

BLUE NILE INC

Form DEF 14A

April 10, 2013

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.

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:

BLUE NILE, INC.  
411 First Avenue, South  
Suite 700  
Seattle, Washington 98104

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 21, 2013

Dear Stockholder:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders (the "Annual Meeting") of Blue Nile, Inc., a Delaware corporation ("Blue Nile"). Notice is hereby given that the Annual Meeting will be held on Tuesday, May 21, 2013 at 10:00 AM Pacific Time at the Renaissance Seattle Hotel located at 515 Madison Street, Seattle, Washington 98104 for the following purposes:

1. To elect our three nominees for director to hold office until the 2016 Annual Meeting of Stockholders;
2. To ratify the selection by the audit committee of the board of directors of Deloitte & Touche LLP as independent registered public accounting firm for Blue Nile for fiscal year ending December 29, 2013;
3. To approve the Blue Nile, Inc. 2013 Equity Incentive Plan;
4. To approve an advisory resolution approving executive compensation; and
5. To conduct any other business properly brought before the Annual Meeting.

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

The record date for the Annual Meeting is March 25, 2013. 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 411 First Avenue, South, Suite 700, Seattle, Washington 98104.

By Order of the Board of Directors,  
Lauren Neiswender  
General Counsel and Corporate Secretary

Seattle, Washington  
April 10, 2013

You are cordially invited to attend the Annual Meeting in person. Directions to our Annual Meeting are available at <http://investor.bluenile.com>. Whether or not you expect to attend the Annual Meeting, please complete, date, sign and return the proxy mailed to you or vote over the telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the Annual Meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the Annual Meeting. Please note, however, that if your shares are held of record by a broker, bank or other agent and you wish to vote at the Annual Meeting, you must obtain a proxy issued in your name from that record holder.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 21, 2013. Blue Nile's Proxy Statement and Annual Report to security holders for the fiscal year ended December 30, 2012 are also available at <http://investor.bluenile.com>.

BLUE NILE, INC.  
411 First Avenue, South  
Suite 700  
Seattle, Washington 98104

PROXY STATEMENT  
FOR THE 2013 ANNUAL MEETING OF STOCKHOLDERS

Tuesday, May 21, 2013

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why did I receive a notice regarding the availability of proxy materials on the Internet?

Pursuant to rules adopted by the Securities and Exchange Commission (the "SEC"), we (Blue Nile, Inc. is sometimes referred to herein as "we" or "Blue Nile") have elected to provide access to our proxy materials over the Internet. Accordingly, we have sent you a Notice of Internet Availability of Proxy Materials (the "Notice").

Why are the proxy materials being made available to me?

We are making proxy materials available to you because our board of directors is soliciting your proxy to vote at the 2013 Annual Meeting of Stockholders (the "Annual Meeting"). You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. All shareholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the internet or to request a printed copy may be found in the Notice.

We intend to mail the Notice on or about April 10, 2013 to all stockholders of record entitled to vote at the Annual Meeting.

Will I receive any other proxy materials by mail?

We may send you a proxy card, along with a second Notice, on or after April 20, 2013.

How do I attend the Annual Meeting?

The meeting will be held on Tuesday, May 21, 2013 at 10:00 AM Pacific Time. Directions to the Annual Meeting may be found at <http://investor.bluenile.com>. Information about how to vote in person at the Annual Meeting is discussed below.

Who may vote at the Annual Meeting?

Only stockholders of record at the close of business on March 25, 2013 will be entitled to vote at the Annual Meeting. On this record date, there were 12,471,736 shares of common stock outstanding and entitled to vote.

**Stockholder of Record: Shares Registered in Your Name.** If on March 25, 2013 your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, please fill out and return the proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

**Beneficial Owner: Shares Registered in the Name of Broker or Bank.** If on March 25, 2013 your shares were held not in your name, but rather in an account at a brokerage firm, bank or similar organization, then you are the beneficial owner of shares held in "street name" and the Notice is being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What proposals will be voted on at the meeting?

