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10,000

Compensation Committee Chair Fee ⁽⁴⁾

5,000

Nominating and Corporate Governance Committee Chair Fee ⁽⁴⁾

5,000

Lead Independent Director Fee ⁽⁴⁾

10,000

The annual retainer is paid in quarterly installments. At the discretion of our board of directors, directors may be permitted to forego all or a portion of their annual retainer for service on the board of directors in exchange for a grant or grants of common stock under the 2004 Plan having a fair market value equal to the amount of foregone cash compensation. The number of shares granted is determined by dividing the amount of the foregone quarterly installment by the closing price of our common stock on the second business day following our quarterly public announcement of our financial earnings for the quarter in which the installment is to be paid. Our policy for the timing of such determination is to provide for a price that reflects the dissemination of material information and a fair representation of the market's collective view of our financial results and performance.

(1) This annual fee for serving as chairman is paid in quarterly installments. As of December 31, 2013, our non-employee chairman resigned from our board of directors and our chief executive officer, Mr. Kanter, was (2) appointed chair of the board of directors. Our compensation committee is considering Mr. Kanter's compensation in light of his role and responsibilities and the other factors more fully described in the Compensation Discussion and Analysis section of this Proxy Statement.

(3) The annual fee for serving on any committee is paid in quarterly installments. Each director that serves on a committee receives \$750 quarterly (\$3,000 annually) regardless of the number of committees he/she serves on.

(4) Paid in quarterly installments.

Equity Compensation. The chart below summarizes the equity compensation paid to non-employee directors and the changes the compensation committee made to the non-employee director compensation in 2013:

Equity Compensation⁽¹⁾

Initial Equity Grant	RSUs valued at \$100,000 ⁽²⁾
Annual Equity Grant	Equity grant valued at \$63,000 in the form of stock options or RSUs ⁽³⁾
Option Grant Upon Full Vesting of Initial or Refresh Option Grant	Refresh grant of 9,000 options only to directors appointed prior to July 31, 2012. Directors appointed after July 31, 2012, will not receive a refresh grant. ⁽⁴⁾
Annual Equity Grant for Serving as Non-Employee Chairman	Equity grant valued at \$100,000 in the form of stock options or RSUs ⁽⁵⁾

(1) Equity granted to non-employee directors is subject to acceleration upon a change of control as described below.

Each new director receives an initial restricted stock unit grant valued at \$100,000 on the date of his or her election

(2) or appointment. The initial grant vests every three (3) months from the date of grant for four years. These option grants cease vesting as of the date a non-employee director no longer serves on the board of directors.

(3) Each non-employee director receives an annual equity grant on the date following each Annual Meeting of Stockholders. The annual grant vests every three (3) months from the date of the grant for one year. Each non-employee director must elect, prior to the start of the fiscal year in which the Annual Meeting is to take place, or such later date as may be determined by the compensation committee in its sole discretion, to receive the annual equity grant in the form of either (i) 100% as restricted stock units; or (ii) 100% as options. In the absence of a timely election, the entire annual equity grant will be granted in the form of options. Individuals who become a non-employee director on or after the start of the fiscal year must make an election on or before the date he or she is appointed or elected as a non-employee director, or such later date as may be determined by the compensation committee in its sole discretion. These equity grants cease vesting as of the date a non-employee director no longer serves on the board of directors.

(4) Each non-employee director elected to the board of directors prior to July 31, 2012 receives a refresher grant upon full vesting of the initial stock option grant. These refresher grants vest monthly in equal amounts from the date of the grant for four years. These options cease vesting as of the date a non-employee director no longer serves on our board of directors.

(5) The non-employee chairman of the board of directors shall elect, prior to the start of the fiscal year in which the Annual Meeting is to take place, or such later date as may be determined by the compensation committee in its sole discretion, to receive this grant in the form of either (i) 100% as RSUs or (ii) 100% as options. In the absence of a timely election, this grant will be granted as 100% options. Mr. Vadon received this equity grant in 2013, but following his resignation in December 2013, we do not anticipate awarding this grant in 2014. These equity grants cease vesting as of the date a non-employee director no longer serves on the board of directors.

