

BLUE NILE INC  
Form DEF 14A  
April 18, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. \_\_\_)**

Filed by the Registrant    
Filed by a Party other than the Registrant    
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**Blue Nile, Inc.**

(Name of Registrant as Specified In Its Charter)  
N/A

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

Payment of Filing Fee (Check the appropriate box)

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

- Fee paid previously with preliminary materials.

Edgar Filing: BLUE NILE INC - Form DEF 14A

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

---

**Table of Contents**

**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>.**

---

**TABLE OF CONTENTS**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Proposal 1

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

Report of the Audit Committee of the Board of Directors(1)

Proposal 2 Ratification Of Selection Of Independent Auditors

Proposal 3 Approval of 2004 Equity Incentive Plan

Security Ownership of Certain Beneficial Owners And Management

Executive Officers

Compensation of Executive Officers

Stock Options Outstanding And Exercises

Report of the Compensation Committee of the Board of Directors

Compensation of Directors

Transactions with Related Persons

Annual Report on Form 10-K

Householding of Proxy Materials

Other Matters

---

**Table of Contents**

**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.



## **Table of Contents**

### **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

**Table of Contents**

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

**Table of Contents**

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.

**Table of Contents**

**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

**Table of Contents**

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.

## **Table of Contents**

### **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](http://www.bluenile.com) in the corporate governance section of our investor relations page.

**Table of Contents**

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;

**Table of Contents**

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](http://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.

**Table of Contents**

**Report of the Audit Committee of the Board of Directors<sup>(1)</sup>**

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.

## **Table of Contents**

### **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](http://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.

**Table of Contents**

**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](http://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.

**Table of Contents**

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 ex