

JOHNSON CONTROLS INC
Form 4
January 28, 2011

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
JOERRES JEFFREY A

(Last) (First) (Middle)

5757 N. GREEN BAY AVE., P.O. BOX 591

(Street)

MILWAUKEE, WI 53201-0591

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
JOHNSON CONTROLS INC [JCI]

3. Date of Earliest Transaction
(Month/Day/Year)
01/26/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	01/26/2011		A	2,832 A \$ 38.84	9,488	D	
Common Stock					2,075.313 ⁽¹⁾	I	By Spouse as Trustee of TR

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock Units/Director's Deferred Comp Plan	(2)					(3)	(3)	Common Stock	61,252.13
Phantom Stock Units/Directors' Retirement Stock Plan	(2)					(5)	(5)	Common Stock	10,847.06

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
JOERRES JEFFREY A 5757 N. GREEN BAY AVE. P.O. BOX 591 MILWAUKEE, WI 53201-0591	X			

Signatures

Angela M. Blair, Attorney-In-Fact for Jeffrey A. Joerres
01/28/2011

____Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Includes 34.9 shares acquired through the reinvestment of dividends on April 2, July 2, and October 4, 2010 and January 4, 2011, at prices ranging from \$27.6103 per share.
- (2) The phantom stock units convert to the common stock's cash value on a one-for-one basis.
The phantom stock units were accrued under the Johnson Controls Directors' Deferred Compensation Plan and are to be settled 100% in cash upon the reporting person's retirement. The reporting person has the right to transfer the value of the phantom stock account into an alternative investment account within the plan.

- (4) Includes 1,035,319 phantom stock units acquired through the reinvestment of dividends on April 2, July 2, and October 4, 2010 and January 4, 2011, at prices ranging from \$26.88 to \$39.68 per phantom stock unit.

The phantom stock units were accrued under the Johnson Controls Directors' Retirement Plan and are to be settled 100% in cash upon the reporting person's retirement. The reporting person has the right to transfer the value of the phantom stock account into an alternative investment account within the plan.

- (6) Includes 183,343 phantom stock units acquired through the reinvestment of dividends on April 2, July 2, and October 4, 2010, and January 4, 2011 at prices ranging from \$26.88 to \$39.68 per phantom unit.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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Item 32. Sales to Special Parties.

None.

Item 33. Recent Sales of Unregistered Securities.

During the past three years, we (including our predecessor), have issued and sold the following unregistered securities: On February 17, 2010, in connection with our formation, Thomas M. Ray was issued 1,000 shares of our common stock for total consideration of \$10.00 in cash in order to provide our initial capitalization. The issuance of such shares was effected in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the Securities Act).

In connection with the Restructuring Transactions, an aggregate of 34,600,000 operating partnership units with an aggregate value of \$553.6 million, assuming a price per share at the midpoint of the range set forth on the cover page of the prospectus that forms a part of this Registration Statement, will be issued to certain persons transferring to us interests in the asset entities that own the properties comprising our initial portfolio in consideration of such transfer. All such persons had a substantive, pre-existing relationship with us. All of such persons are accredited investors as defined under Regulation D of the Securities Act. We did not generally solicit or advertise to market our securities. All such persons made their investment decisions based on their substantive pre-existing relationships with us and the information that we provided to them. The issuance of such operating partnership units will be effected in reliance upon exemptions from registration provided by Section 4(2) of the Securities Act and pursuant to Rule 506 of Regulation D of the Securities Act.

Item 34. Indemnification of Directors and Officers.

Maryland law permits a Maryland corporation to include in its charter a provision eliminating the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision that eliminates our directors and officers liability to the maximum extent permitted by Maryland law.

Maryland law requires a Maryland corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually

incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that:

the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty;

the director or officer actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

Under Maryland law, a Maryland corporation also may not indemnify a director or officer in a suit by or in the right of the corporation in which the director or officer was adjudged liable to the corporation or for a judgment of liability on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not the director or officer met the prescribed standard of conduct; however, indemnification for an adverse judgment in a suit by us or in our right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses.

In addition, Maryland law permits a Maryland corporation to advance reasonable expenses to a director or officer upon receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed if it is ultimately determined that the standard of conduct was not met.

Our charter authorizes us to obligate our company, and our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify

any present or former director or officer who is made or threatened to be made a party to a proceeding by reason of his or her service in such capacity and

any individual who, while a director or officer and, at our request, serves or has served as a director, officer, trustee, partner, member or manager of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise who is made or threatened to be made a party to a proceeding by reason of his or her service in such capacity,

against any claim or liability by reason of that status and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding without requiring a preliminary determination of his or her ultimate entitlement to indemnification. The rights to indemnification and advance of expenses provided by our charter and bylaws vest immediately upon election of a director or officer. Our charter and bylaws also permit us to indemnify and advance expenses to any individual who served a predecessor of our company or any entity acquired by our company, or its predecessors, if any, or any partnership controlled by our company, or its predecessors, if any, in any of the capacities described above and any employee or agent of us or a predecessor of our company or acquired entity.

In addition, our directors and officers are indemnified for specified liabilities and expenses pursuant to the partnership agreement of CoreSite, L.P., the partnership in which we serve as sole general partner.

Item 35. *Treatment of Proceeds from Stock Being Registered.*

None of the proceeds will be credited to an account other than the appropriate capital share account.

Item 36. *Financial Statements and Exhibits.*

(a) *Financial Statements.* See page F-1 for an index to the financial statements included in the registration statement.

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(b) **Exhibits.** The following is a complete list of exhibits filed as part of the registration statement, which are incorporated herein:

Exhibit Number	Description
1.1**	Form of Underwriting Agreement between CoreSite Realty Corporation and the underwriters named therein.
3.1**	Articles of Amendment and Restatement of CoreSite Realty Corporation.
3.2**	Amended and Restated Bylaws of CoreSite Realty Corporation.
4.1**	Specimen certificate representing the Common Stock of CoreSite Realty Corporation.
5.1*	Opinion of Venable LLP as to legality of the securities being issued.
8.1*	Opinion of Latham & Watkins LLP as to certain U.S. federal income tax matters.
10.1**	Form of Limited Partnership Agreement of CoreSite, L.P.
10.2**	Form of 2010 Equity Incentive Plan.
10.3**	Form of 2010 Equity Incentive Plan Restricted Stock Unit Award Agreement.
10.4**	Form of 2010 Equity Incentive Plan Stock Option Agreement.
10.5**	Form of 2010 Equity Incentive Plan Restricted Stock Agreement.
10.6**	Form of 2010 Equity Incentive Plan Restricted Stock Agreement for Non-Employee Directors.
10.7**	Employment Agreement between CoreSite Realty Corporation and Thomas M. Ray.
10.8	Employment Agreement between CoreSite Realty Corporation and Deedee M. Beckman.
10.9**	Form of Indemnification Agreement for directors and officers of CoreSite Realty Corporation.
10.10**	Form of Registration Rights Agreement.
10.11**	Form of Tax Protection Agreement.
10.12	Form of Contribution Agreement.
10.13**	Lease Agreement between Hines REIT One Wilshire Services, Inc. and CRG West One Wilshire, L.L.C., dated as of August 1, 2007.
10.14**	Lease Agreement between Hines REIT One Wilshire, LP and CRG West One Wilshire, L.L.C., dated as of August 1, 2007.
10.15**	First Amendment to Lease between Hines REIT One Wilshire, LP and CRG West One Wilshire, L.L.C., dated as of May 1, 2008.
10.16**	Form of Restricted Stock Agreement.
10.17**	Form of Restricted Unit Agreement.
10.18**	Form of Management Rights Agreement.
10.19**	CoreSite Realty Corporation and CoreSite, L.P. Senior Management Severance and Change in Control Program.
10.20**	CoreSite Realty Corporation Non-Employee Director Compensation Policy.
16.1**	Letter of Ernst & Young, LLP regarding Change in Certifying Accountants.
16.2**	Letter of Baker Tilly Virchow Krause, LLP (formerly Beers & Cutler PLLC) regarding Change in Certifying Accountants.
21.1**	Subsidiaries of CoreSite Realty Corporation.
23.1**	Consent of KPMG LLP.
23.2*	Consent of Venable LLP (included in Exhibit 5.1).
23.3*	Consent of Latham & Watkins LLP (included in Exhibit 8.1).
24.1**	Powers of Attorney (included in signature pages).
99.1**	Consent of Robert G. Stuckey to be named as a board nominee.
99.2**	Consent of Paul E. Szurek to be named as a board nominee.
99.3**	Consent of David A. Wilson to be named as a board nominee.

Exhibit Number	Description
99.4**	Consent of James A. Attwood, Jr. to be named as a board nominee.
99.5**	Consent of Michael Koehler to be named as a board nominee.
99.6**	Consent of J. David Thompson to be named as a board nominee.

* To be filed by amendment.

** Previously filed.

Item 37. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this Amendment No. 6 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on September 20, 2010.

CORESITE REALTY CORPORATION

Name: Thomas M. Ray
By: /s/ Thomas M. Ray
Title: President

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 6 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Thomas M. Ray Thomas M. Ray	President and Director (Principal Executive Officer)	September 20, 2010
/s/ Deedee M. Beckman Deedee M. Beckman	Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 20, 2010

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riant:SMALL-CAPS">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 of the Company (consistent with criteria approved by the Board);
- reviewing and evaluating incumbent directors;
- recommending to the Board for selection candidates for election to the Board of Directors;
- making recommendations to the Board regarding the membership of the committees of the Board;
- assessing the performance of management and the Board; and
- developing a set of corporate governance principles for the Company.

