

BLUE NILE INC
Form DEF 14A
April 18, 2008

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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)

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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 20, 2008

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 20, 2008 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 three directors to hold office until the 2011 Annual Meeting of Stockholders;
2. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 4, 2009;
3. To approve our 2004 Equity Incentive Plan; and
4. 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, 2008. 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,

Terri K. Maupin
Secretary

Seattle, Washington
April 18, 2008

You are cordially invited to attend the Annual Meeting in person. 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 nominee 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 20, 2008. The Company's Proxy Statement and Annual Report to security holders for the fiscal year ended December 30, 2007 is 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 2008 ANNUAL MEETING OF STOCKHOLDERS**

Tuesday, May 20, 2008

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 2008 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 18, 2008 to all stockholders of record entitled to vote at the Annual Meeting.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on March 31, 2008 will be entitled to vote at the Annual Meeting. On this record date, there were 15,006,791 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name. If on March 31, 2008 your shares were registered directly in your name with our transfer agent, BNY Mellon Shareowner Services, 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 a Broker or Bank. If on March 31, 2008 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other 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 Annual Meeting, unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are three matters scheduled for a vote:

- 1) Election of three directors;

- 2) Ratification of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 4, 2009; and
- 3) Approval of our 2004 Equity Incentive Plan.

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How do I vote?

For proposal number 1, you may either vote For all the nominees to the Board of Directors or you may Withhold your vote for any nominee you specify. For proposal numbers 2 and 3, you may vote For or Against or abstain from voting. 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 1-866-540-5760 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 19, 2008 to be counted.
- Ø To vote on the Internet, go to <http://www.proxyvoting.com/nile> 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 19, 2008 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 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. Simply complete and mail the proxy card 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 a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker, bank, or other agent included with these proxy materials, or contact your broker, bank, or other agent to request a proxy form.

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, 2008.

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

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of the nominees for director, For the ratification of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 4, 2009, and For the approval of our 2004 Equity Incentive Plan. 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 his or her best judgment.

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 three ways:

- Ø You may submit another properly completed proxy card with a later date.
- 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.

If your shares are held by your broker or bank as a nominee or other agent, you should follow the instructions provided by your broker, bank or other agent.

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 19, 2008 (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 19, 2009 (90 days prior to the first anniversary of the 2008 Annual Meeting Date) nor earlier than the close of business on January 20, 2009 (120 days prior to the first anniversary of the 2008 Annual Meeting date). In the event that we set an Annual Meeting date for 2009 that is not within 30 days before or after the anniversary of the 2008 Annual Meeting date, notice by the stockholder must be received no earlier than the close of business on the 120th day prior to the 2009 Annual Meeting and no later than the close of business on the later of the 90th day prior to the 2009 Annual Meeting or the 10th day following the day on which public announcement of the date of the 2009 Annual Meeting is first made. Our Bylaws contain additional requirements to properly submit a proposal or nominate a director. If you plan to submit a proposal or nominate a director, please review our Bylaws carefully. 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 are votes counted?

Votes will be counted by the inspector of elections appointed for the Annual Meeting. With respect to the election of directors, the inspector of elections will count votes For and Withheld and the three directors who receive the greatest number of For votes (among votes properly cast in person or by proxy) will be elected to the Board of Directors. With respect to the ratification of the selection of independent auditors for fiscal year 2008 and the approval of our 2004 Equity Incentive Plan, the inspector of elections will count votes cast For and Against the proposals, along with any abstentions. Abstentions from voting on these proposals will be counted towards a quorum and will have the same effect as Against votes. The proposal to ratify the selection of independent auditors for fiscal year 2008 and

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the proposal to approve our 2004 Equity Incentive Plan will be approved if the holders of a majority of shares present and entitled to vote either in person or by proxy vote For the proposal.

What are broker non-votes ?

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes . Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered votes cast on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained.

How many votes are needed to approve each proposal?

- Ø *Proposal 1 Election of Directors.* For the election of directors, the three 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.
- Ø *Proposal 2 Ratification of Deloitte & Touche LLP as Independent Auditors.* To be approved, Proposal No. 2, the ratification of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 4, 2009, 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.
- Ø *Proposal 3 Approval of 2004 Equity Incentive Plan.* To be approved, Proposal No. 3, our 2004 Equity Incentive Plan 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 are present at the Annual Meeting or represented by proxy. On the record date, there were 15,006,791 shares of common stock outstanding and entitled to vote. Thus, the holders of 7,503,396 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 nominee) or if you vote in person at the Annual Meeting. Abstentions 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.

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

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in our quarterly report on Form 10-Q for the second quarter of the fiscal year ending January 4, 2009.

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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 three directors in the class whose term of office expires in 2008, Mark Vadon, Eric Carlborg and Joanna Strober. Each of these directors has been nominated by the Board of Directors and has agreed to stand for reelection. Mr. Vadon, Mr. Carlborg and Ms. Strober are current directors who were previously elected by the stockholders. On the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Mark Vadon, Eric Carlborg and Joanna Strober to stand for election at the 2008 Annual Meeting. If elected, Mr. Carlborg and Ms. Strober would be independent non-employee directors. If elected at the 2008 Annual Meeting, each of Mr. Vadon, Mr. Carlborg and Ms. Strober would serve until the 2011 Annual Meeting and until his or her successor is elected and qualified, or, if sooner, until the director's death, resignation or removal. It is our policy to invite and encourage directors and nominees for director to attend the Annual Meeting. Mark Vadon and Diane Irvine attended the 2007 Annual Meeting.