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

1. To elect our three nominees for director to hold office until the 2016 Annual Meeting of Stockholders (Proposal 1);

2. To ratify the selection by the audit committee of the board of directors of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year ending December 29, 2013 (Proposal 2);
3. To approve the Blue Nile, Inc. 2013 Equity Incentive Plan (Proposal 3); and
4. To approve an advisory resolution approving executive compensation (Proposal 4).

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

How do I vote?

The procedures for voting are as follows:

**Stockholder of Record: Shares Registered in Your Name.** If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using the proxy card that you may request or that we may elect to deliver at a later time, 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.

To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the proxy card that may be delivered 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.

To vote over the telephone, dial toll-free 1-800-776-9437, or, if you are calling outside the U.S., dial 1-718-921-8500, using a touch-tone phone and follow the recorded instructions. Please have your Notice in hand when you call. Your vote must be received by 8:59 PM Pacific Time (11:59 PM Eastern Time) on Monday, May 20, 2013 to be counted.

To vote on the Internet, go to <http://www.voteproxy.com> to complete an electronic proxy card. Your vote must be received by 8:59 PM Pacific Time (11:59 PM Eastern Time) on Monday, May 20, 2013 to be counted.

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

**Beneficial Owner: Shares Registered in the Name of Broker or Bank.** If on March 25, 2013, you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received Notice containing instructions from that organization rather than from Blue Nile. Simply follow the instructions in the Notice provided to you to ensure that your vote is counted. Alternatively, you may vote by telephone or on the Internet as instructed by your broker, bank or other agent. To vote in person at the Annual Meeting, you must obtain from the record holder a valid proxy issued in your name and present it to our inspector of elections at the Annual Meeting.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 25, 2013.

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 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 Notice?

If you receive more than one Notice, your shares are registered in more than one name or are registered in different accounts. Please follow the voting instructions on the Notices to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

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

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

• You may grant a subsequent proxy by telephone or through the Internet.

• You may send a timely written notice that you are revoking your proxy to Blue Nile's Corporate Secretary at 411 First Avenue, South, Suite 700, Seattle, Washington 98104.

• You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy.

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

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

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

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 12, 2013 (120 calendar days prior to the anniversary of the mailing date of this proxy statement), to our Corporate Secretary at 411 First Avenue, South, Suite 700, 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 20, 2014 (90 days prior to the first anniversary of the 2013 Annual Meeting Date) nor earlier than the close of business on January 21, 2014 (120 days prior to the first anniversary of the 2013 Annual Meeting date). In the event that we set an Annual Meeting date for 2014 that is not within 30 days before or after the anniversary of the 2013 Annual Meeting date, notice by the stockholder must be received no earlier than the close of business on the 120th day prior to the 2014 Annual Meeting and no later than the close of business on the later of the 90th day prior to the 2014 Annual Meeting or the 10th day following the day on which public announcement of the date of the 2014 Annual Meeting is first made. You are also advised to carefully review our Amended and Restated Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations, including the submission of certain information with respect to proposed nominees and proponents of any stockholder proposals. You may obtain a copy of our Bylaws by mailing a request in writing to Blue Nile's Corporate Secretary at 411 First Avenue, South, Suite 700, Seattle, Washington 98104.

How many votes are needed to approve each proposal?

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

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.

Proposal 2 - Ratification of Deloitte & Touche LLP as independent registered public accounting firm. To be approved, the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year ending December 29, 2013 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.

Proposal 3 - Approval of the 2013 Equity Incentive Plan. To be approved, the Blue Nile, Inc. 2013 Equity Incentive Plan must receive "For" votes from the holders of a majority of our shares present and entitled to vote either in person or by proxy. You may vote "For," "Against," or "Abstain" from the proposal to approve the Blue Nile, Inc. 2013 Equity Incentive Plan. If you "Abstain" from voting, it will have the same effect as an "Against" vote.