Three directors comprise the Nominating and Corporate Governance Committee: Ms. Strober, Ms. Taylor and Mr. McAndrews. 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 did not meet during the fiscal year 2004; this Committee met in January 2005. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee charter that is attached as Appendix C to these proxy materials and is available on Blue Nile's website, www.bluenile.com in the corporate governance section of its investor relations page.

The Nominating and Corporate Governance Committee reviews the experience and characteristics appropriate for Board of Directors members and director candidates in light of the Board of Directors' composition at the time and skills and expertise needed at the Board and committee levels. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, 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 the Company's 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 the Company 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 SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee then 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 candidates after considering the function and needs of the Board of Directors. The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board of Directors by majority vote. To date, the Nominating and Corporate Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates. To date, the Nominating and Corporate Governance Committee has not rejected a timely director nominee from a stockholder or stockholders holding more than 5% of Blue Nile's voting stock.

The Nominating and Corporate Governance Committee will consider properly submitted director candidates recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, based on whether the candidate was recommended by a stockholder or not. 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 the Company's proxy statement for the last Annual Meeting of Stockholders. Recommendations must include the full name of the proposed candidate, a description of the proposed candidate's business experience for at least the previous five years, complete biographical information, a description of the proposed candidate's qualifications as a director and a representation that the recommending stockholder is a beneficial or record owner of the Company's stock. Any such submission must be accompanied by the written consent of the proposed candidate to be named as a nominee and to serve as a director if elected. No such recommendation of a candidate to the Nominating and Corporate Governance Committee shall be deemed to satisfy the nomination requirements set forth in our Bylaws.

Meetings of the Board of Directors

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

Stockholder Communications With The Board Of Directors

The Company's Board of Directors has adopted a formal process by which stockholders may communicate with the Board or any of its directors. Stockholders who wish to communicate with the Board 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 the Corporate Secretary of the Company and submitted to the Board of Directors or the individual directors on a periodic basis.

Code Of Ethics

The Company has adopted the Blue Nile, Inc. Code of Ethics that applies to all officers, directors and employees. The Code of Ethics is available on the Blue Nile website at www.bluenile.com in the corporate governance section of its investor relations page. If the Company makes any substantive amendments to the Code of Ethics or grants any waiver from a provision of the Code of Ethics to any executive officer or director, the Company will promptly disclose the nature of the amendment or waiver on its website.

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

As described more fully in its charter, the purpose of Blue Nile, Inc.'s (Blue Nile) Audit Committee (the Audit Committee) is to act on behalf of Blue Nile's Board of Directors (the Board) in fulfilling the Board's oversight responsibilities with respect to:

Blue Nile's corporate accounting, financial reporting practices and audits of financial statements;

the quality and integrity of Blue Nile's financial statements and reports;

the qualifications, independence and performance of any firm or firms of certified public accountants engaged as Blue Nile's independent outside auditors; and

the performance of Blue Nile's internal audit function.

The Audit Committee is made up solely of independent directors, as defined in the rules of The Nasdaq Stock Market, Inc. The composition of the Audit Committee, the attributes of its members and its responsibilities, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. A copy of the Audit Committee's charter is included in Blue Nile's proxy statement for its 2005 Annual Stockholders Meeting. The Audit Committee reassesses the adequacy of the Audit Committee charter on an annual basis.

It is the responsibility of Blue Nile's management to prepare Blue Nile's financial statements and periodic reports and the responsibility of Blue Nile's outside independent auditors to audit those financial statements. Blue Nile's independent outside auditing firm is PricewaterhouseCoopers, LLP (PWC). The Audit Committee has ultimate authority and responsibility to select, compensate, evaluate and, when appropriate, replace PWC. In accordance with existing Audit Committee policy and applicable law, all services to be provided by PWC are subject to pre-approval by the Audit Committee. This includes audit services, audit-related services, tax services and other services. In some cases, pre-approval is provided by the full Audit Committee, and relates to a particular category or group of services and is subject to a specific budget. In other cases, the Chair of the Audit Committee has the delegated authority from the Committee to pre-approve additional services, and such pre-approvals are then communicated and ratified by the full Audit Committee. Applicable law prohibits an issuer from obtaining certain non-audit services from its auditing firm so as to avoid certain potential conflicts of interest. Blue Nile has not obtained any

(1) Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this proxy statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

of these services from PWC. See *Ratification of Selection of Independent Auditors* for more information regarding fees paid to PWC for services in fiscal years 2003 and 2004.

As part of fulfilling its responsibilities, the Audit Committee reviewed and discussed the audited consolidated financial statements for fiscal year 2004 with management. The Audit Committee also discussed with PWC those matters relating to PWC's judgments about the quality, as well as the acceptability, of Blue Nile's accounting principles as required to be discussed with PWC by Statement on Auditing Standards No. 61, as amended, *Communication with Audit Committees*. In addition, the Audit Committee received the written disclosures and the letter required by Independent Standards Board Statement No. 1, *Independence Discussions with Audit Committee*, and has discussed PWC's independence with representatives of the firm.

Based on the Audit Committee's review of the audited consolidated financial statements and its discussions with management and PWC, the Audit Committee has recommended that the Board include the audited consolidated financial statements for the fiscal year ended January 2, 2005 in Blue Nile's Annual Report on Form 10-K. In addition, as noted above, the Audit Committee has engaged PWC to serve as Blue Nile's independent auditors for 2005 subject to ratification by Blue Nile's stockholders.

Respectfully submitted,

Mary Alice Taylor, Chairwoman

Joseph Jimenez

W. Eric Carlborg

Joanna Strober

Proposal 2

Ratification Of Selection Of Independent Auditors

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending January 1, 2006 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. PricewaterhouseCoopers LLP has audited the Company's 2001, 2002, 2003 and 2004 financial statements. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company's Bylaws nor other governing documents or law requires stockholder ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent auditors. If the stockholders fail to ratify the selection, however, the Audit Committee of the Board of Directors will reconsider whether or not to retain that firm. Regardless of the outcome of the stockholder vote, the Audit Committee of the Board of Directors in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of PricewaterhouseCoopers LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as a vote against this proposal. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

Principal Accountant Fees and Services

The following table represents aggregate fees billed to the Company for fiscal years ended January 2, 2005 and December 31, 2003 by PricewaterhouseCoopers LLP, the Company's principal accountant. All fees described below were approved by the Audit Committee.

	Fiscal Year	
	2004	2003
Audit Fees(1)	\$ 557,172	\$ 13,500
Audit-related Fees(2)	\$ 9,400	
Tax Fees(3)	\$ 44,914	\$ 6,062
All Other Fees(4)	\$ 327,648	\$ 2,220
 Total Fees	 \$ 939,134	 \$ 21,782

- (1) Audit fees include services for verifying the consolidated financial statements of the Company, along with reviews of the interim financial information of the Company and its Forms 10-K and 10-Q. The 2004 audit fees include the audits of the 2001, 2002, 2003 and 2004 financial statements, and the review of interim information for 2002, 2003 and 2004.
- (2) Audit related fees in the current year include fees for Sarbanes-Oxley Section 404 related work.
- (3) Tax fees in both 2003 and 2004 relate to federal and state tax return preparation and federal, state and foreign tax planning and consulting.
- (4) Other fees consist primarily of fees related to the filing of the Company's registration statement on Form S-1 in May 2004 and fees related to a subscription service.

Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by Blue Nile's independent auditor, PricewaterhouseCoopers LLP. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services, and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent auditor or on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to and ratified by the full Audit Committee at its next scheduled meeting. As such, the engagement of PricewaterhouseCoopers LLP to render all of the services described in the categories above was approved by the Audit Committee in advance of rendering those services or approved by a delegate and subsequently ratified by the Audit Committee at its next scheduled meeting.

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

On October 9, 2003, with the approval of the Audit committee of the Board of Directors, Blue Nile dismissed its outside accounting firm KPMG LLP. On November 1, 2003, with the approval of the Audit committee of the Board of Directors, Blue Nile retained PricewaterhouseCoopers LLP. KPMG LLP has not audited Blue Nile's financial statements for either fiscal year 2003 or fiscal year 2004. During the period from the engagement of KPMG LLP on November 26, 2002 through October 9, 2003, there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which

disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused it to make a reference to the subject matter of the disagreements in connection with its report on the financial statements for such year and there were no reportable events as defined in regulation S-K Item 304(a)(1)(v). Blue Nile did not consult PricewaterhouseCoopers LLP on any financial or accounting reporting matters in the period before their appointment.

The Board Of Directors Recommends

A Vote In Favor Of Proposal 2.

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**Security Ownership Of
Certain Beneficial Owners And Management**

The following table sets forth certain information regarding the ownership of the Company's common stock as of March 17, 2005, except as otherwise indicated, by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers, directors and nominees for director of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its common stock. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Blue Nile, 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.

Beneficial Owner	Number of Shares	Percent of Total
FMR Corp.(2) 82 Devonshire Street Boston, MA 02109	1,788,300	10.06%
Baron Capital Group, Inc.(3) 767 Fifth Avenue New York, NY 10153	1,407,600	7.92%
Transamerica Investment Management, LLC(4) 1150 South Olive Street, Suite 2700 Los Angeles, CA 90015	1,403,470	7.89%
Mark Vadon(5)	1,788,718	9.98%
Diane Irvine(6)	353,887	1.98%
Susan Bell(7)	115,039	*
Robert Paquin(8)	500,749	2.78%
Darrell Cavens(9)	95,532	*
Joanna Strober(10)	25,048	*
Augustus Tai(11)	12,634	*
Joseph Jimenez(12)	33,083	*
Mary Alice Taylor(13)	31,290	*
Brian McAndrews(14)	9,252	*
W. Eric Carlborg(15)	1,000	*
All executive officers and directors as a group (12 persons)(16)	2,975,398	16.11%

* Less than one percent.

