BLUE NILE INC
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 2, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-50763

BLUE NILE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	91-1963165 (I.R.S. Employer Identification No.)
411 First Avenue South, Suite 700, Seattle, Washington (Address of principal executive offices)	98104 (Zip code)

(206) 336-6700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of November 4, 2016, the registrant had 11,697,428 shares of common stock outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve many risks and uncertainties. These statements, which relate to future events and our future performance, are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management as of the date of this filing. In some cases, you can identify forward-looking statements by terms such as “would,” “could,” “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “might,” “predict,” “seek,” or “continue,” the negative of these terms or other variations of such terms. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characterizations of future events or circumstances are forward-looking statements. These statements are only predictions based upon assumptions made that are believed to be reasonable at the time, and are subject to risk and uncertainties. Therefore, actual events or results may differ materially and adversely from those expressed in any forward-looking statement. In evaluating these statements, you should specifically consider the risks described under the caption “Item 1A — Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. These factors, and other factors, may cause our actual results to differ materially from any forward-looking statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION
Item 1.Financial Statements
BLUE NILE, INC.
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except par value)

	October 2, 2016	January 3, 2016	October 4, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$40,558	$86,542	$33,609
Trade accounts receivable	2,094	3,339	4,006
Other accounts receivable, net	1,577	706	930
Note receivable	300	600	600
Inventories	44,126	46,376	41,946
Prepaids and other current assets	2,497	1,585	2,317
Total current assets	91,152	139,148	83,408
Property and equipment, net	11,669	10,530	10,795
Deferred income taxes	4,259	5,089	4,844
Other investments	2,280	2,280	2,280
Other assets, net	268	367	305
Total assets	$109,628	$157,414	$101,632
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$77,882	$121,917	$76,328
Accrued liabilities	8,750	12,336	8,816
Current portion of long-term financing obligation	34	33	33
Current portion of deferred rent	352	290	291
Total current liabilities	87,018	134,576	85,468
Long-term financing obligation, less current portion	430	455	464
Deferred rent, less current portion	1,702	1,697	1,771
Unearned income	1,530	1,988	2,141
Other long-term liabilities	318	242	201
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $0.001 par value; 5,000 shares authorized, none issued and outstanding	—	—	—
Common stock, $0.001 par value; 300,000 shares authorized; 21,849, 21,714 and 21,672 shares issued, respectively, 11,697, 11,575 and 11,533 shares outstanding, respectively	22	22	22
Additional paid-in capital	236,285	232,148	230,290
Accumulated other comprehensive loss	(227)	(239)	(211)
Retained earnings	110,366	114,023	108,984
Treasury stock, at cost; 10,152, 10,139 and 10,139 shares outstanding, respectively	(327,816)	(327,498)	(327,498)
Total stockholders' equity	18,630	18,456	11,587
Total liabilities and stockholders' equity	$109,628	$157,414	$101,632

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net sales	$105,110	$109,943	$321,937	$330,083
Cost of sales	84,470	88,712	258,673	266,790
Gross profit	20,640	21,231	63,264	63,293
Selling, general and administrative expenses	18,843	18,192	56,950	54,905
Operating income	1,797	3,039	6,314	8,388
Other income (loss), net:				
Interest income, net	10	12	35	76
Other income (loss), net	90	(33)	571	—
Total other income (loss), net	100	(21)	606	76
Income before income taxes	1,897	3,018	6,920	8,464
Income tax expense	604	1,041	2,420	2,969
Net income	$1,293	$1,977	$4,500	$5,495
Basic net income per share	$0.11	$0.17	$0.39	$0.47
Diluted net income per share	$0.11	$0.17	$0.38	$0.47

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net income	$ 1,293	$ 1,977	$ 4,500	$ 5,495
Other comprehensive income (loss):				
Foreign currency translation adjustments	5	(14)	12	25
Total comprehensive income	$ 1,298	$ 1,963	$ 4,512	$ 5,520

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(unaudited)
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, January 4, 2016	21,714	$ 22	$232,148	$114,023	$ (239)	(10,139)	$(327,498)	$ 18,456
Net income				4,500				4,500
Other comprehensive income					12			12
Dividends ($0.70 per share)	—		—	(8,123)				(8,123)
Tax deficiency from share-based awards			(437)					(437)
Exercise of common stock options	60	—	1,738					1,738
Issuance of common stock to directors	1	—	30					30
Vesting of restricted stock units and dividend equivalents	97	—	34	(34)				—
Shares withheld related to net share settlement of share-based awards	(23)	—	(630)					(630)
Stock-based compensation			3,402					3,402
Repurchase of common stock						(13)	(318)	(318)
Balance, October 2, 2016	21,849	$ 22	$236,285	$110,366	$ (227)	(10,152)	$(327,816)	$ 18,630

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Year to date ended	
	October 2, 2016	October 4, 2015
Operating activities:		
Net income	$4,500	$5,495
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,732	2,771
Stock-based compensation	3,359	3,831
Deferred income taxes	830	(657)
Tax deficiency from share-based awards	(437)	(597)
Excess tax benefit from share-based awards	(25)	(29)
Changes in assets and liabilities:		
Receivables	374	(1,228)
Inventories	2,250	(278)
Prepaid expenses and other assets	(834)	(755)
Accounts payable	(44,336)	(52,344)
Accrued liabilities	(3,586)	(3,176)
Unearned income	(458)	2,141
Deferred rent and other	143	(180)
Net cash used in operating activities	(34,488)	(45,006)
Investing activities:		
Purchases of property and equipment	(4,476)	(2,940)
Payments received on note receivable	300	1,400
Net cash used in investing activities	(4,176)	(1,540)
Financing activities:		
Repurchase of common stock	(318)	(10,780)
Proceeds from stock option exercises	1,738	241
Taxes paid for net share settlement of share-based awards	(630)	(424)
Excess tax benefit from share-based awards	25	29
Cash dividends paid	(8,123)	—
Principal payments under long-term financing obligation	(24)	(24)
Net cash used in financing activities	(7,332)	(10,958)
Effect of exchange rate changes on cash and cash equivalents	12	(73)
Net decrease in cash and cash equivalents	(45,984)	(57,577)
Cash and cash equivalents, beginning of period	86,542	91,186
Cash and cash equivalents, end of period	$40,558	$33,609

Supplemental disclosure of cash flow information:

Cash paid for income taxes	$4,033	$4,825

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of Our Business and Summary of Significant Accounting Policies

The Company

Blue Nile, Inc. ("Blue Nile," the "Company," "we" or "our") is a leading retailer of high-quality diamonds and fine jewelry. In addition to sales of diamonds and fine jewelry, the Company provides education, guidance and support to enable customers to more effectively learn about and purchase diamonds and fine jewelry. The Company, a Delaware corporation based in Seattle, Washington, was formed in March 1999. The Company serves consumers in over 40 countries and territories all over the world through its website at www.bluenile.com. Information found on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q or any of its other filings with the U.S. Securities and Exchange Commission (the "SEC").

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended January 3, 2016, filed with the SEC on March 1, 2016 (the "Annual Report"). The same accounting policies are followed for preparing quarterly and annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods have been included and are of a normal, recurring nature.

The financial information as of January 3, 2016 is derived from the Company's audited consolidated financial statements and notes thereto for the fiscal year ended January 3, 2016, included in Item 8 of the Annual Report.

Due to a number of factors, including the seasonal nature of the retail industry and other factors described in this Quarterly Report on Form 10-Q, quarterly results are not necessarily indicative of the results for the full fiscal year or any other subsequent interim period.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All transactions and balances between the Company and its wholly-owned subsidiaries are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include the allowance for sales returns, accounting for taxes, and inventory valuation. Actual results could differ materially from those estimates.

Foreign Currency

The functional currency of most of the Company's subsidiaries is the applicable local currency. The assets and liabilities of our subsidiaries have been translated to U.S. dollars using the exchange rates effective on the balance sheet dates, while income and expense accounts are translated at the average rates in effect during the periods presented. The resulting translation adjustments are recorded as a component of other comprehensive income (loss) within stockholders' equity.

The Company offers customers the ability to transact in 23 currencies. Some of the Company's subsidiaries engage in transactions denominated in currencies other than the Company's functional currency. Gains or losses arising from these transactions are recorded in other income (loss), net in the condensed consolidated statements of operations.

Note Receivable and Other Investments

The Company holds a minority ownership of a privately-held company in the form of convertible preferred shares, purchased for an aggregate amount of $2.0 million, which we account for under the cost method of accounting.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company holds a $2.0 million note receivable (the “Note”) from the same privately-held company. As of October 2, 2016, the remaining balance of the Note was $0.3 million, due within the next year. The interest rate changes over the term of the Note to LIBOR plus a predetermined rate per annum. The Note is recorded at its face amount on the Company’s condensed consolidated balance sheet.
The Company holds a minority ownership in another privately-held company in the form of common stock and warrants, purchased for $280,000, which we account for under the cost method of accounting.
The Company reviews its investments for impairment when events and circumstances indicate that the decline in fair value of the assets below the carrying value is other-than-temporary. No other-than-temporary impairment charges were recorded for the year to date ended October 2, 2016.
Recent Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers (Topic 606),” which will amend the existing revenue recognition guidance. The core principle of this guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance is effective for the Company beginning the first quarter of 2018, and may be applied on a retrospective basis or by the cumulative effect transition method. To improve and clarify the guidance set forth in ASU 2014-09, the FASB issued the following supplemental guidance relevant to the Company which have the same effective date as that of ASU 2014-09:

- in March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”;
- in April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”;
- in May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.”