Proposal 4 - Advisory Vote Approving Executive Compensation. To be approved, the compensation of our named executive officers must receive "For" votes from the holders of a majority of our shares present and entitled to vote either in person or by proxy. You may vote "For," "Against," or "Abstain" from the proposal to approve the



compensation of our named executive officers. If you “Abstain” from voting, it will have the same effect as an “Against” vote.

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 a majority of the outstanding shares of stock entitled to vote are present at the Annual Meeting or represented by proxy. On the record date, there were 12,471,736 shares of common stock outstanding and entitled to vote. Thus, the holders of 6,235,870 shares of common stock must be present in person or represented by proxy at the Annual Meeting to have a quorum.

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

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

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

1. FOR the election of the three nominees for director (Proposal 1);
2. FOR the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year ending December 29, 2013 (Proposal 2);
3. FOR approval of the Blue Nile, Inc. 2013 Equity Incentive Plan (Proposal 3); and
4. FOR approval of the advisory resolution approving executive compensation (Proposal 4).

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

If your shares are held in street name and you do not instruct your broker on a timely basis on how to vote your shares, your brokerage firm, in its discretion may either leave your shares unvoted or vote your shares on routine matters. The election of directors, the vote to approve our 2013 Equity Incentive Plan, and the advisory vote approving executive compensation are non-routine matters. Consequently, without your voting instructions, your brokerage firm cannot vote your shares on these proposals. These unvoted shares, called “broker non-votes,” refer to shares held by brokers who have not received voting instructions from their clients, and who do not have discretionary authority to vote on these matters because they are non-routine matters. In tabulating the voting results for the election of directors and the advisory approval of executive compensation, shares that constitute broker non-votes are not considered entitled to vote on such proposals. Accordingly, broker non-votes will not affect the outcome of the vote on these proposals. The proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2013 is considered a routine matter.

Whether or not your brokerage firm can vote or does vote your shares on your behalf on any proposal, if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other agent) your shares will be counted as present for the purpose of determining a quorum.

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

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

\

## 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.

During most of 2012, the board of directors was comprised of eight members. Harvey Kanter was appointed our chief executive officer and president, effective March 30, 2012. The board of directors also appointed Mr. Kanter to the board of directors, effective March 30, 2012 and increased the size of the board of directors from seven to eight. It is our policy to invite and encourage directors and nominees for director to attend the Annual Meeting. Mr. Vadon, Mr. Kanter, and Mr. Bruzzo attended the 2012 Annual Meeting of Stockholders.

There are three directors in the class whose terms of office expire in 2013: Chris Bruzzo, Harvey Kanter, and Leslie Lane. Messrs. Bruzzo and Kanter have not been previously elected by the stockholders. Mr. Bruzzo was appointed to the board of directors by the board of directors and has served as a director since July of 2011. Mr. Kanter was appointed to the board of directors by the board of directors and has served as a director since March of 2012. Mr. Lane has served as a director since 2008 and was previously elected by the stockholders. Messrs. Bruzzo and Lane have been designated by our board of directors as independent directors within the meaning of the applicable NASDAQ Stock Market LLC ("Nasdaq") listing standards.

On the recommendation of the nominating and corporate governance committee, the board of directors has nominated each of Messrs. Bruzzo, Kanter, and Lane to stand for election at the Annual Meeting. If elected at the Annual Meeting, each of Messrs. Bruzzo, Kanter, and Lane would serve until the 2016 Annual Meeting of Stockholders and until his successor is elected and qualified, or, if sooner, until the director's death, resignation or removal.

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. In the unexpected event that a nominee is unable or unwilling to serve as a nominee at the time of the Annual Meeting, the persons named as proxies may vote for a substitute nominee chosen by us. Alternatively, the board of directors may decide to reduce the size of the board of directors. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that any nominee will be unable or unwilling to serve.