For the election of directors, the three 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. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the nominees named below. In the event that the nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that any nominee will be unable to serve.

The following is a brief biography of each nominee and each director whose term will continue after the Annual Meeting.

Nominees for Election for a Three-year Term Expiring at the 2011 Annual Meeting

Mark Vadon

Mark Vadon, age 38, 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. Mr. Vadon holds a B.A. in Social Studies from Harvard University and an M.B.A. from Stanford University.

Eric Carlborg

Eric Carlborg, age 44, has served as a director since February 2005. Since April 2006, Mr. Carlborg has 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.

Joanna Strober

Joanna Strober, age 39, has served as a director since May 1999. Ms. Strober has served as Managing Director of Private Equity at Sterling Stamos Capital Management, a registered investment advisor, since June 2007 and served as Director of Private Equity at Sterling Stamos Capital Management from August 2005 to June 2007. From June 2004 to August 2005, Ms. Strober served as Managing Director of Pacific Community Ventures, a private equity firm. From January

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2003 until June 2004, Ms. Strober served as Managing Director at Symphony Technology Group, an enterprise software investment firm. From April 1996 to December 2002, Ms. Strober held various positions at Bessemer Venture Partners, a private venture capital firm, most recently serving as a General Partner from January 2000 to December 2002. From August 1994 to March 1996, Ms. Strober was an associate at Venture Law Group, a corporate law firm. Ms. Strober holds a B.A. in Political Science from the University of Pennsylvania and a J.D. from the University of California, Los Angeles.

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

Directors Continuing in Office Until the 2009 Annual Meeting

Mary Alice Taylor

Mary Alice Taylor, age 58, has served as a director since March 2000. 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 holds a B.S. in Finance from Mississippi State University. Ms. Taylor also serves on the Board of Directors of Allstate Corporation, an insurance company.

Michael Potter

Michael Potter, age 46, has served as a director since October 2007. 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 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 holds an M.B.A. from Capital University in Ohio and a B.S. in Finance and Management from the University of Oregon.

Steve Scheid

Steve Scheid, age 54, has served as a director since October 2007. Mr. Scheid currently serves as Chairman of the Board of Janus Capital Group, Inc. (Janus). From April 2004 until December 2005, Mr. Scheid served as Chief Executive Officer and Chairman of the Board of Janus. Scheid joined the Janus Board in December 2002 and was appointed Chairman in January 2004. Scheid served as Vice Chairman of The Charles Schwab Corporation (Schwab) 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 currently serves on the Board of Directors of PMI Group, Inc., an international provider of credit enhancement products. Mr. Scheid holds a B.S. from Michigan State University.

Directors Continuing in Office Until the 2010 Annual Meeting

Diane Irvine

Diane Irvine, age 49, has served as a director since May 2001, and has served as Blue Nile's Chief Executive Officer since February 2008 and 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 serves on the Board of Directors of 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.

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Joseph Jimenez

Joseph Jimenez, age 48, has served as a director since March 2000. Mr. Jimenez has served as Chief Executive Officer of Novartis Pharma AG, a division of Novartis AG, a diversified pharmaceuticals company, since October 2007. From April 2007 to October 2007, Mr. Jimenez served as CEO of Novartis Consumer Health. From September 2001 to April 2006, Mr. Jimenez served as Executive Vice President of H.J. Heinz Company, a food products company. Mr. Jimenez also served as President and Chief Executive Officer of Heinz Europe from July 2002 to April 2006. From November 1998 to July 2002, Mr. Jimenez served as President and Chief Executive Officer of Heinz North America. Mr. Jimenez holds a B.A. in Economics from Stanford University and an M.B.A. from the University of California, Berkeley.

Independence of The Board of Directors

As required under the NASDAQ Stock Market LLC (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 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 the Nasdaq, as in effect, from time to time.

Consistent with these considerations, after review of all relevant transactions and relationships between each director, or any of his or her family members, and us, our senior management and our independent auditors, 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, Joseph Jimenez, Michael Potter, Steve Scheid and Joanna Strober. In making this determination, the Board of Directors found that none of these directors had a material or other disqualifying relationship with us. 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.

Meetings of the Board of Directors

The Board of Directors met four times during the fiscal year 2007. 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, other than Mr. Jimenez who attended 68% (15 out of 22) of the aggregate number of the Board of Directors, Audit Committee and Compensation Committee meetings during the fiscal year 2007 because he was traveling during the meeting times.

As required under applicable Nasdaq listing standards, in fiscal year 2007, our independent directors met four times in regularly scheduled executive sessions at which only independent directors were present. The lead independent director, 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, Compensation 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.