(1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission (the "SEC"). Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 17,778,942 shares outstanding on March 17, 2005, provided that any additional shares of common stock that a stockholder has the right to acquire within 60 days after March 17, 2005 are deemed to be outstanding for the purpose of calculating that stockholder's percentage beneficial ownership.

(2)

FMR Corp. reported to the SEC on its form Schedule 13G that it beneficially owned 1,788,300 shares of the Company's common stock as of January 31, 2005. The 1,788,300 shares, represents 1,516,500 shares held by Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR Corp. and 271,800 shares held by Fidelity Management Trust Company (Fidelity Trust), a wholly-owned subsidiary of FMR Corp. Edward C. Johnson 3d and FMR Corp., through its control of Fidelity, and the funds each has sole power to dispose of the

- 1,516,500 shares owned by Fidelity. Neither FMR Corp. nor Edward C. Johnson 3d, Chairman of FMR Corp., has the sole power to vote or direct the voting of the shares owned directly by Fidelity, which power resides with Fidelity's Board of Trustees. Edward C. Johnson 3d and FMR Corp., through its control of Fidelity Trust, each has sole dispositive power over 271,800 shares and sole power to vote or to direct the voting of 271,800 shares. Members of the Edward C. Johnson family, through their ownership of approximately 49% of the voting power of FMR Corp. and the execution of a shareholders' voting agreement, may be deemed under the Investment Company Act of 1940, to form a controlling group with respect to FMR Corp.
- (3) Baron Capital Group, Inc. reported to the SEC on its form Schedule 13G that it beneficially owned 1,407,600 shares of the Company's common stock as of February 11, 2005. The 1,407,600 shares represents 1,355,000 shares held by BAMCO, Inc., a subsidiary of Baron Capital Group, Inc., and 52,600 shares held by Baron Capital Management, Inc., a subsidiary of Baron Capital Group, Inc. Ronald Baron owns a controlling interest in Baron Capital Group, Inc. and may be deemed to share power to vote and dispose of the shares held by the Baron Capital Group, Inc.
 - (4) Transamerica Investment Management, LLC reported to the SEC on its form Schedule 13G that it beneficially owned 1,403,470 shares of the Company's common stock as of March 17, 2005. Transamerica Investment Management, LLC, an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Exchange Act of 1934, has shared power to vote and shared dispositive power over all 1,403,470 shares.
 - (5) Includes 151,665 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (6) Includes 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of Laura Anne Irvine under the Washington Uniform Gift to Minors Act, 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of David Douglas Irvine under the Washington Uniform Gift to Minors Act, 1,160 shares held by Douglas Royan Irvine as Custodian for the benefit of Jessica Leigh Irvine under the Washington Uniform Gift to Minors Act and 101,384 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (7) Includes 59,181 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (8) Includes 214,830 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005. Does not include 1,160 shares held by Rachelle L. Paquin, the daughter of Mr. Paquin, as to which shares Mr. Paquin disclaims beneficial ownership.
 - (9) Includes 75,332 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (10) Includes 8,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (11) Includes 8,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (12) Includes 28,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
 - (13) Includes 28,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.

- (14) Includes 8,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days after March 17, 2005.
- (15) Mr. Carlborg does not have any shares of common stock exercisable within 60 days after March 17, 2005.
- (16) Includes shares held by Mr. Vadon, Ms. Irvine, Ms. Bell, Mr. Paquin and Mr. Cavens, the shares described in notes (5) through (14) above, 4,800 shares held by Blue Nile's executive officers who

are not named executive officers, and 4,366 shares issuable pursuant to options held by executive officers who are not named executive officers that are exercisable within 60 days of March 17, 2005.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended January 2, 2005, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with, except as set forth below

During fiscal 2004, Ms. Irvine timely reported all transactions, but Ms. Irvine's May 19, 2004 Form 3 incorrectly overstated the number of shares held by each of (i) Douglas Royan Irvine as Custodian for the benefit of Laura Anne Irvine under the Washington Uniform Gift to Minors Act; (ii) Douglas Royan Irvine as Custodian for the benefit of David Douglas Irvine under the Washington Uniform Gift to Minors Act; and (iii) Douglas Royan Irvine as Custodian for the benefit of Jessica Leigh Irvine under the Washington Uniform Gift to Minors Act. Such amounts did not reflect a 1 for 2.5 reverse stock split effected in April 2004 and the error was corrected by amending the May 19, 2004 Form 3 on December 1, 2004.

During fiscal 2004, Mr. Gaston timely reported all transactions, but Mr. Gaston's November 29, 2004 Form 4 incorrectly reported the number of derivative securities beneficially owned by Mr. Gaston. This error was corrected by amending the November 29, 2004 Form 4 on December 10, 2004. Additionally, Mr. Gaston's Form 4s for fiscal year 2004 did not report 2,691 shares held by his spouse. This omission was corrected by amending the Form 4s.

Compensation of Directors

Each non-employee director of the Company receives an annual retainer of \$10,000 for serving on the Company's Board of Directors, an additional \$1,000 per member for serving on any committee of the Board of Directors and an additional \$1,000 for serving as chairperson of the Audit Committee. The annual retainer of \$10,000 is paid in quarterly installments; and, at the discretion of the Company's Board of Directors, directors may be permitted to forego all or a portion of their annual \$10,000 cash payment for service on the Board in exchange for a grant or grants of restricted stock under the 2004 Equity Incentive Plan having a fair market value equal to the amount of foregone cash compensation. In the fiscal year ended January 2, 2005, the total compensation paid to non-employee directors was \$47,500, of this amount \$27,566 was paid to the directors in cash and \$19,934 was paid to the directors through a grant of an aggregate of 670 shares of stock in lieu of cash. The members of the Board of Directors are also eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with Company policy.

In March 2004, the Company adopted the 2004 Non-Employee Directors' Stock Option Plan. Under this plan, upon joining the Company's Board of Directors, each non-employee director receives an option grant to purchase 20,000 shares of the Company's common stock. The initial grant will vest monthly with respect to 1/30th of the shares subject to the grant for the first 12 months following the date of grant and 1/60th of the shares subject to the grant for the subsequent 36 months. In April 2004, prior to the Company's adoption of the Non-Employee Directors' Stock Option Plan, the Company issued grants to purchase 20,000 shares of common stock to each of the Company's existing non-employee directors pursuant to the Company's 1999 Equity Incentive Plan with the same vesting schedule. Each non-employee director will receive an additional option grant to purchase 16,000 shares of the Company's

common stock upon full vesting of either the option grant they received in April 2004 under the 1999 Equity Incentive Plan or, with respect to directors who joined the Board after the April 2004 grant, their initial grant under the 2004 Non-Employee Directors Stock Option Plan as well as any such subsequent additional grants. Each non-employee director will receive an annual option grant to purchase 4,000 shares of the Company's common stock on the date following each Annual Meeting of stockholders, which will be reduced pro rata for each full quarter prior to the grant date during which the director did not serve as a non-employee director.

In the event of a merger of the Company with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving the Company, if the surviving or acquiring entity does not assume or substitute the stock options, the vesting of each option issued under the 1999 Equity Incentive Plan and the 2004 Non-Employee Directors Stock Option Plan will accelerate in full and the option will terminate if not exercised prior to the consummation of the transaction. Under the 1999 Equity Incentive Plan, if the surviving or acquiring entity assumes or substitutes the stock options, each outstanding option will accelerate as follows: 12.5% of all shares subject to the option grant, or an amount equal to the remaining unvested shares, if less, shall vest immediately upon the closing of such event. Additionally, if any person or entity, or group thereof acting together, acquires shares representing at least 50% of the voting power entitled to vote in the election of the Company's directors, other than in certain corporate transactions, the vesting of each option issued under the 1999 Equity Incentive Plan will accelerate in full for the directors who are then providing services to the Company or the Company's affiliates.

During fiscal year 2004, no options were exercised by directors under the 1999 Equity Incentive Plan or the 2004 Non-Employee Directors Stock Option Plan.

Executive Officers

Set forth below is information regarding Blue Nile's executive officers as of March 17, 2005.

Name	Age	Position
Mark Vadon	35	Chairman, Chief Executive Officer and President
Robert Paquin	58	Chief Operating Officer and Chief Information Officer
Diane Irvine	46	Chief Financial Officer and Director
Susan Bell	47	Vice President, Marketing and Merchandising
Darrell Cavens		Vice President, Development and Chief Technology Officer
	32	
Terri Maupin	43	Vice President, Finance and Controller

Mark Vadon co-founded Blue Nile and has served as Chairman of the Board of Directors, Chief Executive Officer and President since its inception. 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.

Robert Paquin has served as Blue Nile's Chief Operating Officer and Chief Information Officer since September 1999. From May 1994 to September 1999, Mr. Paquin served in various capacities at L.L. Bean, Inc., a clothing retailer, most recently as Senior Vice President of Operations and Information Services. From 1992 to 1994, Mr. Paquin served as Senior Vice President and Chief Information Officer at Hanover Direct, Inc., a consumer catalog retailer. From 1989 to 1991, Mr. Paquin served as Vice President of Information Service and Operations at Tweeds, Inc., an apparel catalog company. Mr. Paquin holds a B.A. in Business Administration from Southern Oregon State College.

Diane Irvine has served as Blue Nile's Chief Financial Officer since December 1999 and as a director since May 2001. 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 holds an M.S. in Taxation from Golden Gate University.

Susan Bell has served as Blue Nile's Vice President of Marketing and Merchandising since June 2004. Ms. Bell has held executive level positions in both marketing and merchandising since she joined Blue Nile in September 2001. From October 2000 to February 2001, Ms. Bell served as Vice President of Merchandising and Marketing for The Body Shop Digital, an e-commerce company. From July 1984 to July 2000, Ms. Bell served in various capacities at Eddie Bauer, Inc., a clothing and merchandise retail company, most recently as Vice President and General Merchandising Manager. Ms. Bell holds a B.A. in Business Administration from San Francisco State University.