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

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

### NOMINEES FOR ELECTION FOR A THREE-YEAR TERM EXPIRING AT THE 2016 ANNUAL MEETING OF STOCKHOLDERS

#### Chris Bruzzo

Chris Bruzzo, age 43, has served as a director since July 2011. Since June 2012, Mr. Bruzzo has served as the senior vice president of channel brand management at Starbucks Corporation, a specialty coffee retailer. From June 2011 until June 2012, he served as the senior vice president and chief marketing officer for Seattle's Best Coffee, a subsidiary of Starbucks Corporation. From June 2008 to July 2011, he served as vice president of global advertising & digital marketing at Starbucks Corporation. From January 2008 to May 2008, Mr. Bruzzo served as the chief technology officer and interim chief information officer at Starbucks Corporation and from January 2007 to January 2008, he served as the vice president of digital strategy at Starbucks Corporation. From July 2006 to October 2006,



Mr. Bruzzo

7

---

served as the vice president of marketing and public relations at Amazon.com, Inc., an online retailer. From July 2003 to February 2006, Mr. Bruzzo served in various roles at Amazon.com, Inc., including vice president of strategic communications, content and initiatives. Prior to Amazon.com, Inc., Mr. Bruzzo was an assistant vice president at Regence Blue Shield, an insurance company. Mr. Bruzzo holds a B.A. in Political Studies from Whitworth College. Mr. Bruzzo is a member of our audit committee and compensation committee. Mr. Bruzzo has an extensive background in marketing and in building an iconic global brand. His expertise and perspective make him uniquely valuable to the board of directors as the company continues to expand its brand globally. Further, Mr. Bruzzo's extensive expertise in social media provides the board of directors with valuable insights into the most effective ways to interact with customers.

Harvey Kanter

Harvey Kanter, age 51, has served as our chief executive officer, president and director since March 30, 2012. He served as the chief executive officer and president of Moosejaw Mountaineering and Backcountry Travel, Inc., a leading multi-channel retailer of premium outdoor apparel and gear from January 2009 to March 2012. From April 2003 to June 2008, Mr. Kanter served in various executive positions at Michaels Stores, Inc. ("Michaels"), a specialty retailer of arts and crafts, most recently serving as the executive vice president and managing director from March 2006 to June 2008. While at Michaels, Mr. Kanter also served as the president of Aaron Brothers, Inc., a division of Michaels, from April 2003 to March 2006. From October 1995 to March 2003, Mr. Kanter served in various management positions at Eddie Bauer, Inc. ("Eddie Bauer"), a premium outdoor retailer, including serving as the vice president and managing director of Eddie Bauer Home, a division of Eddie Bauer. Prior to Eddie Bauer, Mr. Kanter held positions at several other retailers, including Sears Roebuck Company, a multi-line retailer, and Broadway Stores, Inc. (known as Carter Hawley Hale Department Stores). Mr. Kanter holds a M.B.A from Babson College and a B.S. in Marketing from Arizona State University. As our chief executive officer, Mr. Kanter brings to our board of directors critical insights into our strategic opportunities and into our day-to-day operations, organizational development, and structure.

Leslie Lane

Leslie Lane, age 45, has served as a director since December 2008. Mr. Lane has served as our lead independent director since February 2012. Mr. Lane has served as an operating partner at Altamont Capital Partners, a private equity company, since May 2011. He served as the vice president and managing director of the Nike Foundation at Nike, Inc., a leading designer, marketer and distributor of authentic athletic footwear, apparel, equipment and accessories, from June 2010 to April 2011. From October 2006 to June 2010, he served as vice president and general manager of Global Running for Nike, Inc. From March 2004 to October 2006, he served as the director of Nike Global Footwear finance and strategic planning and, from March 2003 to March 2004, he served as the director of Nike subsidiaries. From 1998 to 2002, Mr. Lane held various positions at Roll International Corporation, a private holding company, including serving as the chief operating officer of PomWonderful LLC, the chief financial officer of Paramount Citrus, and the vice president of strategy of Roll International Corporation. From 1990 to 1998, Lane was a consultant with Bain & Company, a management consulting firm. He holds an M.B.A. from Harvard University and a M.A. in Chemistry from Oxford University. Mr. Lane is a member of our compensation committee and nominating and corporate governance committee. Mr. Lane has a strong background in building a customer-centric brand. His experience provides the board of directors with valuable insights into strategic branding and marketing opportunities both domestically and internationally. Further, Mr. Lane's deep financial expertise and experience is valuable to the board of directors. Mr. Lane's tenure on the board of directors, his brand expertise, and his independence make him exceptionally qualified to serve as our lead independent director.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE IN FAVOR OF EACH NAMED NOMINEE (PROPOSAL 1).**