The Company is currently evaluating the impact of ASU 2014-09 and the related supplemental guidance noted above will have on its consolidated financial statements and related disclosures.
In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (“ASU 2014-15”), “Presentation of Financial Statements - Going Concern.” The standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for periods beginning on January 1, 2017. The adoption of this standard is not expected to have a material impact on our financial statements and related disclosures.
In July 2015, the FASB issued Accounting Standards Update No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance will require prospective application at the beginning of the Company’s first quarter of fiscal year 2017, but permits adoption in an earlier period. The Company is currently evaluating the impact of this guidance; however, the Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.
In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (“ASU 2015-17”), “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,” which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for periods beginning on January 1, 2017 and may be applied prospectively or retrospectively. Early adoption is permitted. The Company retrospectively adopted this guidance effective January 3, 2016. The impact of adopting ASU 2015-17 resulted in a reclassification of our current deferred income tax asset to non-current deferred income tax asset in the amount of $1.0 million, in our previously presented consolidated balance sheet as of October 4, 2015.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (“ASU 2016-01”), “Financial Instruments - Overall, Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends various aspects of recognition, measurement, presentation and disclosure of financial instruments. This update will require prospective application at the beginning of the Company’s first quarter of fiscal year 2018. For certain provisions, early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842),” which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than 12 months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This update will become effective beginning the first quarter of the Company’s fiscal year 2019. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20), Recognition of Breakage for Certain Prepaid Stored-Value Products,” which narrows the scope exception for liabilities related to the sale of prepaid stored-value products to account for breakage on those liabilities consistent with the breakage guidance in Topic 606, “Revenue from Contracts with Customers.” This update will become effective beginning the first quarter of the Company’s fiscal year 2018, and shall be applied using either a modified retrospective transition method, or a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective, or retrospectively. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting,” which simplifies the accounting for share-based payment transactions, including income taxes, classification of awards as equity or liabilities and classification of cash flows. This update will become effective beginning the first quarter of the Company’s fiscal year 2017. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures. The Company expects the adoption of this standard will result in more volatility in the Company’s income tax expense and effective tax rate.

Note 2. Stock-based Compensation

As of October 2, 2016, the Company has four equity plans. Additional information regarding these plans is disclosed in the Annual Report.

Stock-based compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period for each stock option or restricted stock unit (“RSU”) grant that is expected to vest at some point in the future. Forfeitures are estimated at the date of grant based on the Company’s historical experience and future expectations.

The fair value of each stock option on the date of grant is estimated using the Black-Scholes-Merton option valuation model. The assumptions used to calculate the fair value of stock options granted are evaluated and revised, if necessary, to reflect market conditions and the Company’s experience. The fair value of each RSU is based on the Fair Market Value (as defined in the Company’s equity incentive plans) of the Company’s common stock on the date of the grant.

There were no stock options granted during the year to date ended October 2, 2016. As of October 2, 2016, the Company had 821,199 stock options outstanding.

The assumptions used to calculate the fair value of stock options granted are evaluated and revised, if necessary, to reflect market conditions and the Company's experience.

BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of RSU activity for the year to date ended October 2, 2016 is as follows:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance, January 4, 2016	301	$ 29.25		
Granted	188	25.11		
Special dividend adjustment	11	31.10		
Vested	(97)	27.07		
Canceled	(41)	26.70		
Balance, October 2, 2016	362	$ 27.50	1.46	$ 12,455
Vested and expected to vest at October 2, 2016	312	$ 31.89	1.36	$ 10,739

The aggregate intrinsic value in the table above is before applicable income taxes and represent the amount recipients would have received if all RSUs had been released on the last business day of the period indicated, based on the closing stock price of the Company's common stock on such date. The total intrinsic value of RSUs vested was approximately $3.3 million during the year to date ended October 2, 2016 and $1.9 million during the year to date ended October 4, 2015. During the year to date ended October 2, 2016 and October 4, 2015, the total fair value of RSUs vested was approximately $2.6 million and $1.9 million, respectively.

As of October 2, 2016, the Company had total unrecognized compensation costs related to unvested RSUs of $7.4 million, before income taxes. The Company expects to recognize this cost over a weighted average period of 2.7 years.

Note 3. Inventories

Inventories are stated at cost and consist of the following (in thousands):

	October 2, 2016	January 3, 2016	October 4, 2015
Loose diamonds	$ 13,544	$ 12,420	$ 12,516
Fine jewelry and other	30,582	33,956	29,430
Total	$ 44,126	$ 46,376	$ 41,946

Note 4. Net Income Per Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options and conversion of unvested RSUs, except when the effect of their inclusion would be antidilutive.

The following tables set forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net income	$ 1,293	$ 1,977	$ 4,500	$ 5,495
Weighted average common shares outstanding	11,654	11,523	11,622	11,706
Basic net income per share	$ 0.11	$ 0.17	$ 0.39	$ 0.47
Dilutive effect of stock options and RSUs	106	89	89	73
Common stock and common stock equivalents	11,760	11,612	11,711	11,779

Diluted net income per share	$0.11	$ 0.17	$0.38	$ 0.47

For the quarter and year to date ended October 2, 2016, the Company excluded 643,798 and 800,533 stock option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect. For the quarter and year to date ended October 4, 2015, the Company excluded 744,920 and 859,546 option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect.

Note 5. Commitments and Contingencies

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes or claims. In addition, the Company is regularly audited by various tax authorities. Although the Company cannot predict with assurance the outcome of any litigation or audit, it does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on the Company's financial condition, results of operations, or cash flows.

Note 6. Subsequent Event

On November 6, 2016, the Company entered into a definitive agreement (the "Merger Agreement") to be acquired by BC Cyan Parent Inc., a Delaware corporation ("Parent") and BC Cyan Acquisition Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Bain Capital Fund XI, a Delaware limited partnership ("Bain Fund XI") and Bow Street LLC ("Bow Street"). The Parent will acquire 100 percent of the Company's common stock for $40.75 per share (the "Per Share Price") in cash, for a total value of approximately $500 million. Capitalized terms used within this Form 10-Q related to the Merger but not otherwise defined have the meaning set forth in the Merger Agreement which was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on November 7, 2016 and as incorporated by reference within this document.

At the Effective Time, each:

(i) share of common stock, par value $0.001 per share, of the Company ("Company Common Stock") outstanding as of immediately prior to the Effective Time (other than Owned Company Shares or Dissenting Company Shares) will be cancelled and extinguished and automatically converted into the right to receive cash in an amount equal to the Per Share Price, without interest thereon;

(ii) Company Restricted Stock Unit outstanding as of immediately prior to the Effective Time, whether vested or unvested, will, unless otherwise agreed to in writing by the Parent and the Company, be cancelled and converted into the right to receive an amount in cash equal to (a) the amount of the Per Share Price, multiplied by, (b) (i) in the case of Company Restricted Stock Units that are only subject to time-vesting requirements, the total number of shares of Company Common Stock that are subject to such Company Restricted Stock Unit and, (ii) in the case of a Company Restricted Stock Units that are subject to time- and performance-vesting requirements, the total number of shares of Company Common Stock determined to be performance vested with the performance goals deemed achieved at maximum levels, and with the remaining time-vesting requirements deemed satisfied; and

(iii) Company Option that is an In-the-Money Company Option outstanding as of immediately prior to the Effective Time, whether vested or unvested, will, unless otherwise agreed to in writing by the Parent and

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the Company, be cancelled and converted into the right to receive an amount in cash equal to (a) the amount of the Per Share Price (less the exercise price per share attributable to such Company Option), multiplied by (b) the total number of shares of Company Common Stock that are issuable upon the full exercise of such Company Option. All Company Options that are not In-the-Money Company Options will be cancelled on the Effective Time without any cash payment being made in respect thereof.

Parent and Merger Sub have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement. Pursuant to the Equity Commitment Letter, Bain Fund XI has committed to invest in Parent for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses, subject to the terms and conditions set forth therein. The Company is a third party beneficiary of the Equity Commitment Letter. In addition, pursuant to the Limited Guaranty, Bain Fund XI has also provided the Company with a limited guaranty in favor of the Company, which guarantees the payment of certain monetary obligations that may be owed by Parent pursuant to the Merger Agreement, including any reverse termination fee that may become payable by Parent (described further below).

In addition, pursuant to the Debt Commitment Letter, Goldman Sachs Bank USA (the “Lead Arranger”) has committed to provide a senior secured asset based revolving credit facility for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses, subject to the terms and conditions set forth therein. The obligation of the Lead Arranger to provide debt financing under the Debt Commitment Letter is subject to a number of customary conditions.

Consummation of the Merger is subject to certain conditions, including, but not limited to, the: (i) Requisite Stockholder Approval; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and any other applicable foreign Antitrust Laws; and (iii) absence of any law or order restraining, enjoining or otherwise prohibiting the Merger.

During the period from the date of the Merger Agreement until December 6, 2016 (the “Go-Shop Period”), the Company may solicit alternative acquisition proposals from third parties and provide information to, and participate in discussions and engage in negotiations with, third parties regarding any alternative acquisition proposals. After the expiration of the Go-Shop Period, the Company will become subject to customary restrictions on its ability to solicit alternative acquisition proposals from third parties and to provide information to, and participate in discussions and engage in negotiations with, third parties regarding any alternative acquisition proposals.

The Merger Agreement contains certain termination rights for the Company and Parent. Upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay Parent a termination fee. If the termination fee becomes payable by the Company due to (x) the Company’s termination of the merger agreement on or prior to the Cut-Off Date with respect to the Company entering into an alternative acquisition agreement with an Excluded Party, the amount of the termination fee will be $7.4 million, and (y) if the termination fee becomes payable under any other circumstance, the amount of the termination fee will be $17.4 million. The Merger Agreement also provides that Parent will be required to pay the Company a reverse termination fee of $32.2 million if (i) the Closing does not occur within five business days of the first date Parent is required to close; (ii) all mutual and Parent closing conditions are satisfied (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iii) the Company has irrevocably notified Parent in writing that it is ready, willing and able to close and that all Company closing conditions are satisfied or waived (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iv) the Company has given Parent written notice five business days prior to termination stating the Company’s intent to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger; and (v) Parent and Merger Sub fail to close on the later of five business days of the notice and the date Parent is otherwise required to close.

In addition to the foregoing termination rights, and subject to certain limitations, the Company or Parent may terminate the Merger Agreement if the Merger is not consummated by May 6, 2017.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q and our Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in “Risk Factors.”

Management Overview

Blue Nile is a leading retailer of high-quality diamonds and fine jewelry. We offer our products for sale through the Blue Nile website in over 40 countries and territories throughout the world. Our long-term objective is to maximize our revenue, profitability and cash flow by offering exceptional value, quality, and service to our customers. Our business model leverages our ability to source the world's largest supply of GIA certified diamonds for sale to our customers typically without purchasing inventory until a customer selects the product. This low inventory model, coupled with a lean and efficient operating framework enables us to operate at scale with a relatively small physical footprint and employee base. This lean expense structure avoids many of the costs that are typically incurred by traditional physical retail stores. As a result, we are able to realize lower gross profit margins while remaining profitable and providing value to our customers through lower retail prices.