Darrell Cavens has served as Blue Nile's Vice President of Development since October 2003 and as Blue Nile's Chief Technology Officer since November 2000. From September 1999 to November 2000, Mr. Cavens served as Blue Nile's Director of Technology. From April 1996 to September 1999, Mr. Cavens worked as Staff Engineer within the Advanced Development team at Starwave Corporation, an Internet development company. Mr. Cavens attended the University of Victoria in Canada from 1990 to 1994.

Terri Maupin has served as Blue Nile's Vice President of Finance and Controller since July 2004. From September 2003 to July 2004, Ms. Maupin served as Blue Nile's Controller. From February 2001 to September 2003, Ms. Maupin served as the Staff Vice President of Finance and Controller at Alaska Air Group, Inc., the parent company of airline companies Alaska Airlines, Inc. and Horizon Air Industries, Inc., and Staff Vice President of Finance and Controller at Alaska Airlines, Inc. From September 1994 through January 2001, Ms. Maupin served in various capacities at Nordstrom, Inc., a clothing and merchandise retail company, most recently as Director of Financial Reporting. Ms. Maupin holds a B.A. in Accounting from Western Washington University.

Compensation of Executive Officers

The following table shows for the fiscal years ended December 31, 2003 and January 2, 2005 compensation earned by, the Company's Chief Executive Officer and its other four most highly compensated executive officers at January 2, 2005 (the Named Executive Officers):

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Securities Underlying Options	
Mark Vadon Chairman, Chief Executive Officer and President	2004	299,914	76,000	180,000	6,677(1)
	2003	249,499	100,000	100,000	5,107(2)
Robert Paquin Chief Operating Officer and Chief Information Officer	2004	283,000	76,000	50,000	8,271(3)
	2003	282,880	100,000	20,000	7,445(4)
Diane Irvine Chief Financial Officer and Director	2004	265,478	76,000	65,000	6,017(5)
	2003	249,499	100,000	40,000	5,924(6)
Susan Bell Vice President of Marketing and Merchandising	2004	205,220		5,000	11,338(7)
	2003	193,000		6,000	7,950(8)
Darrell Cavens Vice President of Development and Chief Technology Officer	2004	148,220		25,000	3,684(9)
	2003	142,125		16,000	3,148(10)

- (1) Of this amount, \$5,957 is for matching contributions under Blue Nile's 401(k) plan and \$720 is for a transportation allowance.
- (2) Of this amount, \$4,387 is for matching contributions under Blue Nile's 401(k) plan and \$720 is for a transportation allowance.
- (3) Of this amount, \$5,660 is for matching contributions under Blue Nile's 401(k) plan and \$2,611 is for a transportation allowance.
- (4) Of this amount, \$4,957 is for matching contributions under Blue Nile's 401(k) plan and \$2,488 is for a transportation allowance.
- (5) Of this amount, \$5,297 is for matching contributions under Blue Nile's 401(k) plan and \$720 is for a transportation allowance.
- (6)

Of this amount, \$5,204 is for matching contributions under Blue Nile's 401(k) plan and \$720 is for a transportation allowance.

- (7) Of this amount, \$4,105 is for matching contributions under Blue Nile's 401(k) plan, \$720 is for a transportation allowance and \$6,513 is for medical insurance premiums for dependents.
- (8) Of this amount, \$3,872 is for matching contributions under Blue Nile's 401(k) plan, \$720 is for a transportation allowance and \$3,358 is for medical insurance premiums for dependents.
- (9) Of this amount, \$2,964 is for matching contributions under Blue Nile's 401(k) plan and \$720 is for a transportation allowance.
- (10) Of this amount, \$2,848 is for matching contributions under Blue Nile's 401(k) plan and \$300 is for a transportation allowance.

Stock Option Grants And Exercises

The Company grants options to its executive officers under its 2004 Equity Incentive Plan. Prior to the adoption of the 2004 Equity Incentive Plan, the Company granted options to its executive officers under its 1999 Equity Incentive Plan. As of March 17, 2005, (i) options to purchase a total of

590,250 shares were outstanding under the 2004 Equity Incentive Plan and options to purchase 2,855,192 shares remained available for grant under the 2004 Equity Incentive Plan; and (ii) options to purchase a total of 1,306,394 shares were outstanding under the 1999 Equity Incentive Plan and options to purchase 0 shares remained available for grant under the 1999 Equity Incentive Plan. The Company has never granted any stock appreciation rights.

The following tables show for the fiscal year ended January 2, 2005, certain information regarding options granted to, exercised by, and held at year end by, the Named Executive Officers:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options (#)	% of Total Options to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% (\$)	10% (\$)
Mark Vadon	180,000	25.3%	\$30.00	July 2014	8,796,031	14,006,209
Robert Paquin	50,000	7.0%	\$30.00	July 2014	2,443,342	3,890,614
Diane Irvine	65,000	9.1%	\$30.00	July 2014	3,176,345	5,057,798
Susan Bell	5,000	0.7%	\$30.00	July 2014	244,334	389,061
Darrell Cavens	25,000	3.5%	\$30.00	July 2014	1,221,671	1,945,307

The exercise price of each option was equal to the closing sales price of the Company's common stock as reported on the Nasdaq Stock Market for the last market trading day prior to the date of grant. The options granted to the Named Executive Officers vest over four years with 25% of the shares vesting one year from the date of grant and 2.08% of the shares vesting each month thereafter. Each of the options has a 10 year term, subject to earlier termination if the optionee's service with the Company ceases. Under certain circumstances following a change of control, the vesting of such option grants may accelerate and become immediately exercisable. See the section entitled

Employment, Severance and Change of Control Agreements below for a description of the Company's agreements with the Named Executive Officers concerning stock options that have been granted to them.

The following table presents for Blue Nile's named executive officers the number and value of securities underlying unexercised options that were held by those officers as of January 2, 2005. The numbers in the column entitled Value of Unexercised In-The-Money Options at January 2, 2005 are based on the fair market value of Blue Nile's common stock of \$27.55 at January 2, 2005, less the exercise price payable for these shares.

Aggregated Option Exercises in Last Fiscal Year and Option Values at January 2, 2005

Shares Acquired	Number of Securities Underlying Unexercised Options at January 2, 2005	Value of Unexercised In-the-Money Options at January 2, 2005

Name	on Exercise (#)	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Mark Vadon			123,332	286,668	\$3,081,392	\$2,344,358
Robert Paquin			205,664	78,335	\$5,557,975	\$ 660,198
Diane Irvine			89,718	108,337	\$2,335,996	\$ 956,405
Susan Bell	4,734	\$133,262(1)	50,348	36,792	\$1,357,500	\$ 833,922
Darrell Cavens			72,266	40,334	\$1,927,531	\$ 327,949

(1) There was no public market at the time of Ms. Bell's exercise. Accordingly, as permitted by the Securities and Exchange Commission, the Value Realized has been calculated based on \$28.40 per

share, the closing price on the date of Blue Nile's initial public offering, minus the exercise price, multiplied by the number of shares issued upon the exercise of the option.

Employment, Severance and Change of Control Agreements

Each of the Company's Named Executive Officers, except for Mr. Vadon, has signed offer letters. These offer letters provide that the officer is an at-will employee. These offer letters also provide for salary and stock option grants, as well as other customary benefits and terms. Mr. Paquin's offer letter provides that if his employment is terminated without cause, he will (i) continue to receive his then base salary for six months following the termination date, and (ii) vest in an additional number of option shares equal to the number in which he would have vested if his service had continued for an additional six months.

Options to purchase 126,000 shares of Blue Nile's common stock granted to Ms. Bell in 2001, options to purchase an aggregate of 170,000 shares of Blue Nile's common stock granted to Mr. Paquin in 2002 and 2003, options to purchase an aggregate of 200,000 shares of Blue Nile's common stock granted to Ms. Irvine in 2002 and 2003, and options to purchase an aggregate of 340,000 shares of Blue Nile's common stock granted to Mr. Vadon in 2002 and 2003 are subject to accelerated vesting, if, within 12 months following a change of control, the employee:

is terminated without cause;

voluntarily terminates continuous service following a material reduction in such employee's responsibilities and duties without cause; or

voluntarily terminates continuous service following a relocation of the principal place where such employee's responsibilities and duties are performed outside of a specified radius.

1999 Equity Incentive Plan

Under the 1999 Equity Incentive Plan, in the event of a merger of the Company with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving the Company, if the surviving or acquiring entity does not assume or substitute the stock options, the vesting of each option issued under the 1999 Equity Incentive Plan will accelerate in full and the option will terminate if not exercised prior to the consummation of the transaction, and under the 1999 Equity Incentive Plan, if the surviving or acquiring entity assumes or substitutes the stock options, the vesting on each option shall accelerate as follows:

any portion of each stock option that is not subject to monthly vesting, but is subject to vesting based on the expiration of a one year period will be treated as if the award had vested ratably on a monthly basis from the vesting commencement date; and

the lesser of (i) twelve and one-half percent of all shares subject to such stock grant, or (ii) an amount equal to the remaining unvested shares, will vest upon the closing of such corporate transaction.

Additionally, under the 1999 Equity Incentive Plan, if any person or entity, or group thereof acting together, acquires shares representing at least 50% of the voting power entitled to vote in the election of the Company's directors, other than in certain corporate transactions, the vesting of each option granted under the 1999 Equity Incentive Plan will accelerate in full for those whose service with the Company or any of the Company's affiliates has not terminated.