**DIRECTORS CONTINUING IN OFFICE UNTIL THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

Eric Carlborg

Eric Carlborg, age 49, has served as a director since February 2005. Since June 2010, Mr. Carlborg has served as a partner at August Capital, an investment company. From April 2006 to June 2010, Mr. Carlborg served as a partner at

Continental Investors LLC, an investment company. From September 2005 to March 2006, Mr. Carlborg served as chief financial officer of ProvideCommerce, Inc., an e-commerce company. From July 2001 to October 2004, Mr. Carlborg was a managing director of investment banking with Merrill Lynch & Co., a financial services company. Prior to his tenure at Merrill Lynch, Mr. Carlborg served in various executive financial positions, including chief

8

---

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 an M.B.A. from the University of Chicago and a B.A. in Economics from the University of Illinois. Mr. Carlborg serves as the chair of our audit committee. Mr. Carlborg's extensive background in accounting and financial management is valuable to our board of directors and audit committee. Additionally, Mr. Carlborg has a deep understanding of our financial statements and our business, which make him an especially valuable and effective audit committee chair. Mr. Carlborg has been designated by our board of directors as an audit committee financial expert.

Mark Vadon

Mark Vadon, age 43, founded Blue Nile and has served as our chairman of the board of directors since its inception in March 1999. He served as our executive chairman from February 2008 to August 2011 and served as our chief executive officer from March 1999 to February 2008. From March 1999 to February 2007, Mr. Vadon was also Blue Nile's president. From December 1992 to March 1999, Mr. Vadon was a consultant for Bain & Company, a management consulting firm. In 2010, Mr. Vadon founded Zulily, Inc., a private-sale shopping site for moms and children, and serves as its chairman of the board of directors. Mr. Vadon has served on the board of directors for Home Depot, Inc., a home improvement retailer, since September 2012. Mr. Vadon holds an M.B.A. from Stanford University and a B.A. in Social Studies from Harvard University. Mr. Vadon founded Blue Nile over 13 years ago and brings to the board of directors a deep understanding of the business and the strategic vision for the business. Further, Mr. Vadon's experience and tenure both on the board of directors and at our company provides the board of directors with critical leadership and institutional knowledge. Mr. Vadon's expertise and experience with us make him exceptionally well suited to serve as our chairman of the board of directors.

#### DIRECTORS CONTINUING IN OFFICE UNTIL THE 2015 ANNUAL MEETING OF STOCKHOLDERS

Michael Potter

Michael Potter, age 51, has served as a director since October 2007 and served as our lead independent director from February 2011 to February 2012. 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 has served on the board of directors at Zulily, Inc., a private-sale shopping site for moms and children, since March 2011 and served as the chief operating officer at Zulily from October 2011 until March 2012. Mr. Potter currently serves on the board of directors of Coldwater Creek, Inc., a triple channel retailer of women's apparel, gifts and accessories. Mr. Potter formerly served on the board of directors of Newegg, Inc., an online-only retailer specializing in high-tech products, and Big Lots. Mr. Potter holds an M.B.A. from Capital University in Ohio and a B.S. in Finance and Management from the University of Oregon. Mr. Potter currently serves on our audit committee, compensation committee, and nominating and corporate governance committee. Mr. Potter served on our compensation committee from December 2008 to January 2012, he came off the compensation committee between February 2012 and April 2012 and was reappointed in May 2012. Mr. Potter brings a wealth of retail experience to the board of directors. His prior experience as a Chairman, chief executive officer and director of a Fortune 500 retailer provide the board of directors with valuable leadership skills, strategic planning and corporate governance skills. In addition his prior experience as a chief operating officer for an internet retailer as well as a chief financial officer for a Fortune 500 retailer, provides valuable operational, e-commerce and financial expertise to the company. Mr. Potter's leadership, tenure, and experience make him extremely well qualified to serve on our board of directors. He has been designated by our board of directors as an audit committee financial expert.