The foundation of our strategic initiatives is to provide a compelling experience that illuminates the advantages of buying from us. The products we sell are typically high in value and involve significant research from the customers before they purchase. As such, it is important that the customers trust that the products they receive are fairly priced, of exceptional quality, and delivered on time. We are building higher levels of trust with our consumers by providing information, transparency, product selection and service via an exceptional user experience. We are continually enhancing this experience through features on our website, ongoing improvement of our customer service call center, accessibility to our products and diamond and jewelry consultants in our webrooms, offering free domestic and international shipping, and diamond visualization.

Recent Developments

On November 6, 2016, the Company entered into a definitive agreement to be acquired by BC Cyan Parent Inc., a Delaware corporation ("Parent") and BC Cyan Acquisition Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. Parent and Merger Sub were formed by Bain Fund XI and Bow Street. The Parent will acquire 100 percent of the Company's common stock for $40.75 per share in cash, for a total value of approximately $500 million. The Company's Restricted Stock Units (RSUs) and In-the-Money Options outstanding as of the effective date, whether vested or unvested, will be canceled and converted into the right to receive an amount in cash, unless otherwise agreed to in writing by the Parent and the Company. See Note 6, Subsequent Event in our Notes to the Consolidated Financial Statements for more information.

We anticipate that the transaction will be consummated in the first half of 2017. We did not incur significant costs related to the Merger during the third quarter of 2016 while we anticipate to incur significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger in future periods.

Third Quarter of 2016 Summary of Results of Operations

Net sales of $105.1 million for the third quarter of 2016, decreased from $109.9 million for the third quarter of 2015. U.S. engagement net sales decreased 8.5%, U.S. non-engagement net sales increased 1.2%, and international net sales increased 1.8% from the third quarter of 2015. International net sales comprised 19.3% of our total net sales for the third quarter of 2016, as compared to 18.2% of our total net sales for the third quarter of 2015. Our gross profit decreased $0.6 million for the third quarter of 2016, a 2.8% decrease compared to the third quarter of 2015. Net income per diluted share was $0.11 for the third quarter of 2016, compared to $0.17 for the third quarter of 2015.

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Results of Operations

Comparison of the Quarter Ended October 2, 2016 to the Quarter Ended October 4, 2015

The following table presents our operating results for the quarters ended October 2, 2016 and October 4, 2015, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Quarter ended October 2, 2016	Quarter ended October 4, 2015	$ Change	% Change
Net sales	$105,110	$109,943	$(4,833)	(4.4)%
Cost of sales	84,470	88,712	(4,242)	(4.8)%
Gross profit	20,640	21,231	(591)	(2.8)%
Selling, general and administrative expenses	18,843	18,192	651	3.6%
Operating income	1,797	3,039	(1,242)	(40.9)%
Other income (loss), net:				
Interest income, net	10	12	(2)	(16.7)%
Other income (loss), net	90	(33)	123	372.7%
Total other income (loss), net	100	(21)	121	576.2%
Income before income taxes	1,897	3,018	(1,121)	(37.1)%
Income tax expense	604	1,041	(437)	(42.0)%
Net income	$1,293	$1,977	$(684)	(34.6)%
Basic net income per share	$0.11	$0.17	$(0.06)	
Diluted net income per share	$0.11	$0.17	$(0.06)	

Net Sales

Net sales decreased to $105.1 million for the third quarter of 2016 compared to $109.9 million for the third quarter of 2015. The total net sales decrease was due to a decrease in the average order value partially offset by an increase in orders.

Net sales in the U.S. decreased 5.8% to $84.8 million for the third quarter of 2016, compared to $90.0 million for the third quarter of 2015. U.S. engagement net sales for the third quarter of 2016 decreased 8.5% to $59.5 million, compared to $65.0 million for the third quarter of 2015. The decrease in U.S. engagement net sales was due to both decreased orders and average order value in engagement rings and loose diamonds, primarily at our core price points. U.S. non-engagement net sales for the third quarter of 2016 increased by 1.2% to $25.3 million compared to $25.0 million for the third quarter of 2015.

International net sales increased 1.8% to $20.3 million for the third quarter of 2016 from $19.9 million for the third quarter of 2015. International net sales increased due to an overall increase in orders partially offset by a decrease in the average order value. Growth was particularly strong in Asia, Greater China and the Pacific offset by weakness in Europe most notably in the UK due to the fall of the British pound after Brexit. International net sales during the third quarter of 2016 continued to be negatively impacted by foreign currency exchange rates but to a lesser extent than prior quarters. Internally, we monitor our international sales performance on a non-GAAP basis which eliminates the positive or negative effects that result from translating currency from international sales into U.S. dollars ("constant exchange rate basis"). Changes in foreign exchange rates during the third quarter of 2016, compared to the rates in effect during the third quarter of 2015, continues to have a negative impact of approximately 2.4% on international net sales. Excluding the impact of changes in foreign exchange rates, international net sales increased 4.2% for the third quarter of 2016 compared to the third quarter of 2015. For a reconciliation of this non-GAAP financial measure to its corresponding GAAP financial measure, refer to the "Non-GAAP Financial Measures" section below.

Gross Profit

Gross profit for the third quarter of 2016 decreased 2.8% to $20.6 million from $21.2 million for the third quarter of 2015. The decrease in gross profit resulted primarily from the decrease in net sales. Gross margin rate for the third quarter of 2016 was 19.6% and 19.3% for the third quarter of 2015. The gross margin rate increased due to continued sales mix shift from our engagement category to our non-engagement category as well as continued weakness in sales of our higher price point

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engagement products. Our non-engagement products and lower price point products generally generate greater margins than our engagement and higher-price point products.

Costs for our products are impacted by prices for diamonds and precious metals including gold, platinum and silver, which rise and fall based upon global supply and demand dynamics. In making retail pricing decisions, we take into account fluctuations in the pricing of diamonds and precious metals, which in turn, affect the gross margin that we realize from such products. We expect that gross profit will continue to fluctuate in the future based on the mix of products we sell and our pricing decisions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 3.6% to $18.8 million in the third quarter of 2016 compared to $18.2 million in the third quarter of 2015. Compensation and benefits expense increased by $0.5 million, general and administrative expenses such as depreciation, legal, taxes and licenses increased $0.8 million to support our growth initiatives. These increases were partially offset by a decrease of $0.5 million in marketing and advertising costs and a decrease of $0.2 million in stock compensation expense. Selling, general and administrative expenses as a percentage of sales increased to 17.9% in the third quarter of 2016 compared to 16.5% in the third quarter of 2015 as sales decreased and selling, general and administrative expenses increased from the third quarter of 2015.

Operating Income

Operating income decreased to $1.8 million for the third quarter of 2016 compared to $3.0 million for the third quarter of 2015. The decrease in operating income was primarily due to a decrease in net sales and an increase in selling, general and administrative expenses.

Income Taxes

Our effective tax rate decreased to 31.8% for the third quarter of 2016 from 34.5% for the third quarter of 2015. The decrease in the effective rate was primarily due to increased research tax credits and lower taxable income resulting in a lower corporate tax bracket.

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Comparison of the Year to Date Ended October 2, 2016 to the Year to Date Ended October 4, 2015

The following table presents our operating results for the years to date ended October 2, 2016 and October 4, 2015, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Year to date ended October 2, 2016	Year to date ended October 4, 2015	$ Change	% Change
Net sales	$321,937	$330,083	$(8,146)	(2.5)%
Cost of sales	258,673	266,790	(8,117)	(3.0)%
Gross profit	63,264	63,293	(29)	—%
Selling, general and administrative expenses	56,950	54,905	2,045	3.7%
Operating income	6,314	8,388	(2,074)	(24.7)%
Other income, net:				
Interest income, net	35	76	(41)	(53.9)%
Other income, net	571	—	571	100.0%
Total other income, net	606	76	530	697.4%
Income before income taxes	6,920	8,464	(1,544)	(18.2)%
Income tax expense	2,420	2,969	(549)	(18.5)%
Net income	$4,500	$5,495	$(995)	(18.1)%
Basic net income per share	$0.39	$0.47	$(0.08)	
Diluted net income per share	$0.38	$0.47	$(0.09)	

Net Sales

Net sales decreased by 2.5% during the year to date ended October 2, 2016 as compared to the year to date ended October 4, 2015. The total net sales decrease was due to a decrease in average order value slightly offset by an increase in orders.

Net sales in the U.S. decreased 3.5% to $261.5 million during the year to date ended October 2, 2016, compared with $271.1 million during the year to date ended October 4, 2015. U.S. engagement net sales for the year to date ended October 2, 2016 decreased 6.6% to $178.8 million, compared to $191.4 million for the year to date ended October 4, 2015. The decrease in U.S. engagement net sales was due to a decrease in both orders and the average order value. U.S. non-engagement net sales for the year to date ended October 2, 2016 increased 3.8% to $82.7 million, compared to $79.7 million for the year to date ended October 4, 2015 due to an increase in the average order value and to a lesser extent an increase in orders.

International net sales increased 2.4% to $60.4 million during the year to date ended October 2, 2016 from $59.0 million in the year to date ended October 4, 2015. International net sales increased due to an increase in orders partially offset by a decrease in the average order value. Growth was particularly strong in China and Europe despite the negative impact of foreign currency exchange rates. International net sales for the year to date ended October 2, 2016, continued to be negatively impacted by foreign currency exchange rates. Internally, we monitor our international sales performance on a non-GAAP basis which eliminates the positive or negative effects that result from translating currency from international sales into U.S. dollars (“constant exchange rate basis”). Changes in foreign exchange rates during the year to date ended October 2, 2016, compared to the rates in effect during the year to date ended October 4, 2015, had a negative impact of approximately 3.5% on international net sales. Excluding the impact of changes in foreign exchange rates, international net sales increased 5.9% for the year to date ended October 2, 2016 compared to the year to date ended October 4, 2015. For a reconciliation of this non-GAAP financial measure to its corresponding GAAP financial measure, refer to the "Non-GAAP Financial Measures” section below.