2004 Equity Incentive Plan

Under the 2004 Equity Incentive Plan, in the event of certain corporate transactions, if the surviving or acquiring entity elects not to assume, continue or substitute for options granted under the 2004 Equity Incentive Plan, the vesting and exercisability of each option granted under the 2004 Equity Incentive Plan will accelerate in full for those whose service with the Company or any of the Company's affiliates has not

terminated and such options will be terminated if not exercised prior to the effective date of such corporate transaction.

Equity Compensation Plan Information

Blue Nile currently maintains four compensation plans that provide for the issuance of Blue Nile's common stock to officers and other employees, directors and consultants. These plans consist of the 1999 Equity Incentive Plan, the 2004 Equity Incentive Plan, the 2004 Non-Employee Directors' Stock Option Plan and the 2004 Employee Stock Purchase Plan. Each of these four plans has been approved by the Company's stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of January 2, 2005:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders	1,916,582	\$11.26	4,298,994(1)
Equity compensation plans not approved by stockholders			
Total	1,916,582	\$11.26	4,298,994(1)

- (1) Includes 1,369,882 shares outstanding under the 1999 Equity Incentive Plan, 546,700 shares outstanding under the 2004 Equity Incentive Plan, 0 shares outstanding under the 2004 Non-Employee Directors' Stock Option Plan and 0 shares outstanding the 2004 Employee Stock Purchase Plan. There are 0 shares available for grant under the 1999 Equity Incentive Plan, 2,898,994 shares available for grant under the 2004 Equity Incentive Plan, 400,000 shares available for grant under the 2004 Non-Employee Directors' Stock Option Plan and 1,000,000 shares available for grant under the 2004 Employee Stock Purchase Plan. The aggregate number of shares of common stock that are reserved for issuance under the 2004 Equity Incentive Plan automatically increases on January 1 of each year up to and including 2014, by five percent of the number of shares of common stock outstanding on such date unless the Board of Directors designates a smaller number. The aggregate number of shares of common stock that are reserved for issuance under the 2004 Non-Employee Directors' Plan automatically increases on January 1 of each year up to and including 2014, by the number of shares of common stock subject to options granted during the prior calendar year unless the Board of Directors designates a smaller number. After the effective date of the first offering under the 2004 Employee Stock Purchase Plan, the aggregate number of shares of common stock that are reserved for issuance under the 2004 Employee Stock Purchase Plan automatically increases on January 1 of each year for 20 years, by the lesser of 320,000 shares or one and one half percent of the number of shares of common stock outstanding on each such date, unless the Board of Directors designates a smaller number.

**Report of the Compensation Committee of the Board of Directors
on Executive Compensation(1)**

As more specifically set forth in the Compensation Committee's charter, the purpose of Blue Nile's Compensation Committee is to act on behalf of the Board of Directors (the Board) in fulfilling the Board's responsibilities to oversee Blue Nile's compensation policies, plans and programs and to review and determine the compensation to be paid to its executive officers. The Compensation Committee is comprised of three independent, non-employee directors. The members of the Compensation Committee are Augustus Tai, Joseph Jimenez and Brian McAndrews. Mr. Tai serves as Chair of the Committee. The Chair of the Compensation Committee reports the Compensation Committee's actions and recommendations at the Board meetings. The Compensation Committee has access to internal personnel as the Compensation Committee deems necessary or appropriate and the Compensation Committee has the authority to obtain, at the expense of Blue Nile, advice and assistance from internal or external legal, accounting or other advisors or consultants as it deems necessary or appropriate in the performance of its duties.

Compensation Philosophy and Program for Senior Management

Blue Nile's compensation program is designed to:

attract, retain and motivate management and other employees by providing appropriate levels of risk and reward, assessed on a relative basis at all levels within Blue Nile and in proportion to the individuals contribution and performance; and

establish incentives for management and employees that further the long-term strategic plan and the long-term value of Blue Nile as a going concern and to avoid undue emphasis on short-term market value.

Components of Compensation

The three main components of Blue Nile's executive compensation packages for fiscal year 2004 were base salary, incentive bonuses and stock option awards. The Compensation Committee considers the value of, and attempts to strike a balance among, each of these components in determining the total compensation for executive officers.

Annual Compensation - Base Salary. Base salaries for Blue Nile executives are reviewed on an annual basis and at the time of promotion or increase in responsibilities. Among the factors that the Compensation Committee takes into consideration in determining an executive's base salary are (i) the responsibilities of the position, (ii) the skills and experience required for the job, (iii) individual performance, (iv) business performance, including financial objectives related to net sales and earnings and (v) labor market conditions.

Annual Compensation - Incentive Bonuses. The Compensation Committee believes that executive performance may be maximized by providing for certain incentive bonuses each year. Incentive bonuses have traditionally been limited to the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The factors that the Compensation Committee takes into consideration in determining incentive bonuses are the achievement of certain financial performance objectives and certain other management business objectives established by the Compensation Committee. In 2004, the financial performance objective established by the Compensation Committee were based upon achievement of certain net sales and earnings before interest, taxes, depreciation and amortization (EBITDA) targets.

1 Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this proxy statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

Long-Term Compensation Equity Awards. Executives and other employees of Blue Nile are generally issued equity awards each year. To date these equity awards have been in the form of stock options. The size of the grant of stock options reflects the recipient's position, past performance and anticipated level of future contribution. The Compensation Committee believes that equity awards provide a strong incentive for the executives to build long-term stockholder value and assist Blue Nile in the retention of its executives. The exercise price of options granted to the executives generally is 100% of the fair market value of the underlying common stock on the date of grant. Executives receive value from these grants only if Blue Nile's common stock appreciates over the long-term.

Chief Executive Officer Compensation

Annual Compensation Base Salary. During fiscal year 2004, Mark Vadon received a base salary of \$300,000. When establishing Mr. Vadon's salary, the Compensation Committee reviewed the factors listed above in the Annual Compensation Base Salary section of this report, with particular focus on Blue Nile's financial performance and Mr. Vadon's personal performance during fiscal year 2003 and the first quarter of 2004. The Compensation Committee also reviewed compensation for chief executive officers of comparable companies in the industry.

Annual Compensation Incentive Bonuses. Mr. Vadon was awarded an incentive bonus equal to \$76,000. The amount of this award was based on the achievement of certain financial performance objectives and certain other management business objectives established by the Compensation Committee. In 2004, the financial performance objectives established by the Compensation Committee were based upon achievement of certain net sales and earnings before interest, taxes, depreciation and amortization (EBITDA) targets. The Compensation Committee also reviewed incentive bonus awards for chief executive officers of comparable companies in the industry.

Long-Term Compensation Equity Awards. In July 2004, Mr. Vadon was granted an option to purchase 180,000 shares of Blue Nile's common stock at an exercise price of \$30.00 (the closing sales price of Blue Nile's common stock on the last market trading day prior to the day the option grant was awarded) under Blue Nile's 2004 Equity Incentive Plan. The July 2004 option grant vested as follows: 1/4th of the shares vested one year after the vesting commencement date, which was August 26, 2004, and 1/48th of the shares vest monthly thereafter. In determining the equity award issued to the Mr. Vadon, the Compensation Committee reviewed the equity awards issued to the chief executive officers at comparable companies in the industry as well as the effectiveness of Mr. Vadon's leadership of Blue Nile and the resulting success of Blue Nile in the attainment of its goals.

Tax Treatment of Stock Options and Restricted Stock Purchase Rights

Section 162(m) of the Internal Revenue Code (the Code) limits Blue Nile to a deduction for federal income tax purposes of no more than \$1 million of compensation paid to each of the Named Executive Officers in a taxable year. Compensation above \$1 million may be deducted if it is performance-based compensation within the meaning of the Code. However, Section 162(m) contains an exception to this deduction limit for compensation paid pursuant to a compensation plan or agreement that existed during the period in which a company was not publicly held. This exception applies until the earliest of (i) the expiration of the plan or agreement, (ii) the material modification of the plan or agreement, (iii) issuance of all shares or other compensation reserved under the plan, or (iv) the first meeting of stockholders at which directors are to be elected occurring after the close of the third calendar year following the calendar year in which the Company's initial public offering occurs. The Company's compensation plans and agreements were in existence prior to Blue Nile's initial public offering, and none of the events specified above has yet occurred. Accordingly, the Compensation Committee believes that compensation paid pursuant to its compensation plans and agreements is not subject to the deduction limitation under Section 162(m). Therefore, the Compensation Committee has not yet established a policy for determining which forms of incentive compensation awarded to its Named Executive Officers shall be designed to qualify as performance-based compensation. The Compensation Committee intends to comply with Code Section 162(m) in the future to the extent consistent with the best interests of Blue Nile.

Respectfully submitted,

Augustus Tai (Chairman)
Joseph Jimenez
Brian McAndrews

Date: April 22, 2005

Compensation Committee Interlocks and Insider Participation

None of Blue Nile's executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on Blue Nile's Board of Directors or Compensation Committee. No interlocking relationship exists between Blue Nile's Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Performance Measurement Comparison(1)

The following graph compares the total cumulative stockholder return on the Company's common stock with the total cumulative return of the Nasdaq Market Index and CoreData's Internet Software and Services Index for the period beginning on May 20, 2004, the date of the Company's public offering, through January 2, 2005, the Company's 2004 fiscal year end.

COMPARE CUMULATIVE TOTAL RETURN(2)

- (1) This Section is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of the Company under the 1933 Act or the 1934 Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.
- (2) Assumes \$100 was invested on May 20, 2004, at the closing price on the date of Blue Nile's initial public offering, in Blue Nile's common stock and each index, and all dividends have been reinvested. No cash dividends have been declared on Blue Nile's common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

Certain Relationships and Related Transactions

The Company has entered into indemnity agreements with certain officers and directors which provide, among other things, that the Company will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party by reason of his or her position as a director, officer or other agent of the Company, and otherwise to the fullest extent permitted under Delaware law and the Company's Bylaws.