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The Board of Directors has three 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 2007 for each of the committees of the Board of Directors:

Name	Audit	Compensation	Nominating and Corporate Governance
Eric Carlborg	X *		
Diane Irvine			
Joseph Jimenez		X	
Michael Potter(2)	X		X
Steve Scheid(1)		X *	
Joanna Strober		X	X
Mary Alice Taylor**	X		X*
Mark Vadon			
Total meetings in fiscal year 2007	8	10	5

* Committee Chairperson

** Lead Independent Director

- (1) Mr. Scheid was elected to the Board of Directors effective October 2007, appointed to the Compensation Committee in January 2008 and appointed Chair of the Compensation Committee in April 2008. Mr. Jimenez served as Chair of the Compensation Committee prior to Mr. Scheid.
- (2) Mr. Potter was elected to the Board of Directors effective October 2007 and was appointed to each of the Audit Committee and the Nominating and Corporate Governance Committee in January 2008.

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 with regard to us.

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 several functions, including, among other things:

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

determining and approving the engagement of the independent auditors;

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

evaluating the systems of internal control over financial reports;

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

monitoring the rotation of partners of the independent auditors 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 auditors 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 auditors, including reviewing our disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Three directors comprise the Audit Committee: Mr. Carlborg, Mr. Potter and Ms. Taylor. The Audit Committee met eight times during fiscal year 2007. 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 4350(d)(2)(A)(i) and (ii) of the Nasdaq listing standards). The Board of Directors has also determined that each of our Audit Committee members, Mr. Carlborg, 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. 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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Report of the Audit Committee of the Board of Directors⁽¹⁾

The Audit Committee reviewed and discussed the audited financial statements for fiscal year 2007 with management of Blue Nile. The Audit Committee has also discussed with Blue Nile's independent auditors 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 auditors required by the Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committee*), as adopted by the PCAOB in Rule 3600T and has discussed with Blue Nile's independent auditors the independent auditor'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 December 30, 2007.

Date: April 18, 2008

Respectfully submitted,

Eric Carlborg, Chairman
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:

establishment 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, Mr. Jimenez and Ms. Strober. All members of our Compensation Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards). The Compensation Committee met ten times during fiscal year 2007. 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, currently composed of Mr. Vadon and Ms. Irvine, to which it delegated authority to grant, without any further action required by the Compensation Committee, stock options to employees who are not executive officers of us within ranges determined by the Compensation Committee. The purpose of this delegation of authority is to enhance the flexibility of option administration within the Company and to facilitate the timely grant of options to non-management employees, particularly new employees, within specified limits approved by the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

None of our 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 our 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).

Additional information about the Compensation Committee is set forth in the Compensation Discussion and Analysis section of this proxy statement.

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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 recommend 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;
- developing and reviewing our corporate governance principles; and
- overseeing our policies and practices regarding philanthropic and political activities.

Three directors comprise the Nominating and Corporate Governance Committee: Ms. Taylor, Mr. Potter and Ms. Strober. All members of the Nominating and Corporate Governance Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards). The Nominating and Corporate Governance Committee met five times during fiscal year 2007. 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 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.

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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. Recommendations must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the recommending stockholder is a beneficial or record owner of our stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. No such recommendation of a nominee to the Nominating and Corporate Governance Committee shall be deemed to satisfy the nomination requirements set forth in our Bylaws.

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 principal executive officer, principal financial officer, principal accounting officer and controller, or 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.

Table of Contents**Proposal 2****Ratification Of Selection Of Independent Auditors**

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 4, 2009 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP audited our financial statements for the years ended December 30, 2007 and December 31, 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 auditors. 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 different independent auditors at any time during the year if they determine that such a change would be in the best interest of us and 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 December 30, 2007 and December 31, 2006 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	
	December 30, 2007	December 31, 2006
Audit Fees (1)	\$ 601,928	\$ 534,500
Audit-related Fees		
Tax Fees (2)	11,150	10,000
All Other Fees		
 Total Fees	 \$ 613,078	 \$ 544,500

(1) Audit fees include services for verifying our consolidated financial statements, along with reviews of our interim financial information and our Forms 10-K and 10-Q. Audit fees also include fees related to the audit of our internal controls over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and the attestation of management's report on the effectiveness of our internal control over financial reporting.

(2)

Tax fees in fiscal 2007 relate to 2006 federal and state tax return preparation and federal, state and foreign tax planning and consulting. Tax fees in fiscal 2006 relate to 2005 federal and state tax return preparation.

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 reported to and ratified by the full Audit Committee at its next scheduled meeting. As such, the engagement of

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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.

Change In Independent Public Accountant

On April 4, 2006, the Audit Committee of the Board of Directors approved the appointment of Deloitte & Touche LLP as our independent auditors to audit our financial statements for the fiscal year ending December 31, 2006 in place of PricewaterhouseCoopers LLP.

In connection with our audits for the fiscal years ended January 2, 2005 and January 1, 2006, and in the subsequent period before PricewaterhouseCoopers LLP's dismissal on April 4, 2006, there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, that would have caused PricewaterhouseCoopers LLP to report the disagreement if it had not been resolved to the satisfaction of PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP's reports on the financial statements for the fiscal years ended January 2, 2005 and January 1, 2006 did not contain an adverse opinion or disclaimer of an opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. PricewaterhouseCoopers LLP's letter to the Securities and Exchange Commission stating its agreement with the statements in this paragraph is filed as an exhibit to the Company's Current Report on Form 8-K as filed with the SEC on April 10, 2006.