Gross Profit

Gross profit increased slightly for the year to date ended October 2, 2016 compared to the year to date ended October 4, 2015. Gross margin rate increased to 19.7% for the year to date ended October 2, 2016 compared to 19.2% for the year to date ended October 4, 2015. The gross margin rate increased due to a sales mix shift from our engagement category to our non-engagement category and a decrease in sales in our higher price point engagement products. Our non-engagement products and lower price point products generally generate greater margins than our engagement and higher-price point products.

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Costs for our products are impacted by prices for diamonds and precious metals including gold, platinum and silver, which rise and fall based upon global supply and demand dynamics. In making retail pricing decisions, we take into account fluctuations in the pricing of diamonds and precious metals, which in turn, affect the gross margin that we realize from such products. We expect that gross profit will continue to fluctuate in the future based on the mix of products we sell and our pricing decisions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 3.7% to $57.0 million in the year to date ended October 2, 2016 compared to $54.9 million in the year to date ended October 4, 2015. General and administrative expenses increased $2.5 million in depreciation, rent, legal, taxes and license fees and compensation and benefits expense by $1.4 million to support our growth initiatives. General and administrative expenses also increased by $0.3 million of capitalized internally developed software costs written off during the current year and payment processing fees increased $0.2 million. These increases were offset by a decrease of $1.6 million in marketing and advertising costs, a decrease of $0.3 million in bad debt expense and a decrease of $0.4 million in stock compensation expense. Selling, general and administrative expenses as a percentage of sales increased to 17.7% in the year to date ended October 2, 2016 compared to 16.6% in the year to date ended October 4, 2015 as selling, general and administrative expenses increased while sales decreased.

Operating Income

Operating income was $6.3 million for the year to date ended October 2, 2016 compared to $8.4 million for the year to date ended October 4, 2015. The decrease in operating income was primarily due to a decrease in net sales and an increase in selling, general and administrative expenses.

Income Taxes

Our effective tax rate decreased slightly to 35.0% for the year to date ended October 2, 2016 from 35.1% for the year to date ended October 4, 2015. The decrease in the effective rate was primarily due to lower taxable income resulting in a lower tax bracket.

Liquidity and Capital Resources

We are primarily funded by our cash flows from operations. The significant components of our working capital are inventory and liquid assets such as cash and cash equivalents and trade accounts receivable, reduced by accounts payable and accrued expenses. Our business model typically provides certain beneficial working capital characteristics. While we collect cash from sales to customers within several business days of the related sale, we typically have extended payment terms with our suppliers.

Our liquidity is primarily dependent upon our net cash provided by operating activities. Our net cash provided by operating activities is sensitive to many factors, including changes in working capital and the timing and magnitude of expenditures. Working capital at any specific point in time is dependent upon many variables, including our operating results, seasonality, inventory management, the timing of cash receipts and payments, and vendor payment terms.

As of October 2, 2016, we had a working capital of $4.1 million, including cash and cash equivalents of $40.6 million and inventory of $44.1 million, offset by accounts payable of $77.9 million. Current levels of cash and cash equivalents reflect the payment of our special cash dividend on March 7, 2016, proceeds from stock option exercises, and the repurchase of shares of our common stock in the year to date ended October 2, 2016.

Net cash of $34.5 million was used in operating activities for the year to date ended October 2, 2016, compared to net cash used in operating activities of $45.0 million for the year to date ended October 4, 2015. The decrease in cash used in operating activities was primarily due to changes in working capital accounts related to timing and extent of paydown of payables, cash receipts as well as sales and purchases of inventory.

Net cash of $4.2 million and $1.5 million were used in investing activities for the year to date periods ended October 2, 2016 and October 4, 2015, respectively. In both years, cash used in investing activities was primarily the result of purchases of property and equipment which includes capitalized costs to develop our website and internal-use software to support our operations, as well as a result of launching three more Webrooms and our move to a new facility in China in the current year. Our capital needs are generally relatively low and include, without limitation, investments in technology and website enhancements, capital improvements to our leased warehouse and office facilities and furniture and equipment.

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Net cash used in financing activities for the year to date ended October 2, 2016 was $7.3 million, primarily related to the payment of our special cash dividend of $8.1 million, taxes paid for net share settlement of equity awards of $0.6 million and share repurchases of $0.3 million, offset by $1.7 million of proceeds from stock option exercises, discussed below. Net cash used in financing activities for the year to date ended October 4, 2015 was $11.0 million, primarily related to the repurchase of common stock and taxes paid for net share settlement of equity awards of $0.4 million.

On November 2, 2015, our board of directors authorized the renewal of our share repurchase program. Under this renewed program, we are authorized to repurchase up to $100.0 million of our common stock through January 2018, subject to limitations under Delaware law and the market conditions described below.

For the fiscal year to date through November 8, 2016, we have repurchased a total of 12,765 shares of our common stock for $0.3 million.

From the inception of the buyback program in the first quarter of 2005 through October 2, 2016, we have repurchased an aggregate of approximately 9.4 million shares for a total of $327.2 million. Our shares may be repurchased from time to time in open market transactions or in negotiated transactions off the market. The timing and amount of any shares repurchased is determined by our management based on their evaluation of market conditions and other factors, including our cash needs. Repurchases may also be made under a Rule 10b5-1 plan. We continually assess market conditions, our cash position, operating results, current forecasts and other factors when making decisions about stock repurchases.

Contractual Obligations

There have been no material changes to our contractual obligations during the period covered by this report from those disclosed in our Annual Report.

Off-Balance Sheet Arrangements

As of October 2, 2016, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements presented in accordance with GAAP, our management internally monitors our sales performance on a non-GAAP constant exchange rate basis that eliminates the positive or negative effects that result from translating international sales into U.S. dollars. Our management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors should also note that the non-GAAP financial measures we used may not be the same non-GAAP financial measures, and may not be calculated in the same manner as that of other companies. Whenever we use such non-GAAP financial measures, we provide a reconciliation of non-GAAP financial measures to the most closely applicable GAAP financial measures. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Our management believes that international sales on a constant exchange rate basis provide meaningful supplemental information to the company and to investors. Management believes the constant exchange rate measurement provides a more representative assessment of the sales performance and provides better comparability between reporting periods.

The following table reconciles year-over-year international net sales percentage increases (decreases) from the GAAP sales measures to the non-GAAP constant exchange rate basis:

Quarter ended October 2, 2016	Year over year growth	Effect of foreign exchange movements	Year over year growth on constant exchange rate basis
International net sales	1.8%	(2.4)%	4.2%
Quarter ended October 4, 2015	Year over year growth	Effect of foreign exchange movements	Year over year growth on constant exchange rate basis
International net sales	(7.2)%	(10.2)%	3.0%

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Year to date ended October 2, 2016	Year over year growth	Effect of foreign exchange movements	Year over year growth on constant exchange rate basis
International net sales	2.4%	(3.5)%	5.9%

Year to date ended October 4, 2015	Year over year growth	Effect of foreign exchange movements	Year over year growth on constant exchange rate basis
International net sales	2.7%	(8.8)%	11.5%

Item 3.Quantitative and Qualitative Disclosures About Market Risk

Our exposure to financial market risk results primarily from fluctuations in interest rates and foreign currency exchange rates. There have been no material changes to our market risks as disclosed in our Annual Report.

Item 4.Controls and Procedures

Evaluation of Disclosure Controls and Procedures

During the quarter ended October 2, 2016, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our “certifying officers”), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed by us in our periodic reports filed or submitted under the Exchange Act with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our certifying officers concluded that as of the end of the period covered by this report these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended October 2, 2016, that our certifying officers concluded materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A.Risk Factors

You should carefully consider the risks described below and elsewhere in this Quarterly Report on Form 10-Q, which could materially and adversely affect our business, results of operations or financial condition. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may materially affect our business, results of operations, or financial condition. If any of these risks occur, the trading price of our common stock could decline and you may lose all or part of your investment.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described under Part I, Item 1A "Risk Factors" included in our Annual Report on Form 10-K, as filed with the SEC on March 1, 2016.

The announcement and pendency of our agreement to be acquired by Bain Fund XI and Bow Street could have an adverse effect on our business.*

On November 6, 2016, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Bain Fund XI and Bow Street. Uncertainty about the effect of the Merger on our employees, customers, vendors and other business partners may have an adverse effect on our business, financial condition, and results of operation regardless of whether the Merger Agreement is consummated. These risks to the business, include the following, all of which could be exacerbated by a delay in the completion of the Merger:

- the diversion of significant management time and resources towards the completion of the Merger;
- difficulties with maintaining relationships with customers, suppliers, and other business partners;
- diminished ability to retain and hire key personnel;
- delays or deferments of certain business decisions by our customers, suppliers, and other business partners;
- the inability to pursue alternative business opportunities or make appropriate changes to our business because of requirements of the Merger Agreement and the related equity and debt financing commitments that we conduct our business in the ordinary course of business consistent with past practice and not engage in certain kinds of transactions prior to the completion of the Merger;
- litigation related to the Merger and the costs related thereto; and
- the incurrence of significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger.

Failure to consummate the Merger within the expected timeframe or at all could have a material adverse impact to our business, financial condition and results of operations.*

There can be no assurance that the Merger will occur. Consummation of the Merger is subject to certain conditions and there can be no assurance that these conditions will be satisfied in a timely manner or at all. The Merger Agreement also contains termination rights for both us and the Parent. If we are required to make these payments, doing so may materially adversely affect our business, financial condition, and results of operations. In addition, if the Merger is not completed, and there are no other parties willing and able to acquire the Company at a price of $40.75 per share or higher, on terms acceptable to us, the share price of the Company's common stock will likely decline to the extent that the current market price of our common stock reflects an assumption that the Merger will be completed. Also, we will continue to incur significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger for which we will have received little or no benefit if the Merger is not completed. Many of the fees will be payable by us even if the Merger is not completed and may relate to activities that we would have not undertaken other than to complete the Merger. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruption to our business resulting from the announcement and pendency of the Merger and from intensifying competition from our competitors, including any adverse changes in our relationships with our customers, employees, vendors, could continue or accelerate in the event of a failed transaction.