Mr. Carlborg, a director, was a managing director at Merrill Lynch & Co. at the time that Merrill Lynch & Co. was managing underwriter of the Company's initial public offering.

The underwriters of the Company's initial public offering allowed the Company to sell at the initial public offering approximately 187,000 shares of common stock at the initial public offering price to persons who were directors, officers or employees, or who were otherwise associated with the Company, through a directed share program. Joseph Jimenez purchased 5,000 shares of common stock, Brian McAndrews purchased 1,000 shares of common stock and Mary Alice Taylor purchased 1,000 shares of common stock through the directed share program, and were the only three executive officers and directors who participated in the program.

In connection with the Company's initial underwritten public offering, 2,000,090 shares of common stock of the Company were registered and sold on behalf of certain selling stockholders. Selling stockholders in the offering included entities affiliated with Bessemer Venture Partners, entities affiliated with Kleiner Perkins Caufield & Byers, funds managed by Trinity Ventures, entities affiliated with Lightspeed Venture Partners, Vulcan Ventures Incorporated and Douglas B. Williams, each of whom prior to the offering owned more than 5% of the Company's voting securities. Mr. Tai, a director of the Company, is a managing member of Trinity TVL VI, LLC, the general partner of the funds managed by Trinity Ventures. Mr. Tai disclaims beneficial ownership of shares held by funds managed by Trinity Ventures except to the extent of his pecuniary interest arising therein.

The Company and certain of its stockholders, including funds managed by Trinity Ventures, of which Mr. Tai is a managing member of the general partner of such funds, have entered into an agreement pursuant to which these stockholders have certain registration rights with respect to their shares of common stock. Also if at any time the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of other securities holders, the holders of these shares will be entitled to notice of the registration and will be entitled to include, at the Company's expense, their shares of our common stock in the registration. In addition, certain of the holders of these shares may require the Company, at the Company's expense and on not more than one occasion in any twelve month period, to file a registration statement on Form S-3 under the Securities Act covering their shares of common stock. These rights shall terminate on the earlier of May 19, 2007, or, with respect to an individual holder, when such holder holds less than 1% of the outstanding common stock of the Company and is able to sell all its shares pursuant to Rule 144 under the Securities Act in any 90-day period. These registration rights are subject to conditions and limitations, including the right of the underwriters to limit the number of shares of Blue Nile's common stock included in the registration statement.

Annual Report on Form 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended January 2, 2005, accompanies this Proxy Statement. It is also available on the Company's website, www.bluenile.com in the corporate governance section of the investor relations page. An additional copy will be furnished without charge to stockholders of record upon request by mail to Investor Relations at Blue Nile, 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Blue Nile stockholders will be householding Blue Nile's proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to Blue Nile, Inc., Corporate Secretary at 705 Fifth Avenue South, Suite 900, Seattle, Washington 98104 or contact Terri Maupin, the Corporate Secretary, at (206) 336-6700. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

Other Matters

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

Mark Vadon
Chairman of the Board, Chief Executive Officer and
President

Seattle, Washington
April 22, 2005

BLUE NILE, INC.
CHARTER OF THE AUDIT COMMITTEE

Purpose and Policy

The primary purpose of the Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of Blue Nile, Inc. (the *Company*) shall be to act on behalf of the Board in fulfilling the Board's oversight responsibilities with respect to: (i) the Company's corporate accounting, financial reporting practices and audits of financial statements; (ii) the quality and integrity of the Company's financial statements and reports; (iii) the qualifications, independence and performance of any firm or firms of certified public accountants engaged as the Company's independent outside auditors (the *Auditors*); and (iv) the performance of the Company's internal audit function.

The policy of the Committee, in discharging these obligations, shall be to maintain and foster an open avenue of communication between the Committee, the Auditors and the Company's financial management and internal audit teams.

Composition

Until such time as the Company is subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the *Reporting Date*), the Committee shall consist of at least two (2) members of the Board. On and after the Reporting Date, the Committee shall consist of at least three (3) members of the Board. No Committee member shall be an employee of the Company and each member shall be free from any relationship that would interfere with the exercise of his or her independent judgment, as determined by the Board, in accordance with the applicable independence requirements of The Nasdaq Stock Market (*Nasdaq*) and the rules and regulations of the Securities and Exchange Commission (*SEC*), including any exceptions permitted by such requirements. At least one member shall satisfy any applicable Nasdaq and SEC financial experience requirements as in effect from time to time. The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board. The Committee's Chairperson shall be designated by the Board or, if it does not do so, the Committee members shall elect a Chairperson by vote of a majority of the full Committee.

Operating Principles and Processes

In fulfilling its functions and responsibilities, the Committee should give due consideration to the following operating principles and processes:

Communication Regular and meaningful contact with the Board, members of senior management and independent professional advisors to the Board and its various committees, as applicable, shall be encouraged as a means of strengthening the Committee's knowledge of relevant current and prospective corporate accounting and financial reporting issues.

Committee Education/ Orientation Developing with management and participating in a process for systematic review of important accounting and financial reporting issues and trends in accounting and financial reporting practices that could potentially impact the Company shall be encouraged to enhance the effectiveness of the Committee.

Information Needs The Committee members shall communicate to the Chief Executive Officer or his or her designees the Committee's expectations, and the nature, timing, and extent of any specific information or other supporting materials requested by the Committee for its meetings and deliberations.

Meeting Agendas Committee meeting agendas shall be the responsibility of the Committee chairperson with input from the Committee members and other members of the Board as well as, to the extent deemed appropriate by the chairperson, from members of senior management and outside advisors.

Meetings

The Committee will hold at least four (4) regular meetings per year and additional meetings as the Committee deems appropriate. Meetings may be called by the Chairperson of the Committee or the Chairman of the Board.

Minutes and Reports

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chairperson of the Committee will report to the Board from time to time, or whenever so requested by the Board. In addition, the Chairperson of the Committee or his or her delegate shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

Authority

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder. The Committee shall have authority to retain, at the Company's expense, advice and assistance from internal and external legal, accounting or other advisors or consultants as it deems necessary or appropriate in the performance of its duties. The Company shall make available to the Committee all funding necessary for the Committee to carry out its duties, including, without limitation, the payment of such expenses. The Committee shall have authority to require that any of the Company's personnel, counsel, Auditors or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants.

Responsibilities

The operation of the Committee will be subject to the provisions of the Bylaws of the Company and Delaware General Corporation Law, each as in effect from time to time. The Committee shall oversee the Company's financial reporting process on behalf of the Board, shall have direct responsibility for the appointment, compensation, retention and oversight of the Auditors and shall report the results of its activities to the Board. The Committee's functions and procedures should remain flexible to address changing circumstances most effectively. To implement the Committee's purpose and policy, the Committee shall, to the extent the Committee deems necessary or appropriate, be charged with the following functions and processes with the understanding, however, that the Committee may supplement or (except as otherwise required by applicable laws or rules) deviate from these activities as appropriate under the circumstances:

1. To evaluate the performance of the Auditors, to assess their qualifications including their internal quality-control procedures and any material issues raised by that firm's most recent internal quality-control or peer review or any investigations by regulatory authorities and to determine whether to retain or to terminate the existing Auditors or to appoint and engage new Auditors for the ensuing year.
2. To determine and approve engagements of the Auditors, prior to commencement of such engagement, to perform all proposed audit, review and attest services, including the scope of and plans for the audit, the adequacy of staffing, the compensation to be paid to the Auditors and the negotiation and execution, on behalf of the Company, of the Auditors' engagement letters, which

approval may be pursuant to preapproval policies and procedures, including the delegation of preapproval authority to one or more Committee members so long as any such preapproval decisions are presented to the full Committee at the next scheduled meeting.

3. To determine and approve engagements of the Auditors, prior to commencement of such engagement (unless in compliance with exceptions available under applicable laws and rules related to immaterial aggregate amounts of services), to perform any proposed permissible non-audit services, including the scope of the service and the compensation to be paid therefor, which approval may be pursuant to preapproval policies and procedures established by the Committee consistent with applicable laws and rules, including the delegation of preapproval authority to one or more Committee members so long as any such preapproval decisions are presented to the full Committee at the next scheduled meeting.

4. To monitor the rotation of the partners of the Auditors on the Company's audit engagement team as required by applicable laws and rules and to consider periodically and, if deemed appropriate, adopt a policy regarding rotation of auditing firms.

5. At least annually, to receive and review written statements from the Auditors delineating all relationships between the Auditors and the Company, to consider and discuss with the Auditors any disclosed relationships and any compensation or services that could affect the Auditors' objectivity and independence, and to assess and otherwise take appropriate action to oversee the independence of the Auditors.

6. To consider and, if deemed appropriate, adopt a policy regarding Committee preapproval of employment by the Company of individuals formerly employed by the Company's Auditors and engaged on the Company's account.

7. On and after the Reporting Date, to review, upon completion of the audit, the financial statements proposed to be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission and to recommend whether or not such financial statements should be so included.

8. To discuss with management and the Auditors the results of the annual audit, including the Auditors' assessment of the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and estimates (including material changes in estimates), any material audit adjustments proposed by the Auditors and immaterial adjustments not recorded, the adequacy of the disclosures in the financial statements and any other matters required to be communicated to the Committee by the Auditors under generally accepted auditing standards.

9. On and after the Reporting Date, to discuss with management and the Auditors the results of the Auditors' review of the Company's quarterly financial statements, prior to public disclosure of quarterly financial information, if practicable, or filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q, and any other matters required to be communicated to the Audit Committee by the Auditors under generally accepted auditing standards.