Steve Scheid

Steve Scheid, age 59, has served as a director since October 2007. From December 2002 until April 2012, Mr. Scheid served on the Board of Directors of Janus Capital Group, Inc., an asset management company ("Janus Capital"), and served as the Chairman of Janus Capital from January 2004 until April 2012. From April 2004 until December 2005, Mr. Scheid also served as the chief executive officer of Janus Capital. Mr. 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 served as a founding partner of Strategic Execution Group, LLC, a consulting firm, from April 2007 until December 31, 2012. Mr. Scheid serves on the board of directors of NMI, Inc.,

9

---

an insurance company, and formerly served on the board of directors of PMI Group, Inc., an international provider of credit enhancement products and Autodesk, Inc., a design software company. Mr. Scheid holds a B.S. in Accounting from Michigan State University. Mr. Scheid serves as the chair of our compensation committee. Mr. Scheid has a deep expertise in finance, retail strategies, risk management, and investment services. During his career, he has supervised the human resources departments at three different organizations. Mr. Scheid provides the board of directors with valuable executive leadership experience and has a deep understanding of and tremendous experience with executive compensation packages making him an exceptionally valuable and effective director and compensation committee chair.

Mary Alice Taylor

Mary Alice Taylor, age 63, has served as a director since March 2000 and served as our lead independent director from May 2004 to February 2011. Ms. Taylor has been an independent business executive since October 2000. She held a temporary assignment as chairman and chief executive officer of Webvan Group, Inc., an e-commerce company, from July 2001 to December 2001. Prior to that, she served as chairman and chief executive officer of HomeGrocer.com, an e-commerce company, from September 1999 until she completed a sale of the company to Webvan Group, Inc. in October 2000. From January 1997 to September 1999, Ms. Taylor served as corporate executive vice president of Worldwide Operations and Technology for Citigroup, Inc., a financial services organization. Ms. Taylor also served as a senior vice president of Federal Express Corporation, a delivery services company, from September 1991 until December 1996. Ms. Taylor serves on the board of directors of Allstate Corporation, an insurance company. Ms. Taylor formerly served on the board of directors of Autodesk Inc., a design software company, and Sabre Holdings, an Internet travel services company. Ms. Taylor holds a B.S. in Finance from Mississippi State University. Ms. Taylor served as our lead independent director from May 2004 through February 2011. Ms. Taylor is the chair of the nominating and corporate governance committee. She also serves as a member of our audit committee and has been designated by our board of directors as an audit committee financial expert. Ms. Taylor is a seasoned business leader and director. Her executive leadership experience, including her role as chief executive officer, provides the board of directors with valuable operational, financial, and executive leadership skills. Her tenure and in-depth knowledge about our business make her exceptionally well qualified to serve as our director, nominating and corporate governance committee chair.