Our business results are significantly affected by the value we are able to provide to our customers.*

Demand for our products has been highly sensitive to pricing changes, because the success of our business model depends, in part, on our ability to offer quality products to customers at prices that are below those of traditional jewelry retailers. Pricing changes may result from changes in commodity prices or changes in our pricing strategy. The prices of commodities upon which we are substantially dependent are subject to fluctuations arising from changes in supply and demand, competition, and market speculation. Because of our virtual inventory model for loose diamonds, our diamond product prices are much more sensitive to rapid fluctuations in the prices of diamonds than traditional retailers, which typically hold diamonds

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in inventory. Rapid and significant fluctuations in commodity prices, particularly diamond prices, may materially and adversely affect our sales, gross margins, customer experience, and competitive position. Further, we have and will continue to change our product pricing strategies. Our pricing strategies have and will likely continue to have a significant impact on our net sales, gross margins and net income.

General economic factors may adversely affect our financial performance and results of operations.

Our financial performance and results of operations depend significantly on worldwide economic conditions and their impact on consumer spending. Luxury products, such as diamonds and fine jewelry, are discretionary purchases for consumers. Recessionary economic cycles, higher interest rates, volatile fuel and energy costs, inflation, levels of unemployment, conditions in the residential real estate and mortgage markets, access to credit, consumer debt levels, unsettled financial markets and other economic factors that may affect consumer spending or buying habits could materially and adversely affect demand for our products. In addition, volatility in the financial markets has had and may continue to have a negative impact on consumer spending patterns. A reduction in consumer spending or disposable income may affect us more significantly than companies in other industries and companies with a more diversified product offering. In addition, negative national or global economic conditions may materially and adversely affect our suppliers' financial performance, liquidity and access to capital. This may affect their ability to maintain their inventories, production levels and/or product quality, and could cause them to raise prices, lower production levels or cease their operations. We are exposed to the impact of any global or domestic economic disruption, including any potential impact of the recent vote by the United Kingdom to exit the European Union, or as commonly referred to as "Brexit."

Economic factors such as increased commodity prices, shipping costs, inflation, higher costs of labor, insurance and healthcare, and changes in and/or interpretations of other laws, regulations and taxes may also increase our cost of sales and our selling, general and administrative expenses, and otherwise adversely affect our financial condition and results of operations. Any significant increases in costs may affect our business disproportionately than our competitors.

Further, any reduction in our sales will affect our liquidity. As discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" in Part I, Item 2 of this Quarterly Report on Form 10-Q, our liquidity is primarily dependent upon our net cash from operating activities. Our net cash from operating activities is sensitive to many factors, including changes in working capital. Working capital at any specific point in time is dependent upon many variables, including our operating results, seasonality, inventory management and level of product assortment expansion, the timing of cash receipts and payments, and vendor payment terms.

In order to increase net sales and to sustain or increase profitability, we must attract customers in a cost-effective manner.

Our success depends on our ability to attract customers in a cost-effective manner. Our investments in marketing may not effectively reach potential consumers or those consumers may not decide to buy from us or the volume of consumers that purchase from us may not yield the intended return on investment. With respect to our marketing channels, we rely on relationships with providers of online services, search engines, directories and other websites and e-commerce businesses to provide content, advertising banners and other links that direct customers to our websites. We rely on these relationships as significant sources of traffic to our website. In particular, we rely on Google as an important marketing channel, if Google changes its algorithms or if competition increases for advertisements on Google, we may be unable to cost-effectively drive qualified consumers to our website.

Our agreements with our marketing providers generally have terms of one year or less. If we are unable to develop or maintain these relationships on acceptable terms, our ability to attract new customers would be harmed. In addition, many of the parties with whom we have online-advertising arrangements could provide advertising services to other companies, including retailers with whom we compete. As competition for online advertising has increased, the cost for these services has also increased. A significant increase in the cost of the marketing vehicles upon which we rely could adversely impact our ability to attract customers in a cost-effective manner and harm our business and results of operations. Further, we use promotions as a way to drive sales and acquire customers who may return to make subsequent purchases. These promotional activities may not drive sales and may adversely affect our gross margins.

Our supplier relationships are a key component of our business.

A majority of the world's supply of rough diamonds is controlled by a small number of diamond mining firms. As a result, any decisions made to restrict the supply of rough diamonds by these firms to our suppliers could substantially impair our ability to acquire diamonds at commercially reasonable prices, if at all. We do not currently have any direct supply relationships with these firms. Our ability to acquire diamonds and fine jewelry is also substantially dependent on our relationships with

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various suppliers. Approximately 19%, 18% and 20% of our payments to our diamond and fine jewelry suppliers for each of the years ended January 3, 2016, January 4, 2015, and December 29, 2013, respectively, were made to our top three suppliers for that year. The top three suppliers may change from year to year. Our inability to maintain and expand these and other future diamond and fine jewelry supply relationships on commercially reasonable terms or the inability of our current and future suppliers to maintain arrangements for the supply of products sold to us on commercially reasonable terms would substantially harm our business and results of operations. The financial performance and viability of our suppliers are also significantly dependent upon worldwide economic conditions and consumer demand for diamonds and fine jewelry. The failure of any of our principal suppliers to remain financially viable could adversely impact our supply of diamonds and fine jewelry for sale to our customers. Further, we typically have exclusive online supply relationships with our diamond suppliers. If we were no longer able to maintain exclusive supply, this may adversely impact the inventory listed on our site and may enable competitors to harm our business and results of operations.

Suppliers and manufacturers of diamonds as well as retailers of diamonds and diamond jewelry are vertically integrated and we expect they will continue to vertically integrate their operations either by developing retail channels for the products they manufacture or acquiring sources of supply, including, without limitation, diamond mining operations. To the extent such vertical integration efforts are successful, some of the fragmentation in the existing diamond supply chain could be eliminated, our ability to obtain an adequate supply of diamonds and fine jewelry from multiple sources could be limited and our competitors may be able to obtain diamonds at lower prices.

We may not succeed in sustaining and promoting the Blue Nile brand, which would prevent us from acquiring customers and increasing our net sales.

A component of our future growth is the continued establishment and promotion of the Blue Nile brand. Due to the competitive nature of the market for diamonds and fine jewelry, if we do not sustain and promote our brand and branded products, we may fail to build the critical mass of customers required to substantially increase our net sales. Promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high-quality product and customer experience. To promote our brand and products, we have incurred and will continue to incur substantial expenses related to advertising and other marketing efforts. These expenses may not result in increased consumer demand for our products, which would negatively impact our financial results.

A critical component of our brand promotion strategy is establishing a relationship of trust with our customers, which we believe can be achieved by providing a high-quality customer experience. In order to provide a high-quality customer experience, we have invested and will continue to invest substantial amounts of resources in the development and functionality of our website, technology infrastructure, fulfillment operations, customer service operations and webrooms in selected cities. Our ability to provide a high-quality customer experience is also dependent, in large part, on external factors over which we may have little or no control, including, without limitation, the reliability and performance of our suppliers, third-party jewelry assemblers, third-party carriers, third party diamond grading laboratories and networking vendors. During our peak seasons, we rely on temporary employees to supplement our full-time customer service and fulfillment employees. Temporary employees may not have the same level of commitment to our customers as our full-time employees. If our customers are dissatisfied with the quality of the products or the customer service they receive, or if we are unable to deliver products to our customers in a timely manner or at all, our customers may stop purchasing products from us. We also rely on third parties for information, including product characteristics and availability that we present to consumers on our website, which may, on occasion, be inaccurate. Likewise, we have implemented, and we require our suppliers to implement, rigorous quality assurance measures to ensure that all diamonds we sell are 100% natural. Despite these efforts and assurances from our suppliers to provide us only 100% natural diamonds, it is possible that man-made or enhanced diamonds could be mixed in with natural diamonds and passed to us without our detection. We have made commitments to our customers to sell 100% natural diamonds and any inclusion of man-made or enhanced diamonds could cause significant damage to our reputation and brand. Our failure to provide our customers with high-quality products and high-quality customer experiences for any reason could substantially harm our reputation and adversely impact our efforts to develop Blue Nile as a trusted brand. The failure of our brand promotion activities could adversely affect our ability to attract new customers and maintain customer relationships, and, as a result, substantially harm our business and results of operations.

Purchasers of diamonds and fine jewelry may not choose to shop online, which would prevent us from growing our business.

The online market for diamonds and fine jewelry is significantly less developed than the online market for books, music, toys and other consumer products. If this market does not gain widespread acceptance, our business may suffer. Our success will depend, in part, on our ability to attract additional consumers who have historically purchased diamonds and fine jewelry through traditional retailers and have chosen not to purchase online. Furthermore, we may have to incur significantly higher and

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more sustained advertising and promotional expenditures or price our products more competitively than we currently anticipate in order to attract additional online consumers to our website and convert them into purchasing customers. Specific factors that could prevent consumers from purchasing diamonds and fine jewelry from us include:

- for consumers visiting our website only, concerns about buying luxury products such as diamonds and fine jewelry online without a physical storefront, face-to-face interaction with sales personnel and the ability to physically handle and examine products;
- delivery time associated with Internet orders;
- product offerings that do not reflect consumer tastes and preferences;
- pricing that does not meet consumer expectations;
- concerns about the security of online transactions and the privacy of personal information;
- delayed shipments or shipments of incorrect or damaged products;
- inconvenience associated with returning or exchanging items purchased online; and
- usability, functionality and features of our website.

We developed a strategy for our consumers to connect to our products via the webrooms. If we are unable to connect with our consumers via this strategy, our business may be negatively impacted.*

Our ability to open new webrooms in a timely manner and operate them profitably depends on a number of factors, many of which are beyond our control, including:

- our ability to manage the financial and operational aspects of our webroom strategy, including making appropriate investments in our software systems, information technology and operational infrastructure;
- our ability to identify suitable locations, including our ability to gather and assess demographic and marketing data to accurately determine consumer demand for our products in the locations we select;
- our ability to negotiate favorable lease agreements;
- our ability to properly assess the profitability of potential new webroom locations;
- our ability to secure required governmental permits and approvals;
- our ability to hire and train highly qualified webroom personnel, especially management personnel;
- the presence of significant construction delays or cost overruns;
- our ability to implement a cost-effective construction plan;
- our competitors building or leasing stores near our webrooms or in locations we have identified as targets for a new webroom;
- webroom sales benefits may not outweigh the costs of collecting sales tax; and
- general economic and business conditions affecting consumer confidence and spending and the overall strength of our business.