**The Board Of Directors Recommends
A Vote In Favor Of Proposal 2.**

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Proposal 3

Approval of 2004 Equity Incentive Plan

The Board of Directors recommends that our stockholders approve the terms of our 2004 Equity Incentive Plan (referred to as the Equity Incentive Plan) to preserve the deductibility of certain compensation paid to covered employees subject to deductibility limits under Section 162(m) of the Internal Revenue Code of 1986, as amended (referred to as the Code). Covered employees include our Chief Executive Officer and our three next most highly compensated officers (other than our Chief Financial Officer).

Section 162(m) of the Code denies a deduction to any publicly held corporation for certain compensation paid to covered employees in a taxable year to the extent that compensation to a covered employee exceeds \$1.0 million. However, some kinds of compensation, including qualified performance-based compensation, are not subject to this deduction limitation. For the grant of awards under a plan to qualify as performance-based compensation under Section 162(m), among other things, the plan must (i) describe the employees eligible to receive such awards, and (ii) provide a per-person limit on the number of shares subject to options granted to any employee under the plan in any year. Such terms must be approved by the stockholders and, accordingly, our stockholders are requested to approve the Equity Incentive Plan, which includes terms regarding eligibility for such awards and a per-person limit on such awards.

Prior to the 2008 Annual Meeting of Stockholders, option grants issued under the Equity Incentive Plan have not been subject to the deductibility limits under Section 162(m) because compensation plans that are in effect before a company becomes public may be subject to certain transition rules that defer the application of Section 162(m) for a period of time after the company goes public. For companies that become publicly held through an initial public offering, the transition period generally expires at the first meeting of the company's stockholders at which the directors are to be elected that occurs after the close of the third calendar year following an initial public offering. This transition period, as it relates to us, expires at the 2008 Annual Meeting of Stockholders. This means that we need to submit our Equity Incentive Plan for stockholder approval to preserve the deductibility of options granted under the Equity Incentive Plan and otherwise comply with Section 162(m) in 2008.

A copy of the Equity Incentive Plan is attached to this Proxy Statement as **Appendix A** and is incorporated herein by reference. The following summary of the material terms of the Equity Incentive Plan does not purport to be a complete description. Please refer to the complete copy of the Equity Incentive Plan in **Appendix A** for more detailed information.

General

The Equity Incentive Plan provides for the grant or issuance of nonstatutory stock options, restricted stock awards, stock appreciation rights, restricted stock units and other forms of equity compensation, which may be granted to our employees (including executive officers), directors and consultants. Nonstatutory stock options granted under the Equity Incentive Plan are not intended to qualify as incentive stock options within the meaning of Section 422 of the Code. See Federal Income Tax Information below for a discussion of the tax treatment of the various awards included in the Equity Incentive Plan.

Purpose

The Equity Incentive Plan was adopted to provide a means by which selected employees and directors of and consultants to us and our affiliates could be given an opportunity to benefit from increases in the value of our common

stock, to retain the services of the group of persons eligible to receive Stock Awards (as defined below), to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of us and our affiliates.

Stock Awards

The Equity Incentive Plan provides for nonstatutory stock options, restricted stock awards, stock appreciation rights, restricted stock units and other forms of equity compensation (collectively referred to herein as "Stock Awards").

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Administration

The Equity Incentive Plan is administered by the Board or by a committee of the Board. The Board has the power to construe and interpret the Equity Incentive Plan and Stock Awards and, subject to the provisions of the Equity Incentive Plan, to determine the persons to whom and the dates on which Stock Awards will be granted, to determine the type and terms of each Stock Award that will be granted, to amend the terms of the Equity Incentive Plan and outstanding Stock Awards, to accelerate the vesting or exercisability of Stock Awards, to cancel outstanding nonstatutory stock options in exchange for new Stock Awards, to terminate or suspend the Equity Incentive Plan and to exercise such powers and perform such acts that promote our best interests and that are not in conflict with the terms of the Plan. The Board is authorized to delegate administration of the Equity Incentive Plan to a committee composed of one or more members of the Board; *provided, however*, that with respect to grants of Stock Awards made to certain covered employees or persons who are subject to Section 16 of the Securities Exchange Act of 1934, such committee must be composed of two or more outside members of the Board. If administration is delegated to a committee, the committee has the power to delegate administrative powers to one or more subcommittees of one or more directors. As used herein with respect to the Equity Incentive Plan, the Board refers to any committee to which the Board delegates administration of the Equity Incentive Plan (and, if applicable, any subcommittee) as well as to the Board itself.

Shares Subject to the Plan

The Equity Incentive Plan provides that the common stock that may be issued pursuant to Stock Awards under the Equity Incentive Plan initially shall not exceed in the aggregate six million four hundred thousand (6,400,000) shares of our common stock (before giving effect to the 1-for-2.5 reverse stock split of our common stock on April 30, 2004, prior to our initial public offering). Each year on the first day of the Company's fiscal year, beginning in 2005 and ending on the first day of the fiscal year in 2014, the number of shares of common stock reserved for issuance under the Equity Incentive Plan will increase by five percent (5%) of our shares of common stock outstanding on such date; *provided, however*, that the Board, in its discretion, may designate a smaller number by which the reserve will be increased. To date, the Board has not elected to decrease the amount of the increase.