#### INDEPENDENCE OF THE BOARD OF DIRECTORS

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

Consistent with these considerations, after reviewing all relevant transactions and relationships between each director, or any of his or her family members, and us, our senior management and our independent registered public accounting firm, the board of directors affirmatively determined that the following six directors are independent directors within the meaning of the applicable Nasdaq listing standards: Mr. Bruzzo, Mr. Carlborg, Mr. Lane, Mr. Potter, Mr. Scheid, and Ms. Taylor. In making this determination, the board of directors found that none of these directors had a material or other disqualifying relationship with us. In determining the independence of Mr. Carlborg, the board of directors considered that August Capital, LLC, an investment company in which Mr. Carlborg serves as a partner, acquired a less than 10% interest in Zulily, a company that Mr. Vadon founded and serves as its chairman of the board of directors, and of which he is a significant stockholder. It also considered that Mr. Carlborg has a minimal personal investment in Zulily and serves on Zulily's board of directors. In determining the independence of Mr. Potter, the board of directors considered that Mr. Potter serves on Zulily's board of directors and formerly served as its chief operating officer. The board of directors determined that the relationships between Mr. Carlborg and Zulily and Mr. Potter and Zulily do not interfere with the exercise of independent judgment by Mr. Carlborg or Mr. Potter in carrying out each of their responsibilities as our director. Mr. Vadon is not independent by virtue of his prior employment with us. Mr. Kanter is not independent by virtue of his employment with us.

#### THE BOARD OF DIRECTORS' ROLE IN RISK OVERSIGHT

There are risks inherent in every business and our board of directors has oversight over how we manage the risks associated with our business. Our board of directors has delegated to the audit committee the primary responsibility for the oversight of our risks. The audit committee chair reports to the full board of directors the process the audit committee and management went through to fulfill its oversight responsibilities and the results from the process. The audit committee's Charter provides, in relevant part, that it will review and discuss with management and with our

independent registered public accounting firm, as appropriate, our guidelines and policies with respect to risk assessment and risk management, including our major financial risk exposures and the steps taken by management to monitor and control these exposures.

At least annually, the audit committee evaluates our risks and the management of our risks. In 2012, management presented to the audit committee our Enterprise Risk Management assessment tool. In connection with its review, the audit committee went through the risks identified by management, the process management used to identify and rate risks, the mitigation strategies for each of the material risks, and the relevant action items. The chair of the audit committee then reported to the board of directors the process it and management went through and discussed the material findings from the review. The board of directors believes that the process that it goes through to oversee the management of risks allows it to understand the critical risks facing the business, evaluate our risk management process and ensure that the risk management process is functioning adequately, and foster a culture of risk awareness.

#### MEETINGS OF THE BOARD OF DIRECTORS

The board of directors met 10 times during fiscal year 2012. Each board member attended 75% or more of the aggregate of the meetings of the board of directors and meetings of the committees on which he or she served, held during the period for which he or she was a director or committee member.

As required under applicable Nasdaq listing standards, in fiscal year 2012, our independent directors met at least four times in regularly scheduled executive sessions at which only independent directors were present. The lead independent director presided over the executive sessions. From February 2011 through February 2012, Mr. Potter was the lead independent director and from February 2012 through current date, Mr. Lane has served as the lead independent director. 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 411 First Avenue, South, Suite 700, Seattle, Washington 98104. If no particular director is named, letters will be forwarded, depending on the subject matter, to the chair of the audit committee, compensation committee or nominating and corporate governance committee, as applicable.

#### INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES

In April 2004, our board of directors documented the governance practices followed by us and our board of directors by adopting the Corporate Governance Policies of the Board of Directors (the "Governance Policies"). The Governance Policies provide the board of directors with the necessary authority to review and evaluate our business operations as needed, and they are designed to facilitate the board of directors' independent decision making authority. The Governance Policies are intended to align the interests of directors and management with those of our stockholders. The Governance Policies, among other things, set forth the practices the board of directors will follow with respect to the selection of directors, the independence of the directors, meetings of the board of directors, committees of the board of directors, and the responsibilities of the board of directors. The Governance Policies were adopted to, among other things, reflect changes to the Nasdaq listing standards and SEC rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The 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.