We may not be able to grow the number of our webrooms, accelerate the rate of new webroom openings, achieve the net sales growth or maintain consistent levels of profitability in our webrooms, particularly as we expand into markets now served by our brick and mortar competitors. In addition, the substantial management time and resources which our webroom strategy requires may result in disruption to our existing business operations which may decrease our profitability. The webrooms we plan to open in the near term as well as the webrooms we may open in the future may not prove to be the best use of our cash and may adversely impact our future liquidity.

We currently lease the space for our webrooms under varied terms and conditions specific to the lease. Although we have the right to terminate our leases if performance fails to achieve minimum levels, we may incur significant financial loss prior to termination, or may decide to continue operating in a location where performance lags expectation. In addition, when leases for our webrooms expire, we may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close webrooms in locations that may be desirable. We may be unable to relocate these webrooms cost-effectively or at all and there can be no assurance that any relocated webrooms will be successful.

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Our webrooms are currently located in leading malls; if traffic in those malls decline, it may negatively impact our ability to maintain or increase our sales in existing webrooms, as well as our ability to open new webrooms.

Our business may be adversely affected, if we are unable to provide a compelling shopping experience and respond and adapt to rapid changes in consumer preferences.*

We are committed to bringing the best customer experience to our customers in order to build trust and compel them to purchase our products. We are continually enhancing this experience through features on our website that are viewable across any device, including educational content, diamond search and filter options, dynamic product catalogs, diamond and jewelry images, and shopping cart functionality. Our enhancements to the user experience may not be compelling enough for our consumers to purchase our products or our deployment of these enhancements may not be rapid enough to adapt to changes in consumer preferences and thus could harm our business.

Our financial results may be negatively affected if we are required to collect additional taxes on sales or disclose our customers' private information to tax authorities.*

The application of indirect taxes (such as sales and use tax, value-added tax ("VAT"), goods and services tax, and similar taxes) to ecommerce businesses such as Blue Nile, and to our customers, is a complex and evolving issue. Currently, we collect indirect taxes related to purchases by customers shipping to the States of New York, Washington, and Virginia, and certain indirect taxes collected on sales to customers outside of the United States. One or more states or foreign countries have sought and others may seek to impose additional indirect tax collection obligations on us in the future and/or require us to disclose to tax authorities our customers' private information, including but not limited to names, addresses, purchase amounts, and purchase dates. Several U.S. states have passed laws or approved regulations that defy and/or conflict with established legal precedent resulting in additional uncertainty. More states are expected to pursue similar strategies.

Given that we sell high value items, indirect tax is a significant consideration, and thus additional obligations to collect indirect taxes from customers, including those resulting from our webroom expansion, may adversely impact our future sales. Changes to laws, changes to interpretations of existing laws, or changes to administrative practices by U.S. federal, U.S. state, or foreign governments to require the collection of indirect taxes on the sale of our products and/or to require us to disclose our customers' private information to tax authorities could result in substantial tax, penalty and interest liabilities for past sales; discourage customers from purchasing products from us; decrease our competitive advantage; cause us to spend additional money, time and other resources to understand, comply with, and defend ourselves from multi-jurisdictional tax structures; cause us to discontinue certain successful sales and marketing initiatives; and otherwise substantially harm our business and results of operations.

We face significant competition and may be unsuccessful in competing against current and future competitors*

The retail jewelry industry is intensely competitive for which there is limited demand for products. Omnichannel retail, online websites on PCs, mobile devices and tablets, and integrated physical storefronts, is rapidly evolving and subject to changing technology, shifting consumer preferences and tastes, and frequent introductions of new products and services. We expect the competition in the sale of diamonds and fine jewelry to increase and intensify in the future. Our current and potential competitors range from large and established companies to emerging start-ups. Larger more established companies have longer operating histories, greater brand recognition, existing customer and supplier relationships, and significantly greater financial, marketing and other resources. Additionally, larger competitors seeking to establish an online presence may be able to devote substantially more resources to website systems development and exert more leverage over the supply chain for diamonds and fine jewelry than we can. Larger competitors may also be better capitalized to opportunistically acquire, invest or partner with other domestic and international businesses.

Emerging start-ups may be able to innovate and provide products and services faster than we can, and they may be willing to price their products more aggressively in order to gain market share. In addition, traditional store-based retailers offer consumers the ability to physically handle and examine products in a manner that is not possible over the Internet, as well as a more convenient means of returning and exchanging purchased products integrated with their online shopping experience. If our competitors are more successful than us in offering compelling products or in attracting and retaining consumers, our revenues and growth rates could decline. Such reductions and/or inventory liquidations can have a short-term adverse effect on our sales. Current and potential competitors include:

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- independent jewelry stores;
- retail jewelry store chains, such as Tiffany & Co., Jared, Kay and Helzberg;
- online retailers that sell jewelry and online jewelry retailers, such as Amazon.com, James Allen, Brilliant Earth and Helzberg;
- department stores, chain stores and mass retailers, such as Nordstrom and Neiman Marcus;
- online auction sites, such as eBay;
- catalog and television shopping retailers, such as HSN and QVC;
- discount superstores and wholesale clubs, such as Wal-Mart and Costco Wholesale; and
- Internet shopping clubs, such as Gilt Groupe and Rue La La.

In addition to these competitors, we may face competition from suppliers of our products that decide to sell directly to consumers, either through physical retail outlets or through online stores. We also face competition from entities that make and market synthetic stones and gems to compete in the market for diamonds and diamond jewelry.

Our stock price has been volatile historically, and may continue to be volatile.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements by us or our competitors, including announcements relating to strategic decisions or key personnel, service disruptions, changes in financial estimates and recommendations by security analysts, the operating and stock price performance of other companies that investors may deem comparable to us, volatility in the financial markets and news reports relating to trends in our markets or general economic conditions. The impact of these events and factors on our stock price is amplified by the relatively low number of our shares on the market.

In addition, several of our stockholders own significant portions of our common stock. If these stockholders were to sell all or a portion of their holdings of our common stock, the market price of our common stock could be negatively impacted. The effect of such sales, or of significant portions of our stock being offered or made available for sale, could result in strong downward pressure on our stock price. Investors should be aware that they could experience significant short-term volatility in our stock if such stockholders decide to sell all or a portion of their holdings of our common stock at once or within a short period of time.

Our stock price volatility may also impact the market valuation of our Company that is out of line from the fundamental performance of the business.

Our failure or the failure of our third-party business partners to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.

We collect, maintain, transmit and store data about our customers, suppliers and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information.

We also engage third-party business partners that store, process and transmit proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect transaction data or other confidential and sensitive information from being breached or compromised. Our security measures, and those of our third-party business partners, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party business partners otherwise maintain, including payment card systems which may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and our third-party business partners may not anticipate or prevent all types of attacks until after they have already been launched. Further, techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party business partners. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by our third-party business partners.

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Breaches of our security measures or those of our third-party business partners or cyber security incidents could result in unauthorized access to our sites, networks and systems; unauthorized access to and misappropriation of consumer information, including consumers’ personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to breach remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. While to our knowledge, we have not experienced a breach of consumer information, we have experienced denial-of-service, social engineering, phishing, and similar attacks; however, such attacks have not had a material adverse effect on our operations. If any of these breaches of security should occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. In addition, any party who is able to illicitly obtain a subscriber’s password could access the subscriber’s transaction data or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition and operating results. We may need to devote significant resources to protect against security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

Dividend issuances, repurchases of our common stock or other investments we may make may not prove to be the best use of our cash resources.

We have and will consider issuing dividends to shareholders and we plan to continue to opportunistically repurchase shares of our common stock. These dividends may not be the best use of our cash. These repurchases and any repurchases we may make in the future may not prove to be at optimal prices and our use of cash for the stock repurchase program may not prove to be the best use of our cash resources and may adversely impact our future liquidity.

In addition, we have used in the past, and may use in the future, our cash and cash equivalents to make investments in certain businesses and ventures as our management thinks appropriate. These investments may decline in value after they are made or we may entirely lose the cash associated with the investment.

We may be unsuccessful in further expanding our operations internationally.

For the year to date ended October 2, 2016, international net sales represented 18.8% of our total net sales. We continue to increase marketing and sales efforts and anticipate continuing to expand our international sales and operations in the future either by expanding local versions of our website for foreign markets, through acquisitions, investments or alliances with third parties, or through other means. Investments in foreign entities may be impaired and lose value, and this risk of loss is heightened by potential changes in the legal and regulatory environment in the international markets where these acquired businesses or joint ventures operate.

Further, any international expansion plans we choose to undertake will increase the complexity of our business, require attention from management and other personnel and cause additional strain on our operations, technology systems, financial resources and our internal financial control and reporting functions. Further, our expansion efforts may be unsuccessful. We have limited experience selling our products in international markets and in conforming to the local cultures, standards or policies necessary to successfully compete in those markets. We cannot be certain that we will be able to expand our global presence if we choose to further expand internationally. In addition, we may have to compete with retailers that have more experience with local markets. Our ability to expand and succeed internationally may also be limited by the demand for our products, the ability to successfully transact in foreign currencies, the ability of our brand to resonate with consumers globally and the adoption of online or Internet commerce in these markets. Different privacy, censorship and liability standards and regulations, and different intellectual property laws in foreign countries may prohibit expansion into such markets or cause our business and results of operations to suffer.

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Our current and future international operations may also fail to succeed due to other risks inherent in foreign operations, including:

- the need to develop new supplier and jeweler relationships;
- international regulatory requirements, tariffs and duties;
- difficulties in staffing and managing foreign operations;
- longer payment cycles from credit card companies;
- greater difficulty in accounts receivable collection;
- our reliance on third-party carriers for product shipments to our customers;
- risk of theft of our products during shipment;
- limited payment, shipping and insurance options for us and our customers;
- potential adverse tax consequences;
- foreign currency exchange risk;
- lack of infrastructure to adequately conduct electronic commerce transactions or fulfillment operations;
- unclear foreign intellectual property protection laws;
- laws and regulations related to corporate governance and employee/employer relationships;
- price controls or other restrictions on foreign currency;
- difficulties in obtaining export, import or other business licensing requirements;
- customs and import processes, costs or restrictions;
- increased payment risk and greater difficulty addressing credit card fraud;
- consumer and data protection laws;
- lower levels of adoption or use of the Internet;
- geopolitical events, including war and terrorism; or
- the need to conduct business in foreign languages on both the website and in our customer service efforts.