If a Stock Award granted under the Equity Incentive Plan or our 1999 Equity Incentive Plan expires or otherwise terminates without being exercised in full, or if any shares of common stock issued pursuant to any such Stock Award are forfeited to or repurchased by us because of the failure to meet a contingency or condition required for the vesting of such shares, then the shares of common stock not acquired under such Stock Award will revert to and again become available for issuance under the Equity Incentive Plan. In addition, any shares withheld for the payment of taxes, used to net exercise a Stock Award, or acquired by us as consideration for the exercise of a Stock Award will again become available for issuance under the Equity Incentive Plan. Shares issued under the Equity Incentive Plan may be previously unissued shares or reacquired shares bought on the market or otherwise.

As of March 13, 2008, there were a total of 3,382,435 shares of common stock available for issuance pursuant to Stock Awards under the Equity Incentive Plan, and there were options to purchase 1,675,090 common stock outstanding under the Equity Incentive Plan.

Eligibility

Nonstatutory stock options, restricted stock awards, stock appreciation rights, restricted stock units and other forms of equity compensation may be granted to our employees (including executive officers), directors and consultants, and to the employees and consultants of any of our affiliates. All of the approximately 180 non-executive employees of and consultants to us and our affiliates, our seven executive officers, and our six non-employee directors are eligible to participate in the Equity Incentive Plan.

The Equity Incentive Plan provides that no employee is eligible to be granted options under the Equity Incentive Plan covering more than 2,500,000 shares of common stock (before giving effect to the 1-for-2.5 reverse stock split of our common stock on April 30, 2004, prior to our initial public offering) during any calendar year.

Term and Termination of Stock Awards

The Board shall determine the term of a Stock Award, provided that the maximum term of options granted under the Equity Incentive Plan is ten (10) years.

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In the event an optionee's continuous service as an employee, director or consultant of us or any affiliate is terminated other than for death or disability, the optionee may exercise his or her option (to the extent that such option was vested at the time of termination), but only within the period of time ending on the earlier of (i) the date three (3) months after the termination of the optionee's continuous service as an employee, director or consultant (or such longer or shorter period as specified in the option agreement) or (ii) the expiration of the term of the option as set forth in the option agreement. If, after termination, the optionee does not exercise his or her option within the time specified in the option agreement, such option terminates.

In the event an optionee's continuous service as an employee, director or consultant of us or any affiliate terminates as a result of the optionee's disability, the optionee may exercise his or her option (to the extent that such option was vested at the time of termination), but only within the period ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period as specified in the option agreement) or (ii) the expiration of the term of such option as set forth in the option agreement. In the event an optionee's continuous service as an employee, director or consultant of us or any affiliate terminates as a result of the optionee's death or the optionee dies within a specified period after termination of service, the optionee (or such optionee's estate, heirs or beneficiaries) may exercise his or her option, but only within the period ending on the earlier of (a) eighteen (18) months following the optionee's death (or such longer or shorter period as specified in the option agreement) or (b) the expiration of the term of the option as set forth in the option agreement. The term of an option may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term. If the option is not exercised within the time specified in the option agreement, such option terminates.

In the event a stock appreciation right recipient's continuous service as an employee, director or consultant of us or any affiliate terminates, the recipient's unvested stock appreciation rights will be forfeited and any vested stock appreciation rights will be automatically redeemed.

In the event a restricted stock award recipient's continuous service as an employee, director or consultant of us or any affiliate terminates, we may repurchase or otherwise reacquire any or all of the shares of common stock held by that person which have not vested as of the date of termination under the terms of the restricted stock award agreement between us and such person; *provided, however*, that we will not exercise our repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following the purchase of the restricted stock, unless otherwise determined by the Board.

In the event a restricted stock unit award recipient's continuous service as an employee, director or consultant of us or any affiliate terminates, any unvested restricted stock units will be forfeited, except as may be provided otherwise in the restricted stock unit award agreement.

Exercise/Purchase Price of Stock Awards

The exercise price of each nonstatutory stock option will be determined by the Board on the date of grant, provided that the exercise price may not be less than 50% of the fair market value of the stock underlying the option on the date of grant. The strike price of each stock appreciation right will be determined by the Board on the date of grant. The purchase price of a restricted stock award or a restricted stock unit award, if any, will be determined by the Board on the date such award is made and may not be less than any legally required purchase price for the stock. The terms of other equity awards, including any exercise or purchase price, will be determined by the Board.

On March 13, 2008, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$39.90 per share.

Consideration

The purchase price of stock acquired pursuant to a nonstatutory stock option will be determined by the Board and may include cash, common stock previously owned by the optionee, a deferred payment arrangement, a broker assisted exercise, a net exercise of the option or other legal consideration approved by the Board.

The purchase price for a restricted stock award, if any, will be determined by the Board and may include cash, the recipient's past services, a deferred payment arrangement or other legal consideration approved by the Board.

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The purchase price for a restricted stock unit award, if any, will be determined by the Board and may include any form permitted under applicable law.