10. On and after the Reporting Date, to review and discuss with management and the Auditors, as appropriate, the Company's disclosures contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its periodic reports to be filed with the Securities and Exchange Commission.

11. To review and discuss with management and the Auditors, as appropriate, earnings press releases, as well as the substance of financial information and earnings guidance provided to analysts and ratings agencies, which

discussions may be general discussions of the type of information to be disclosed or the type of presentation to be made.

12. To review with management and the Auditors significant issues that arise regarding accounting principles and financial statement presentation, including critical accounting policies and

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practices, alternative accounting policies available under GAAP related to material items discussed with management and any other significant reporting issues and judgments.

13. To review and discuss with management and the Auditors, as appropriate, the Company's guidelines and policies with respect to risk assessment and risk management, including the Company's major financial risk exposures and the steps taken by management to monitor and control these exposures.

14. To evaluate the cooperation received by the Auditors during their audit examination, including any significant difficulties with the audit or any restrictions on the scope of their activities or access to required records, data and information.

15. To review with the Auditors and, if appropriate, management, any management or internal control letter issued or, to the extent practicable, proposed to be issued by the Auditors and management's response, if any, to such letter, as well as any additional material written communications between the Auditors and management.

16. To review with the Auditors communications between the audit team and the firm's national office with respect to accounting or auditing issues presented by the engagement.

17. To review with the Auditors and management any conflicts or disagreements between management and the Auditors regarding financial reporting, accounting practices or policies and to resolve any such conflicts regarding financial reporting.

18. To confer with the Auditors and with the management of the Company regarding the scope, adequacy and effectiveness of internal auditing and financial reporting controls in effect including any special audit steps taken in the event of material control deficiencies, responsibilities, budget and staff of the internal audit function and review of the appointment or replacement of the senior internal audit executive or manager.

19. Periodically, to meet in separate sessions with the Auditors, the internal auditors and management to discuss any matters that the Committee, the Auditors, the internal auditors or management believe should be discussed privately with the Committee.

20. To consider and review with management, the Auditors, outside counsel, as appropriate, and, in the judgment of the Committee, such special counsel, separate accounting firm and other consultants and advisors as the Committee deems appropriate, any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.

21. To establish procedures, when and as required by applicable laws and rules, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

22. To review with counsel, the Auditors and management, as appropriate, any significant regulatory or other legal or accounting initiatives or matters that may have a material impact on the Company's financial statements, compliance programs and policies if, in the judgment of the Committee, such review is necessary or appropriate.

23. To review the results of management's efforts to monitor compliance with the Company's programs and policies designed to ensure adherence to applicable laws and rules, as well as to its Code of Conduct, including (i) review and approval of related-party transactions as required by Nasdaq rules and (ii) to the extent permitted by the rules of Nasdaq and the SEC, the consideration and determination of whether to approve proposed waivers of

the Code of Conduct applicable to the Company's directors and executive officers.

24. To investigate any matter brought to the attention of the Committee within the scope of its duties if, in the judgment of the Committee, such investigation is necessary or appropriate.

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25. On and after the Reporting Date, to prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

26. To review and assess the adequacy of this charter annually and recommend any proposed changes to the Board for approval.

27. To report to the Board of Directors with respect to material issues that arise regarding the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Company's Auditors the performance of the Company's internal audit function or such other matters as the Committee deems appropriate from time to time or whenever it shall be called upon to do so.

28. To perform such other functions and to have such powers as may be necessary or appropriate in the efficient and lawful discharge of the foregoing.

It shall be the responsibility of management to prepare the Company's financial statements and periodic reports and the responsibility of the Auditors to audit those financial statements. These functions shall not be the responsibility of the Committee, nor shall it be the Committee's responsibility to ensure that the financial statements or periodic reports are complete and accurate, conform to GAAP or otherwise comply with applicable laws.

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BLUE NILE, INC.
CHARTER OF THE COMPENSATION COMMITTEE

Purpose and Policy

The primary purpose of the Compensation Committee (the *Committee*) of the Board of Directors (the *Board*) of Blue Nile, Inc. (the *Company*) shall be to act on behalf of the Board in fulfilling the Board's responsibilities to oversee the Company's compensation policies, plans and programs, and to review and determine the compensation to be paid to the Company's executive officers and directors. The term *compensation* shall include salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements, retirement benefits and other related benefits and benefit plans.

The policy of the Committee shall be as follows:

Compensation Structure. The Committee shall seek to maintain an overall compensation structure designed to attract, retain and motivate management and other employees by providing appropriate levels of risk and reward, assessed on a relative basis at all levels within the Company and in proportion to individual contribution and performance; and

Long-Term Focus. The Committee shall seek to establish appropriate incentives for management and employees at all levels to further the Company's long-term strategic plan and long-term value as a going concern and to avoid undue emphasis on short-term market value.

Composition

The Committee shall consist of at least two (2) members of the Board. No Committee member shall be an employee of the Company and each member shall be free from any relationship that would interfere with the exercise of his or her independent judgment, as determined by the Board, in accordance with the applicable independence requirements of The Nasdaq Stock Market (*Nasdaq*) and the rules and regulations of the Securities and Exchange Commission (*SEC*), including any exceptions permitted by such requirements. The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board. The Committee's Chairperson shall be designated by the Board or, if it does not do so, the Committee members shall elect a Chairperson by vote of a majority of the full Committee.

Operating Principles and Processes

In fulfilling its functions and responsibilities, the Committee should give due consideration to the following operating principles and processes:

Communication Regular and meaningful contact with the Chairman of the Board, other committee chairpersons, members of senior management and independent professional advisors to the Board and its various committees, as applicable, shall be encouraged as a means of strengthening the Committee's knowledge of relevant current and prospective issues with compensation policies, plans and programs.

Committee Education/ Orientation Developing with management and participating in a process for systematic review of important compensation issues and trends that could potentially impact the Company shall be encouraged to enhance the effectiveness of the Committee.

Information Needs The Committee members shall communicate to the Chief Executive Officer or his or her designees the Committee's expectations, and the nature, timing, and extent of any specific information or other supporting materials requested by the Committee for its meetings and deliberations.

Meeting Agendas Committee meeting agendas shall be the responsibility of the Committee chairperson with input from the Committee members and other members of the Board as well as, to the extent deemed appropriate by the chairperson, from members of senior management and outside advisors.

Meetings

The Committee will hold at least two (2) regular meetings per year and additional meetings as the Committee deems appropriate. Meetings may be called by the Chairperson of the Committee or the Chairman of the Board. Notwithstanding anything to the contrary set forth herein, the Chief Executive Officer may not be present for any portion of any meeting of the Committee at which the compensation of the Chief Executive Officer is deliberated or voted upon.

Minutes and Reports

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chairperson of the Committee will report to the Board from time to time, or whenever so requested by the Board. In addition, the Chairperson of the Committee or his or her delegate shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

Authority

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder. The Committee shall have the authority to obtain, at the expense of the Company, advice and assistance from internal or external legal, accounting or other advisors and consultants as it deems necessary or appropriate in the performance of its duties. The Company shall make available to the committee all funding necessary for the Committee to carry out its duties, including, without limitation, the payment of such expenses.

Except as limited by applicable laws, rules and regulations, the Committee shall have authority to require that any of the Company's personnel, counsel, auditors or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants. In addition, the Committee shall have sole authority to retain and terminate any compensation consultant to assist in the evaluation of director, chief executive officer or senior executive compensation, including sole authority to approve such consultant's reasonable fees and other retention terms, all at the Company's expense.

The Committee may form and delegate authority to subcommittees as appropriate, including, but not limited to, a subcommittee composed of one or more members of the Board to grant stock awards under the Company's equity incentive plans to persons who are not (a) Covered Employees under Section 162(m) of the Internal Revenue Code of 1986, as amended from time to time (the Code); (b) individuals with respect to whom the Company wishes to comply with Section 162(m) of the Code or (c) then subject to Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Responsibilities

The operation of the Committee will be subject to the provisions of the Bylaws of the Company and Delaware General Corporation Law, each as in effect from time to time. The Committee shall oversee the Company's compensation strategy and policies as set forth below. The Committee's functions and procedures should remain flexible to address changing circumstances most effectively. To implement the Committee's purpose and policy, the Committee shall, to the extent the Committee deems necessary or appropriate, be charged with the following functions and processes with the understanding, however, that

the Committee may supplement or (except as otherwise required by applicable laws or rules) deviate from these activities as appropriate under the circumstances:

1. Overall Compensation Strategy. The Committee shall review, modify (as needed) and approve the overall compensation strategy and policies for the Company, including:

reviewing and approving corporate performance goals and objectives relevant to the compensation of the Company's executive officers and other senior management;

evaluating and recommending to the Board the compensation plans and programs advisable for the Company, as well as modification or termination of existing plans and programs;

establishing policies with respect to equity compensation arrangements with the objective of appropriately balancing the perceived value of equity compensation and the dilutive and other costs of that compensation to the Company;

reviewing regional and industry-wide compensation practices and trends to assess the propriety, adequacy and competitiveness of the Company's executive compensation programs among comparable companies in the Company's industry;

reviewing and approving the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements for the Company's executive officers and other senior management;

reviewing and approving any compensation arrangement for any executive officer involving any subsidiary, special purpose or similar entity, taking into account the potential for conflicts of interest in such arrangements and whether the arrangement has the potential to benefit the Company; and

evaluating the efficacy of the Company's compensation policy and strategy in achieving expected benefits to the Company and otherwise furthering the Committee's policies.