**Leadership Structure.** The board of directors does not have a policy on whether the role of the chairman and chief executive officer should be separate, but currently our founder, Mr. Vadon, is serving as our chairman. The role of the chairman and chief executive officer became separate in February 2008, when Mr. Vadon transitioned from our chief executive officer to our executive chairman. In 2011, Mr. Vadon transitioned from executive chairman to a non-employee chairman of the board of directors. The board of directors believes that Mr. Vadon's role as the chairman of the board is appropriate given his deep understanding of the business and given his distinct value to our long-term strategy. Mr. Vadon is not considered an independent director by virtue of his prior employment with us. Our Governance Policies provide that to the extent that there is not an independent chairman, the board of directors will designate an independent director to serve as lead independent director. From February 2011 through February 2012, the board of directors designated Mr. Potter to serve as our lead independent director. In February 2012, the board of directors designated Mr. Lane to serve as our lead independent director and in February 2013, the board of directors designated Mr. Lane to continue to serve as our lead independent director. Pursuant to our Governance Policies, except to the extent otherwise deemed appropriate by the board of directors, the lead director has the



following responsibilities: (i) in conjunction with the chief executive officer, establish any agenda for meetings of the independent directors, (ii) preside over the meetings of the independent directors, and (iii) coordinate the activities of the other independent directors and to perform various other duties. Typically, there is a meeting of the independent directors in conjunction with every quarterly

11

---

meeting of the board of directors and in 2012 each quarterly meeting of the board of directors included a non-management executive session. This allows the directors to speak candidly on any matter of interest, without members of management present.

Committees. The board of directors has three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The following table provides membership and meeting information for fiscal year 2012 for each of the committees of the board of directors:

Name	Audit	Compensation	Nominating and Corporate Governance
Mark Vadon, chairman			
Leslie Lane**		X	X
Chris Bruzzo(1)	X	X	
Eric Carlborg	X*		
Harvey Kanter(2)			
Michael Potter(3)	X	X	X
Steve Scheid		X*	
Mary Alice Taylor	X		X*
Total meetings in fiscal year 2012	8	9	4

\*Committee chairperson

\*\*Lead independent director from February 2012. Mr. Potter was the lead independent director from February 2011 through February 2012.

Mr. Bruzzo served on our nominating and corporate governance committee from August 2011 to February 2012. In (1)February 2012, Mr. Bruzzo moved from our nominating and corporate governance committee to our compensation committee.

(2)Mr. Kanter was appointed to the board of directors in March of 2012.

Mr. Potter served on our compensation committee from December 2008 to February 2012. In February 2012,

(3)Mr. Potter moved from the compensation committee to the nominating and corporate governance committee. In May 2012, Mr. Potter was again appointed to the compensation committee.

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 Nasdaq 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 functions, including, among other things:

- evaluating the performance of and assessing the qualifications of the independent registered public accounting firm;
- determining and approving the engagement of the independent registered public accounting firm;
- reviewing all relationships between the prospective auditors, or their affiliates and us, or persons in financial oversight roles with us, that may reasonably be thought to bear on independence, and to discuss with the prospective auditors the potential effects of such relationships on the independence of the prospective auditors;
- determining whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm;



- evaluating the systems of internal control over financial reports;
- reviewing and approving the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;
- monitoring the rotation of partners of the independent registered public accounting firm 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 registered public accounting firm regarding the effectiveness of our internal controls over financial reporting;
- 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 registered public accounting firm , including reviewing our disclosures under “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

The audit committee is composed of four directors: Mr. Carlborg (chair), Mr. Bruzzo, Mr. Potter, and Ms. Taylor. The audit committee met eight times during the fiscal year. 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 5605(a)(2) of the Nasdaq listing standards). The board of directors has also determined that each of 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.

#### AUDIT COMMITTEE REPORT<sup>(1)</sup>

The audit committee reviewed and discussed the audited financial statements for fiscal year 2012 with management of Blue Nile. The audit committee has also discussed with Blue Nile's independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (“PCAOB”) in Rule 3200T. The audit committee has also received the written disclosures and the letter from Blue Nile's independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and has discussed with Blue Nile's independent registered public accounting firm's independence. Based on the foregoing, the audit committee has recommended to the board of directors that the audited financial statements be included in Blue Nile's Annual Report on Form 10-K for the fiscal year ended December 30, 2012.

Date: April 10, 2013