Transferability

Generally, an optionee may not transfer a nonstatutory stock option other than by will or the laws of descent and distribution unless the option agreement provides otherwise. However, an optionee may designate a beneficiary who may exercise the option following the optionee's death.

A stock appreciation right, a restricted stock award or a restricted stock unit award shall be transferable only to the extent provided in, and upon such terms and conditions as may be set forth in, the Stock Award agreement evidencing such Stock Award.

Vesting

The total number of shares of common stock subject to a nonstatutory stock option may vest in periodic installments that may, but need not, be equal. The option may be subject to such other terms and conditions on the time or times when it may be exercised as the Board may deem appropriate. An option agreement may provide that an option may be exercised only to the extent vested or that an optionee may exercise the option prior to full vesting, provided that we may have a repurchase right with respect to any unvested shares.

Restricted stock awards may be subject to a repurchase option in favor of us in accordance with a vesting schedule determined by the Board.

The Board may impose restrictions or conditions on the vesting of stock appreciation rights and restricted stock unit awards as the Board may deem appropriate.

Tax Withholding

To the extent provided by a Stock Award Agreement, a participant may satisfy any tax withholding obligation relating to a Stock Award by tendering a cash payment, authorizing us to withhold a portion of the common stock otherwise issuable to the participant, or delivering shares of common stock already owned by the participant.

Adjustments upon Changes in Stock

If any change is made in the common stock subject to the Equity Incentive Plan or subject to any Stock Award without receipt of consideration by us (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), the class(es) and maximum number of shares subject to the Equity Incentive Plan, including the number of shares subject to the automatic annual increase, the maximum per-person annual award limit applicable under the Equity Incentive Plan and the class(es) and number of shares and price per share of stock subject to outstanding Stock Awards will be appropriately adjusted. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

Corporate Transactions and Changes in Control

In the event of a Corporate Transaction (as defined in the Equity Incentive Plan), any surviving or acquiring corporation may assume or continue any Stock Awards outstanding under the Equity Incentive Plan or may substitute similar awards for those outstanding under the Equity Incentive Plan. In the event a surviving corporation does not

assume or continue such Stock Awards or substitute similar awards, then, with respect to Stock Awards held by persons then performing services as employees, directors or consultants, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full prior to the completion of such transaction (and contingent upon its completion) and, if applicable, such Stock Awards shall terminate if not exercised at or prior to the effective time of such Corporate Transaction. Restricted stock awards may have their repurchase or forfeiture rights assigned to the surviving or acquiring corporation. If such repurchase or forfeiture rights are not assigned, then such awards held by awardholders whose service has not terminated will become fully vested. All other awards will terminate if not exercised prior to the Corporate Transaction.

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For purposes of the Equity Incentive Plan, a **Corporate Transaction** means (i) a merger, consolidation, or similar transaction where we are not the surviving corporation, (ii) the sale or other disposition of all or substantially all, as determined by the Board in its discretion, of our assets, (iii) the sale or other disposition of at least fifty percent (50%) of our outstanding securities or (iv) a merger, consolidation or similar transaction in which we are the surviving corporation but the shares of our common stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

A Stock Award held by any participant whose continuous service has not terminated prior to certain specified change in control events (as defined in the Equity Incentive Plan) may be subject to additional acceleration of vesting and exercisability upon or after the event, as may be provided in the agreement for such Stock Award or as may be provided in any other written agreement between us or our affiliates and the participant, but in the absence of such provision, no such acceleration will occur.

The acceleration of vesting of a Stock Award in the event of a corporate transaction or a change in control event under the Equity Incentive Plan may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of us.

Amendment of the Equity Incentive Plan

The Board, at any time, and from time to time, may amend the Equity Incentive Plan. However, no amendment shall be effective unless approved by our stockholders where such amendment requires stockholder approval under applicable law or pursuant to the listing requirements of any exchange on which the shares are listed. The Board may in its sole discretion submit any other amendment to the Equity Incentive Plan for stockholder approval.

Duration, Termination and Suspension of the Equity Incentive Plan

The Board may suspend or terminate the Equity Incentive Plan at any time. Unless sooner terminated, the Equity Incentive Plan will terminate on March 8, 2014. No Stock Awards may be granted under the Equity Incentive Plan while the Equity Incentive Plan is suspended or after it is terminated.

Federal Income Tax Information

The following is a summary of the principal United States federal income taxation consequences to employees and us with respect to participation in the Equity Incentive Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

Nonstatutory Stock Options. Nonstatutory stock options granted under the Equity Incentive Plan generally have the following federal income tax consequences:

There are no tax consequences to the optionee or us by reason of the grant of a nonstatutory stock option. Upon exercise of a nonstatutory stock option, the optionee normally will recognize taxable ordinary income equal to the excess of the stock's fair market value on the date of exercise over the option exercise price. With respect to employees, we are generally required to withhold an amount based on the ordinary income recognized. Generally, we will be entitled to a business expense deduction equal to the taxable ordinary income realized by the optionee (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation).

However, if the shares acquired upon exercise of the nonstatutory stock option are unvested and subject to repurchase by us in the event of the optionee's termination of service prior to vesting in those shares, the optionee will not recognize any taxable income at the time of exercise, but will have to report as ordinary income, as and when our repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses, over (ii) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date, over (ii) the exercise price paid for such shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses.