2. Compensation of Chief Executive Officer. The Committee, meeting in executive session, shall determine, in its sole discretion, the compensation and other terms of employment of the Company's Chief Executive Officer and shall evaluate the Chief Executive Officer's performance in light of relevant corporate performance goals and objectives, taking into account, among other things, the policies of the Committee and the Chief Executive Officer's performance in:

fostering a corporate culture that promotes the highest levels of integrity and the highest ethical standards;

developing and executing the Company's long-term strategic plan and conducting the business of the Company in a manner appropriate to enhance long-term stockholder value; and

achieving the Chief Executive Officer's individual performance goals and objectives.

In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee shall seek to achieve an appropriate level of risk and reward, taking into consideration the Company's performance and relative stockholder return, the potential benefits and costs to the Company, the value of similar incentives given to chief executive officers of comparable companies, incentives provided to the Chief Executive Officer in past years, and such other criteria as the Committee deems advisable. Notwithstanding anything to the contrary set forth herein, the Chief Executive Officer may not be present for any portion of any meeting of the Committee at which the compensation of the Chief Executive Officer is deliberated or voted upon.

3. *Compensation of Other Officers.* The Committee shall review and approve the individual and corporate performance goals and objectives of the Company's other executive officers (as that term is defined in Section 16 of the Exchange Act and Rule 16a-1 thereunder) that are periodically established. The Committee shall determine the compensation and other terms of employment of these officers, taking into consideration the officer's success in achieving his or her individual

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performance goals and objectives and the corporate performance goals and objectives deemed relevant to the officer as established by the Committee. The Chief Executive Officer may be present during these deliberations, but may not vote.

4. *Compensation of Directors.* The Committee shall recommend to the Board the type and amount of compensation to be paid or awarded to Board members, including consulting, retainer, Board meeting, committee and committee chair fees and stock option grants or awards.

5. *Administration of Benefit Plans.* The Committee shall recommend to the Board the adoption, amendment and termination of the Company's stock option plans, stock appreciation rights plans, pension and profit sharing plans, incentive plans, stock bonus plans, stock purchase plans, bonus plans, deferred compensation plans and similar programs. The Committee shall have full power and authority to administer and delegate the administration of these plans to the extent permissible pursuant to applicable laws and regulations, establish guidelines, interpret plan documents, select participants, approve grants and awards, and exercise such other power and authority as may be permitted or required under such plans.

6. *Insurance Coverage.* The Committee shall review and establish appropriate insurance coverage for the Company's directors and executive officers.

7. *Proxy Statement Report.* At such time as the Company becomes subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act (the Reporting Date), the Committee shall prepare any report required by the applicable SEC rules and regulations to be included in the Company's annual proxy statement.

BLUE NILE, INC.
CHARTER OF THE
NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Purpose and Policy

The primary purpose of the Nominating and Corporate Governance Committee (the *Committee*) of the Board of Directors (the *Board*) of Blue Nile, Inc. (the *Company*) shall be to act on behalf of the Board in fulfilling the Board's responsibilities to: (i) identify, review and evaluate candidates to serve as directors of the Company; (ii) evaluate the composition, performance and other aspects of the Company's Board committees; (iii) make other recommendations to the Board regarding affairs relating to the directors of the Company; (iv) develop and review from time to time a plan of succession for key management; and (v) administer and oversee all aspects of the Company's corporate governance functions on behalf of the Board.

The policy of the Committee, in discharging these obligations, shall be to select well-qualified director nominees, and develop and review a set of corporate governance principles that enhance the overall management of the Company and provide a basis for governance that serves the best interests of the Company's stockholders in building long-term value.

Composition

The Committee shall consist of at least two (2) members of the Board. No Committee member shall be an employee of the Company and each member shall be free from any relationship that would interfere with the exercise of his or her independent judgment, as determined by the Board, in accordance with the applicable independence requirements of The Nasdaq Stock Market (*Nasdaq*) and the rules and regulations of the Securities and Exchange Commission (*SEC*), including any exceptions permitted by such requirements.

The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board. The Committee's Chairperson shall be designated by the Board or, if it does not do so, the Committee members shall elect a Chairperson by vote of a majority of the full Committee.

Operating Principles and Processes

In fulfilling its functions and responsibilities, the Committee should give due consideration to the following operating principles and processes:

Communication Regular and meaningful contact with the Chairman of the Board, other committee chairpersons, members of senior management and independent professional advisors to the Board and its various committees, as applicable, is important shall be encouraged as a means of strengthening the Committee's knowledge of relevant current and prospective corporate governance issues.

Committee Education/Orientation Developing with management and participating in a process for systematic review of important corporate governance issues and trends in corporate governance practices that could potentially impact the Company shall be encouraged to enhance the effectiveness of the Committee.

Information Needs The Committee members shall communicate to the Chief Executive Officer or his or her designees the Committee's expectations, and the nature, timing, and extent of any specific information or other supporting materials requested by the Committee for its meetings and deliberations.

Meeting Agendas Committee meeting agendas shall be the responsibility of the Committee chairperson with input from the Committee members and other members of the Board as well as, to the extent deemed appropriate by the chairperson, from members of senior management and outside advisors.

Meetings

The Committee will hold at least one (1) regular meeting per year and additional meetings as the Committee deems appropriate. Meetings may be called by the Chairperson of the Committee or the Chairman of the Board.

Minutes and Reports

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chairperson of the Committee will report to the Board from time to time, or whenever so requested by the Board. In addition, the Chairperson of the Committee or his or her delegate shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

Authority

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder. The Committee shall have authority to retain, at the Company's expense, advice and assistance from internal and external legal, accounting or other advisors or consultants as it deems necessary or appropriate in the performance of its duties. The Company shall make available to the Committee all funding necessary for the Committee to carry out its duties, including, without limitation, the payment of such expenses. The Committee shall have authority to require that any of the Company's personnel, counsel, Auditors or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants. The Committee may form and delegate authority to subcommittees as appropriate.

Responsibilities

The operation of the Committee will be subject to the provisions of the Bylaws of the Company and Delaware General Corporation Law, each as in effect from time to time. The Committee shall oversee the Company's nomination and corporate governance matters as established below and shall report the results of its activity to the Board. The Committee's functions and procedures should remain flexible to address changing circumstances most effectively. To implement the Committee's purpose and policy, the Committee shall, to the extent the Committee deems necessary or appropriate, be charged with the following functions and processes with the understanding, however, that the Committee may supplement or (except as otherwise required by applicable laws or rules) deviate from these activities as appropriate under the circumstances:

1. Establish criteria for membership on the Board and on committees of the Board, including standards for the independence of directors to serve on the Board and committees of the Board.
2. Identify, evaluate, review and recommend qualified candidates to serve on the Board and on committees of the Board.
3. Evaluate, review and determine whether to recommend, upon conclusion of their terms, existing directors for re-election to the Board.

- 4.** Consider recommendations for Board nominees and proposals submitted by the Company's stockholders. Recommend to the Board appropriate action on any such proposal or recommendation and make any disclosures required by applicable law in the course of exercising its authority.
- 5.** Establish any policies, requirements, criteria and procedures, including policies and procedures to facilitate stockholder communications with the Board.
- 6.** Evaluate at least annually the performance, authority, operations, charter and composition of each standing Board committee and the performance of each committee member and recommend any changes considered appropriate in the authority, operations, charter, number or membership of each committee.
- 7.** Develop and periodically review and revise as appropriate, a management succession plan and related procedures and consider and recommend to the Board candidates for successor to the Chief Executive Officer of the Company and, with appropriate consideration of the Chief Executive Officer's recommendations, candidates for successors to other executive officers, in each case when vacancies shall occur in those offices.
- 8.** Establish a process for the periodic review and assessment of the performance of the Board and Board committees and management, seeking input from senior management, the full Board and others, including whether, individually and collectively, the directors and management provide the skills and expertise appropriate for the Company.
- 9.** Consider and assess periodically the independence of directors, including whether a majority of the Board are independent of management within the meaning prescribed by Nasdaq and whether the members of the standing committees of the Board meet the independence requirements of Nasdaq applicable to such committees.
- 10.** Evaluate the need and, if necessary, develop and institute a plan or program for the continuing education of directors.
- 11.** Develop a set of corporate governance principles applicable to the Company to be adopted by the Board, and periodically review and assess these principles and their application and recommend any changes deemed appropriate to the Board for its consideration.
- 12.** Review and make recommendations to the Board regarding proposals submitted by shareholders that relate to corporate governance matters.
- 13.** Recommend to the Board the establishment of such special committees as may be desirable or necessary from time to time in order to address ethical, legal, business or other matters that may arise.
- 14.** Oversee and review the processes and procedures used by the Company to provide accurate, relevant and appropriately detailed information to the Board and its committees on a timely basis.
- 15.** Periodically review, discuss and assess the performance of the Committee as well as the Committee's role and responsibilities, seeking input from senior management, the full Board and others and recommend any changes to the Board.
- 16.** Oversee the Company's policies and practices regarding philanthropic and political activities and undertake such additional activities within the scope of its primary functions as the Committee may from time to time determine.

PROXY

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF
BLUE NILE, INC.**

The undersigned hereby appoints Mark Vadon and Diane Irvine, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Blue Nile Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the company to be held Monday, May, 23, 2005 or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Meeting.

(Continued and to be marked, dated and signed, on the other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

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You can now access your BLUE NILE account online.

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ELECTION			2. OF			
OF			INDEPENDENT			
DIRECTORS			ACCOUNTANTS			
Nominees:						
01 Mark						
Vadon						
02 Joanna						
Strober						
03 W. Eric						
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Signature

Date

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

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**Vote by Internet or Telephone or Mail
24 Hours a Day, 7 Days a Week**

**Internet and telephone voting is available through 11:59 PM Eastern Time
the day prior to annual meeting day.**

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner
as if you marked, signed and returned your proxy card.**

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Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call and follow the instructions.

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you do NOT need to mail back your proxy card.**

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