The People’s Republic of China (“PRC”) governs Blue Nile’s subsidiaries’ and partners’ businesses and operations through laws, regulations and licensing requirements restricting (i) foreign investment in Internet sales, importation of goods and services, IT infrastructure, retail and other sectors, and (ii) Internet content. There are uncertainties in the interpretation of the PRC laws, regulations and licensing requirements. If our Chinese business interests were found to be in violation of any existing or future PRC laws or regulations or if interpretations of laws and regulations were to change, the business could be subject to fines and other financial penalties, have licenses revoked, or be forced to shut down entirely.

Unusual weather patterns could adversely affect the Company’s performance.

Our operating results could be negatively impacted by unusual weather patterns. Frequent or unusually heavy snow, ice or rain storms, hurricanes, floods, tornadoes or extended periods of unseasonable temperatures could adversely affect our product availability, and ability to deliver products to our customers, which may harm our brand, lead to higher return rates and negatively impact our performance. Additionally, significant power outages may result in a loss of sales. Given the seasonality of our business, unusual weather in the fourth quarter may have a disproportionately larger impact on operating results for the fourth quarter and the full year.

We face foreign exchange risk.

The results of operations of certain of our subsidiaries are exposed to foreign exchange rate fluctuations. Upon translation from foreign currency from international sales into U.S. dollars, operating results may differ materially from expectations, and we may record significant gains or losses.

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Additionally, we allow customers to purchase our products in 23 currencies. This exposes us to foreign exchange rate fluctuations and we may record significant gains or losses as a result of such fluctuations. We price our diamonds based on costs denominated in U.S. dollars. Therefore, when the U.S. dollar strengthens, the retail prices of our products in international markets will become more expensive and sales may decline.

System interruptions that impair customer access to our website would damage our reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our website, transaction processing systems and network infrastructure are critical to our reputation, our ability to attract and retain customers and to maintain adequate customer service levels. Any future system interruptions, downtime or technical difficulties that result in the unavailability of our website or reduced order fulfillment performance could result in negative publicity, damage our reputation and brand and cause our business and results of operations to suffer. We may be susceptible to such disruptions in the future. We may also experience temporary system interruptions for a variety of other reasons in the future, including power failures, failures of Internet service and telecommunication providers, software or human errors, cyber attacks, or an overwhelming number of visitors trying to reach our website during periods of strong seasonal demand or promotions. Because we are dependent, in part, on third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, or at all.

Our corporate headquarters, primary fulfillment center, and the co-location facility which houses our computer and communication systems are located in Seattle, Washington. A natural disaster in Seattle, Washington may result in significant physical damage to or closure of one or more of these facilities, and significantly interrupt our customer service and fulfillment center operations, which could adversely affect our results of operations. Additionally, our systems and operations are vulnerable to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, acts of God, break-ins and similar events. In addition, we may experience system interruptions resulting from the construction in and around the building which houses our corporate headquarters. We do not presently have redundant systems in multiple locations and our business interruption insurance may be insufficient to compensate us for losses that may occur. Any interruptions in our fulfillment center operations for any significant period of time could damage our reputation and brand and substantially harm our business and results of operations.

We rely on our suppliers, third-party carriers and third-party jewelers as part of our fulfillment process, and these third parties may fail to adequately serve our customers.

We significantly rely on our suppliers to promptly ship us diamonds ordered by our customers. Any failure by our suppliers to sell and ship such products to us in a timely manner will have an adverse effect on our ability to fulfill customer orders and harm our business and results of operations. Our suppliers, in turn, rely on third-party carriers to ship diamonds to us, and in some cases, directly to our customers. We also rely on a limited number of third-party carriers to deliver inventory to us and product shipments to our customers. We and our suppliers are therefore subject to the risks, including employee strikes, inclement weather, power outages, national disasters, rising fuel costs and financial constraints associated with such carriers' abilities to provide delivery services to meet our and our suppliers' shipping needs. In addition, for some customer orders we rely on third-party jewelers to assemble and ship the product. Our suppliers', third-party carriers' or third-party jewelers' failure to deliver high-quality products to us or our customers in a timely manner or to otherwise adequately serve our customers would damage our reputation and brand and substantially harm our business and results of operations.

We rely on the services of our small, specialized workforce and key personnel, many of whom would be difficult to replace.

We rely upon the continued service and performance of key technical, fulfillment and senior management personnel. If we lose any of these personnel or if our personnel do not work efficiently and effectively together, our business could suffer. Although we have generally entered into employment offer letters with our key personnel, these agreements have no specific duration and provide for at-will employment, which means they may terminate their employment relationship with us at any time. We believe that our future success will depend on our continued ability to attract, hire and retain key employees. We do not have "key person" life insurance policies covering our employees.

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Competition for highly skilled personnel is often intense, especially in Seattle, Washington where our corporate headquarters and primary fulfilment center are located, and we may incur significant costs to attract them. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

Our net sales consist exclusively of diamonds and fine jewelry, and demand for these products could decline.

Our net sales and results of operations are highly dependent on the demand for diamonds and diamond jewelry, particularly engagement rings. Should prevailing consumer tastes for diamonds decline, customs with respect to engagement shift away from the presentation of diamond jewelry, or if there is a reduced rate of marriages, demand for our products would decline and our business and results of operations would be substantially harmed.

The significant cost of diamonds results in part from their scarcity. From time to time, attempts have been made to develop and market synthetic stones and gems to compete in the market for diamonds and diamond jewelry. We expect such efforts to continue in the future. If any such efforts are successful in creating widespread demand for alternative diamond products, demand and price levels for our products would decline and our business and results of operations would be substantially harmed.

Consumer confidence is dependent, in part, on the certification of our diamonds by independent laboratories. A decline in the quality of the certifications provided by these laboratories could adversely impact demand for our products. Additionally, a decline in consumer confidence in the credibility of independent diamond grading certifications could adversely impact demand for our diamond products.

Our fine jewelry offerings must reflect the tastes and preferences of a wide range of consumers whose preferences may change regularly. There can be no assurance that the styles we offer will continue to be popular with consumers in the future. If our merchandise offerings are not popular with consumers and we are not able to adjust our product offerings in a timely manner, our net sales may decline or fail to meet expected levels.

The success of our business may depend on our ability to successfully expand our product offerings.

A component of our strategy is to expand our product offerings beyond our current offerings. If we offer new products that are not accepted by consumers, our net sales may fall short of expectations, our brand and reputation could be adversely affected, and we may incur substantial expenses that are not offset by increased net sales. Expansion of our product lines may also increase our inventory levels and strain our management and operational resources.

We rely on our relationship with a third-party consumer credit company to offer financing for the purchase of our products.

The purchase of the diamond and fine jewelry products we sell is a substantial expense for many of our customers. We currently rely on our relationship with a consumer finance company to provide financing to our customers. If this company is not able to meet our customer’s needs for credit or otherwise adequately serve our customers or if we are unable to maintain this or other similar arrangements, we may not be able to offer financing alternatives to our customers, which may reduce demand for our products and substantially harm our business and results of operations.

We may not accurately forecast net sales and appropriately plan our expenses.

We may base our current and future expense levels on our operating forecasts and estimates of future net sales. Net sales and operating results are difficult to forecast because they generally depend on the volume and timing of the orders we receive, which are uncertain. Additionally, our business is affected by general economic and business conditions in the U.S. and international markets. A softening in net sales, whether caused by changes in customer preferences or a weakening in the U.S. or global economies, may result in decreased revenue levels. Some of our expenses are fixed, and as a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in net sales. This inability could cause our net income in a given quarter to be lower than expected. We also make certain assumptions when forecasting the amount of expense we expect related to our stock-based compensation, which includes the expected volatility of our stock price, the expected life of stock options granted and the expected rate of stock option and restricted stock unit forfeitures. These assumptions are partly based on historical results. If actual results differ from our estimates, our net income in a given quarter may be lower than expected.

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If we are unable to accurately manage our inventory, our reputation, results of operations and cash flow could suffer.
We are faced with the constant challenge of balancing our inventory levels with our ability to meet our customer needs. Based on internally generated projections, we purchase jewelry and jewelry components. These projections are based on many unknown assumptions around consumer demand, fashion trends, time to manufacture, pricing, etc. If these inventory projections are too high, our inventory may be too high, which may result in lower retail prices and gross margins, risk of obsolescence and harm to our financial results. Conversely, if these projections are too low, and we underestimate the consumer demand for our products, we are exposed to lost business opportunities which could have a material adverse effect on our business, results of operations, financial condition and cash flows. Additionally, as we increase our product offerings, we may be forced to increase inventory levels, which will increase our risks related to our inventory.
We may have exposure to greater than anticipated tax liabilities.
We are subject to various federal, state and local taxes in both the United States and foreign jurisdictions. Significant judgment is required in evaluating and estimating worldwide provisions and accruals for these taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Our determination of our tax liability is always subject to audit in various jurisdictions, and such jurisdictions may assess additional tax liabilities, penalties and interest against us. Although we believe our estimates are reasonable, the ultimate outcome of a tax audit and any related litigation could be materially different from our tax provisions and accruals, and could have a material adverse effect on our financial results. Changes to tax laws, changes to interpretations of existing tax laws, and/or developments in an audit or litigation could have a material effect on our operating results and cash flow for the period or periods for which that change or development occurs, as well as for prior and subsequent periods. In addition, the imposition of additional tax obligations on our business by federal, state and local governments could create significant administrative burdens for us, decrease our future sales and harm our cash flow and operating results.
As a result of seasonal fluctuations in our net sales, our quarterly results may fluctuate and could be below expectations.
We have experienced and expect to continue to experience seasonal fluctuations in our net sales. In particular, a disproportionate amount of our net sales has been realized during the fourth quarter as a result of the December holiday season, and we expect this seasonality to continue in the future. Approximately 31%, 33% and 32% of our net sales in the years ended January 3, 2016, January 4, 2015, and December 29, 2013, respectively, were generated during the fourth quarter of each year. In anticipation of increased sales activity during the fourth quarter, we may incur significant additional expenses, including higher inventory of fine jewelry, additional marketing, and additional staffing in our fulfillment and customer support operations. If we experience lower than expected net sales during any fourth quarter, it may have a disproportionately large impact on our operating results and financial condition for that year. Further, we may experience an increase in our net shipping costs due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. We also experience considerable fluctuations in net sales in periods preceding other annual occasions such as Valentine’s Day (first quarter) and Mother’s Day (second quarter). In the future, our seasonal sales patterns may become more pronounced, may strain our personnel and fulfillment activities and may cause a shortfall in net sales as compared with expenses in a given period, which could substantially harm our business and results of operations.
We face the risk of theft of our products from inventory or during shipment.*
We have experienced and may continue to experience theft of our products while they are being held in our fulfillment centers, or during the course of shipment to our customers by third-party shipping carriers. Additionally, we currently have four webrooms as part of our Webroom Concept. While our webrooms differ from traditional retailers in that they do not carry inventory to sell to consumers, they have some products on display, and we allow customers to pick-up and return products purchased online to the webrooms. The opening of new webrooms may increase our risk of theft. We have taken steps to prevent theft of our products. However, if security measures fail, losses exceed our insurance coverage or we are not able to maintain insurance at a reasonable cost, we could incur significant losses from theft, which would substantially harm our business and results of operations.