All options will be granted with an exercise price equal to the fair market value of the common stock on the date of grant, will have a 10 year term and a general post-termination exercise period of 12 months, subject to earlier termination or extension as provided in the applicable equity incentive plan and the applicable award agreement.

The vesting of the equity awards granted to non-employee directors under this director compensation program will become fully vested as of the earlier to occur of: (x) the date of the non-employee director's termination of service due to death or disability and (y) immediately prior to a change in control (subject to continued service as of such time). The unvested portions of any RSUs or options are forfeited upon any other termination.

2013 Compensation for Non-Employee Directors. The following table summarizes the compensation paid to our non-employee directors during the fiscal year ended December 29, 2013.

2013 Director Compensation Table

Name		Fees Earned or Paid in Cash (\$)(1)		Stock Awards (\$)(3)	Option Awards (\$)(3)	Total (\$)
Mark Vadon	(4)	140,000		162,995	—	302,995
Chris Bruzzo	(5)	43,000	(2)	—	62,964	105,964
Eric Carlborg	(6)	53,000		63,000	—	116,000
Leslie Lane	(7)	50,500		63,000	—	113,500
Mindy Meads	(8)	21,500		99,981	62,964	184,445
Michael Potter	(9)	43,000		63,000	—	106,000
Steve Scheid	(10)	48,000		63,000	—	111,000
Mary Alice Taylor	(11)	48,000	(2)	63,000	—	111,000
Scott Howe	(12)	—		—	—	—

(1) Includes the annual cash retainer, fees for serving on a committee of the board of directors, fees for serving as chairman of the board, fees as applicable for chairing a committee and fees for serving as the lead independent director. Directors may elect to receive their annual retainer in cash or stock.

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Mr. Bruzzo and Ms. Taylor each elected to receive a portion of their annual retainer (paid quarterly) in shares of common stock plus cash in lieu of any fractional share. The number of shares granted is determined by dividing the amount of the foregone quarterly installment by the closing price of our common stock on the second business day following our quarterly public announcement of our financial earnings for the quarter in which the installment is to be paid. Mr. Bruzzo received

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stock valued at \$39,967 and cash in the amount of \$3,033, which includes \$3,000 for service on committees. Ms. Taylor received stock valued at \$39,967 and cash in the amount of \$8,033, which includes \$3,000 for service on committees and \$5,000 for serving as the chair of our nominating and corporate governance committee.

The amounts included in the "Stock Awards" and "Option Awards" columns represent the aggregate grant date fair value of awards granted during the fiscal year calculated in accordance with Topic 718 of the FASB Accounting Standards Codification. Generally, the grant date fair value is the amount the Company expects to expense in its (3) financial statements over the award's vesting schedule. The amount does not reflect the actual economic value realized by the director. For additional information on the valuation assumptions, refer to Note 6 of our consolidated financial statements included in our annual report on Form 10-K for the year ended December 29, 2013, as filed with the Securities and Exchange Commission on February 25, 2014 (File No. 000-50763).

For serving as our non-employee chairman of the board of directors, Mr. Vadon is entitled to \$140,000 in annual cash compensation (\$40,000 as annual retainer fee and \$100,000 as a fee for serving as chairman). Mr. Vadon received his annual equity grant in the form of a stock award for 4,657 shares of common stock, with a grant date (4) fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$162,995. As of December 29, 2013, Mr. Vadon held 88,439 shares of common stock, options to purchase 136,071 shares of common stock and an unvested stock award for 2,329 shares of common stock. Mr. Vadon resigned from our board of directors effective December 31, 2013.

Mr. Bruzzo was granted an option to purchase 4,051 shares of common stock, with a grant date fair value, (5) computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$62,964. As of December 29, 2013, Mr. Bruzzo held 2,032 shares of common stock and options to purchase 19,753 shares of common stock.

Mr. Carlborg received his annual equity grant in the form of a stock award for 1,800 shares of common stock, with (6) a grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$63,000. As of December 29, 2013, Mr. Carlborg held 1,900 shares of common stock, options to purchase 20,765 shares of common stock and an unvested stock award for 900 shares of common stock.

Mr. Lane received his annual equity grant in the form of a stock award for 1,800 shares of common stock, with a (7) grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$63,000. As of December 29, 2013, Mr. