting and dispositive power over 711,023 shares and 724,363 shares, respectively.
- (12) Includes 614,409 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (13) Includes 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of Laura Anne Irvine under the Washington Uniform Gift to Minors Act, 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of David Douglas Irvine under the Washington Uniform Gift to Minors Act, 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of Jessica Leigh Irvine under the Washington Uniform Gift to Minors Act and 490,563 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (14) Mr. Talwar joined us in August 2010, and he did not own any shares as of March 11, 2011 and did not have any shares of stock issuable upon the exercise of options within 60 days of March 11, 2011.
- (15) Includes 134,686 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (16) Includes 96,749 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (17) Mr. Stolzman did not hold any shares as of March 11, 2011. Mr. Stolzman resigned in November 2010.
- (18) Includes 44,041 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.

- (19) Includes 26,687 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (20) Includes 11,041 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (21) Includes 6,041 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.

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- (22) Includes 16,041 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (23) Includes 16,041 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 11, 2011.
- (24) Includes shares held by our executive officers and our Board of Directors, including the shares described in notes (12) through (23) above. The four executive officers who are not also named executive officers held a combined 138,857 shares issuable pursuant to options that are exercisable within 60 days of March 11, 2011.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended January 2, 2011, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, except that due to our administrative error, Ms. Maupin reported one transaction one day late on a Form 4 filed on April 13, 2010.

Table of Contents**Executive Officers**

Set forth below is information regarding our executive officers as of March 11, 2011.

Name	Age	Position
Diane Irvine	52	Chief Executive Officer, President, and Director
Mark Vadon	41	Executive Chairman and Chairman of the Board of Directors
Vijay Talwar	39	Chief Financial Officer, Senior Vice President, and General Manager of International
Susan Bell	53	Senior Vice President
Dwight Gaston	42	Senior Vice President
Marianne Marck	51	Senior Vice President
Terri Maupin	49	Vice President of Finance and Controller
Lauren Neiswender	38	General Counsel and Secretary
Jon Sainsbury		