We may undertake wide-ranging strategic initiatives which may fail to achieve our objectives and may dilute the ownership of our existing stockholders.*

A key component of our business strategy includes strengthening our competitive position to improve our long term financial performance. As part of this strategy, we may pursue strategic transactions and acquisitions of businesses, technologies or services.

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In the future, we may choose to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. We may sell our common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, stockholders may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stockholders. Debt financing, if available, may involve restrictive covenants and could reduce our operational flexibility or profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.
The time and expense associated with finding suitable and compatible businesses, technologies or services could also disrupt our ongoing business and divert our management's attention. If we do complete any acquisitions, we may be unable to operate such acquired businesses profitably or otherwise implement our strategy successfully. Integrating any newly acquired businesses, technologies or services may be expensive and time-consuming. If we are unable to integrate any newly-acquired entities or technologies effectively, our business and results of operations could suffer. Future acquisitions by us could also result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which could substantially harm our business and results of operations.
Failure to adequately protect or enforce our intellectual property rights could substantially harm our business and results of operations.
We rely on a combination of patent, trademark, trade secret and copyright law, and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect and enforce our proprietary rights, unauthorized parties have attempted, and may in the future attempt, to copy aspects of our website images, features, compilation and functionality or to obtain and use information that we consider as proprietary, such as the technology used to operate our website, our content and our trademarks. We have registered or have applications pending for, "Blue Nile," the BN logo, the Blue Nile BN stylized logo, "Build Your Own Ring," "Build Your Own Five-Stone Ring," "Build Your Own Three Stone Ring," "Build Your Own Diamond Jewelry," "Build Your Own Diamond Pendant," "Build Your Own Earrings" and "Build Your Own Charm Bracelet" as trademarks in the United States and in certain other countries. Our competitors have, and other competitors may, adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to consumer confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term Blue Nile or our other trademarks. Any claims or consumer confusion related to our trademarks could damage our reputation and brand and substantially harm our business and results of operations. In addition, we are the holder of a patent entitled "Computerized Search Technique, such as an Internet-Based Gemstone Search Technique" (U.S. Patent No. 8,271,521) and have several other U.S. patent applications pending at this time.
We currently hold the bluenile.com, bluenile.co.uk and bluenile.ca Internet domain names and various other related domain names. Domain names generally are regulated by Internet regulatory bodies. The regulation of domain names in the United States and in foreign countries is subject to change. Regulatory bodies have and may continue to establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. We may not be able to, or it may not be cost effective to, acquire or maintain all domain names that utilize the name Blue Nile in all of the countries in which we currently conduct or intend to conduct business. If we lose the ability to use a domain name, we could incur significant additional expenses to market our products within that country, including the development of new branding. This could substantially harm our business and results of operations.
Litigation or similar proceedings have been necessary in the past and may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets and domain names and to determine the validity and scope of the proprietary rights of others. Any litigation or adverse priority proceeding could result in substantial costs and diversion of resources and could substantially harm our business and results of operations. We sell and intend to increasingly sell our products internationally, and the laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States.

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Assertions by third parties of infringement by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.

Third parties have, and may in the future, assert that we have infringed their patents or other intellectual property rights. We cannot predict whether any such assertions or claims arising from such assertions will substantially harm our business and results of operations. If we are forced to defend against any infringement claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, or product shipment delays. Furthermore, the outcome of a dispute may be that we would need to develop non-infringing technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may be unavailable on terms acceptable to us, or at all.

Our failure to address risks associated with payment methods, credit card fraud and other consumer fraud could damage our reputation and brand and may cause our business and results of operations to suffer.

Under current credit card practices, we are liable for fraudulent credit card transactions because we do not obtain a cardholder’s signature. We do not currently carry insurance against this risk. To date, we have experienced minimal losses from credit card fraud, but we face the risk of significant losses from this type of fraud as our net sales increase and as we expand internationally. Our failure to adequately control fraudulent credit card transactions could damage our reputation and brand and substantially harm our business and results of operations. Additionally, for certain payment transactions, including credit and debit cards, we pay interchange and other fees. These fees may increase over time, which would raise our operating costs and lower our operating margins.

Our failure or the failure of our third party service providers and suppliers to comply with applicable regulations could substantially harm our business and results of operations.*

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. It is possible that laws and regulations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. These regulations and laws may involve taxation, advertising, intellectual property rights, freedom of expression, labor, pricing, restrictions on imports and exports, customs, tariffs, information security, privacy, data protection, content, distribution, electronic contracts and other communications, the provision of online payment services, broadband residential Internet access, bribery, money laundering, product sourcing, and the characteristics and quality of products and services. Further, as our products are exported and imported across national borders, the international movement of these products is subject to a myriad of rules, regulations, and governmental authorities. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. Furthermore, failure of our vendors to comply with applicable laws, regulations and contractual requirements could cause harm to our reputation with consumers and increased legal expenses and costs. In addition, it is possible that governments of one or more countries may seek to censor content available on our sites or may even attempt to completely block access to our sites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected, and we may not be able to maintain or grow our net revenue and expand our business as anticipated.

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Our use of open source software may pose particular risks to our proprietary software and systems.

We use open source software in our software and systems and will use open source software in the future. The licenses applicable to open source software may require that the source code subject to the license be made available to the public and that any modifications or derivative works to certain open source software continue to be licensed under open source licenses. From time to time, we may face claims from third parties claiming infringement of their intellectual property rights, or demanding the release or license of the open source software or derivative works that we developed using such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, be limited in or cease using the implicated software unless and until we can re-engineer such software to avoid infringement or change the use of the implicated open source software. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties, indemnities or other contractual protections with respect to the software (for example, non-infringement or functionality). Our use of open source software may also present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach our website and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a material adverse effect on our business, financial condition and operating results.

We may need to implement additional finance and accounting systems, procedures and controls as we grow our business and organization to satisfy international and other new reporting requirements.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, including expanded disclosures and accelerated reporting requirements and more complex accounting rules. Additionally, as we expand internationally, we will be subject to international accounting and reporting requirements that are new to our business. Compliance with these and other new requirements may increase our costs and require additional management time and resources. We may need to implement additional or enhance our current finance and accounting systems, procedures and controls to satisfy new accounting and reporting requirements. If our internal controls over financial reporting are determined to be ineffective, investors could lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect our stock price.

Our failure to appropriately source or to ensure that our products are appropriately sourced may adversely impact our business.

Heightened consumer awareness on “conflict” diamonds, which are diamonds extracted from war-torn regions in Africa and sold by rebel forces to fund insurrection, may decrease demand for diamonds. Diamonds are, in some cases, also believed to be used to fund terrorist activities in some regions. We support the Kimberley Process, an international initiative intended to ensure diamonds are not illegally traded to fund conflict. As part of this initiative, we require our diamond suppliers to sign a statement acknowledging compliance with the Kimberley Process, and invoices received for diamonds purchased by us must include a certification from the vendor that the diamonds are conflict free. In addition, we prohibit the use of our business or services for money laundering or terrorist financing in accordance with the USA Patriot Act. Through these and other efforts, we believe that the suppliers from whom we purchase our diamonds exclude conflict diamonds from their inventories. However, we cannot independently determine whether any diamond we offer was extracted from these regions. Current efforts to increase consumer awareness of this issue and encourage legislative response could adversely affect consumer demand for diamonds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (the “DRC”) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. We performed due diligence efforts in fiscal 2015 and will continue these efforts to adhere with the disclosure requirements. There may be costs associated with complying with these disclosure requirements, including those that may be incurred in conducting due diligence procedures to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering conflict free conflict minerals, we cannot be sure that we will be able to obtain necessary conflict free conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

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Item 6.Exhibits

See exhibits listed under the Exhibit Index on page 38.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BLUE NILE, INC. Registrant
Dated: November 9, 2016	/s/ David Binder David Binder Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer)

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Exhibit Number	Description
2.1 (1)	Agreement and Plan of Merger, dated as of November 6, 2016, by and among Blue Nile, Inc., BC Cyan Parent Inc. and BC Cyan Acquisition Inc.
3.1 (2)	Amended and Restated Certificate of Incorporation of Blue Nile, Inc.
3.2 (3)	Amended and Restated Bylaws of Blue Nile, Inc.
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2 (4)	Specimen Stock Certificate.
31.1 (5)	Certification of Chief Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2 (5)	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1 (5)*	Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2 (5)*	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by Blue Nile, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

(1) Previously filed as Exhibit 2.1 to Blue Nile, Inc.'s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on November 7, 2016, and incorporated by reference herein.
(2) Previously filed as Exhibit 3.1 to Blue Nile, Inc.’s Quarterly Report on Form 10-Q for the quarterly period ended July 4, 2004 (No. 000-50763), as filed with the Securities and Exchange Commission on August 6, 2004, and incorporated by reference herein.
(3) Filed herewith.
(4) Previously filed as Exhibit 4.2 to Blue Nile, Inc.’s Registration Statement on Form S-1/A (No. 333-113494), as filed with the Securities and Exchange Commission on May 4, 2004, as amended, and incorporated by reference herein.
(5) Filed herewith.