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Upon disposition of the stock, the optionee will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon exercise of the option. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one (1) year.

Restricted Stock Awards. Restricted stock awards granted under the Equity Incentive Plan generally have the following federal income tax consequences:

Upon acquisition of the stock, the recipient normally will recognize taxable ordinary income equal to the excess of the stock's fair market value over the purchase price, if any. However, to the extent the stock is subject to certain types of vesting restrictions, the taxable event will be delayed until the vesting restrictions lapse unless the recipient elects to be taxed on receipt of the stock by making a Section 83(b) election. With respect to employees, we are generally required to withhold an amount based on the ordinary income recognized. Generally, we will be entitled to a business expense deduction equal to the taxable ordinary income realized by the recipient (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation). Upon disposition of the stock, the recipient will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one (1) year.

Stock Appreciation Rights. Stock appreciation rights granted under the Equity Incentive Plan generally have the following federal income tax consequences:

There are no tax consequences to the recipient or us by reason of the grant of a stock appreciation right. Upon exercise of a stock appreciation right, the recipient normally will recognize taxable ordinary income equal to the excess of the stock's fair market value on the date of exercise over the stock appreciation right's strike price. However, if the stock (to the extent stock is received upon exercise of the stock appreciation right) is subject to certain types of vesting restrictions, the taxable event will be delayed until the vesting restrictions lapse unless the recipient elects to be taxed on receipt of the stock by making a Section 83(b) election. With respect to employees, we are generally required to withhold an amount based on the ordinary income recognized. Generally, we will be entitled to a business expense deduction equal to the taxable ordinary income realized by the recipient (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation). Upon disposition of the stock (to the extent stock is received upon exercise of the stock appreciation right), the recipient will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon exercise of the stock appreciation right. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one (1) year.

Restricted Stock Unit Awards. Restricted stock unit awards granted under the Equity Incentive Plan generally have the following federal income tax consequences:

There are no tax consequences to the recipient or us by reason of the grant of a restricted stock unit award. Upon receipt of the stock (or cash), the recipient normally will recognize taxable ordinary income equal to the excess of the stock's fair market value over the purchase price, if any. However, if the stock (to the extent stock is received upon exercise of the restricted stock unit award) is subject to certain types of vesting restrictions, the taxable event will be delayed until the vesting restrictions lapse unless the recipient elects to be taxed on receipt of the stock by making a Section 83(b) election. With respect to employees, we are generally required to withhold an amount based on the ordinary income recognized. Generally, we will be entitled to a business expense deduction equal to the taxable ordinary income realized by the recipient (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation). Upon disposition of the stock (to the

extent stock is received), the recipient will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon receipt of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Potential Limitation on Company Deductions. Section 162(m) of the Code denies a deduction to any publicly held company for compensation paid to certain covered employees in a taxable year to the extent that compensation exceeds \$1.0 million for a covered employee. It is possible that compensation attributable to Stock Awards granted in the future

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under the Equity Incentive Plan, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m) of the Code, compensation attributable to stock options will qualify as performance-based compensation if (i) such options are approved by a compensation committee comprised solely of outside directors, (ii) the plan contains a per-employee limitation on the number of shares for which such options may be granted during a specified period, (iii) the per-employee limitation is approved by the stockholders, and (iv) the exercise price of the option is no less than the fair market value of the stock on the date of grant.

2004 Equity Incentive Plan Benefits

We cannot currently determine the benefits or number of shares subject to stock awards that may be granted in the future to executive officers, directors and employees under the Equity Incentive Plan since awards under the Equity Incentive Plan are determined by the plan administrator in its discretion. The following table sets forth information about awards granted under the Equity Incentive Plan during the fiscal year ended December 30, 2007 to (i) our named executive officers, (ii) all current executive officers as a group (seven people), (iii) all current non-employee directors as a group (six people), and (iv) all non-executive employees (including all current officers who are not executive officers) as a group (approximately 180 people). On March 13, 2008, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$39.90.

2004 Equity Incentive Plan	Number of Shares Subject to Stock Option Awards Granted in Fiscal Year 2007
Name and Position	
Mark Vadon <i>Executive Chairman and Chairman of the Board of Directors</i>	60,000
Diane Irvine <i>Chief Executive Officer, President and Director</i>	45,000
Darrell Cavens <i>Senior Vice President</i>	22,000
Robin Easton(1) <i>Chief Financial Officer</i>	33,310
Susan Bell <i>Senior Vice President</i>	17,000
Dwight Gaston <i>Senior Vice President</i>	17,000
Executive Group	202,310
Non-Executive Director Group	1,702

Non-Executive Officer Employee Group	114,262
Consultants	500

(1) Mr. Easton resigned from Blue Nile effective March 31, 2008.

Table of Contents**Equity Compensation Plan Information**

We currently maintain four compensation plans that provide for the issuance of our common stock to officers and other employees, directors and consultants. These plans consist of the 1999 Equity Incentive Plan, the 2004 Equity Incentive Plan, the 2004 Non-Employee Directors Stock Option Plan and the 2004 Employee Stock Purchase Plan. Each of these four plans has been approved by the Company's stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 30, 2007:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column 1)
Equity compensation plans approved by stockholders (3)	2,036,755 ⁽¹⁾	\$ 32.84	4,968,208 ⁽²⁾
Equity compensation plans not approved by stockholders			
Total	2,036,755⁽¹⁾	\$ 32.84	4,968,208⁽²⁾

(1) Includes outstanding options to purchase 496,977 shares of common stock under the 1999 Equity Incentive Plan, 1,478,194 shares of common stock under the 2004 Equity Incentive Plan, 61,584 shares of common stock under the 2004 Non-Employee Directors Stock Option Plan and 0 shares of common stock under the 2004 Employee Stock Purchase Plan.

(2) There are 0 shares available for grant under the 1999 Equity Incentive Plan, 3,584,807 shares available for grant under the 2004 Equity Incentive Plan, 383,401 shares available for grant under the 2004 Non-Employee Directors Stock Option Plan and 1,000,000 shares available for grant under the 2004 Employee Stock Purchase Plan. The aggregate number of shares of common stock that are reserved for issuance under the 2004 Equity Incentive Plan automatically increases on the first day of each fiscal year up to and including 2014, by five percent of the number of shares of common stock outstanding on such date unless the Board of Directors designates a smaller number. The aggregate number of shares of common stock that are reserved for issuance under the 2004 Non-Employee Directors Stock Option Plan automatically increases the first day of each fiscal year up to and including 2014, by the number of shares of common stock subject to options granted during the prior calendar year unless the Board of Directors designates a smaller number. After the effective date of the first offering under the 2004 Employee Stock Purchase Plan, the aggregate number of shares of common stock that are reserved for issuance under the 2004 Employee Stock Purchase Plan automatically increases on the first

day of each fiscal year for 20 years, by the lesser of 320,000 shares or one and one half percent of the number of shares of common stock outstanding on each such date, unless the Board of Directors designates a smaller number.

- (3) Our equity compensation plans were approved by our stockholders prior to our initial public offering in May 2004.

**The Board Of Directors Recommends
A Vote In Favor Of Proposal 3.**

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Certain Beneficial Owners And Management**

The following table sets forth certain information regarding the ownership of our common stock as of March 13, 2008, 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
Morgan Stanley (2) 1585 Broadway New York, NY 10036	2,060,951	13.7 %
FMR LLC (3) 82 Devonshire Street Boston, MA 02109	2,032,661	13.5 %
Capital World Investors (4) 333 South Hope Street Los Angeles, CA 90071	1,703,580	11.3 %
Marsico Capital Management, LLC (5) 1200 17th Street, Suite 1600 Denver, CO 80202	1,613,185	10.7 %
M.A.M. Investments LTD. (6) Orion House, 5 Upper St. Martin's Lane London, WC2H 9EA, United Kingdom	1,613,100	10.7 %
Baron Capital Group, Inc. (7) 767 Fifth Avenue New York, NY 10153	1,587,900	10.6 %
Goldman Sachs Asset Management, L.P. (8) 32 Old Slip New York, NY 10005	1,211,960	8.1 %
Barclays Global Investors, NA (9) 45 Fremont Street San Francisco, CA 94105	783,885	5.2 %
Mark Vadon (10)	1,077,389	6.9 %

Diane Irvine (11)	262,054	1.7 %
Dwight Gaston (12)	76,458	*
Darrell Cavens (13)	76,124	*
Susan Bell (14)	61,693	*
Robin Easton (15)	0	*
Mary Alice Taylor (16)	35,095	*
Joseph Jimenez (17)	19,671	*
Eric Carlborg (18)	12,396	*
Joanna Strober (19)	11,932	*
Michael Potter (20)	2,419	*

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Beneficial Owner	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Steve Scheid (21)	2,419	*
All executive officers and directors as a group (13 persons) (22)	1,665,039	10.3 %

* Less than one percent.

- (1) This table is based upon information supplied by officers, directors and principal stockholders and Schedule 13G filed with the Securities and Exchange Commission. 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 15,034,334 shares outstanding on March 13, 2008, provided that any additional shares of common stock that a stockholder has the right to acquire within 60 days after March 13, 2008 are deemed to be outstanding for the purpose of calculating that stockholder's beneficial ownership percentage.
- (2) This information is as of December 31, 2007 and is based solely on information reported on a Schedule 13G filed 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 2,060,951 shares and has sole voting power with respect to 1,916,714 shares and sole dispositive power with respect to 2,060,951 shares and Morgan Stanley Investment Management, Inc. beneficially owns an aggregate of 1,933,543 shares and has sole voting power with respect to 1,855,757 and sole dispositive power with respect to 1,933,543 shares.
- (3) This information is as of December 31, 2007 and is based solely on information reported on a Schedule 13G filed on behalf of FMR LLC and Edward C. Johnson 3d. Edward C. Johnson 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 beneficially owns an aggregate of 2,032,661 shares and has sole voting power with respect to 35,000 shares and sole dispositive power with respect to 2,032,661 shares. Edward C. Johnson 3d beneficially owns an aggregate of 2,032,661 shares and has sole dispositive power with respect to 2,032,661 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 1,997,661 shares as a result of acting as investment advisor to various investment companies. Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and its funds each has sole dispositive power with resp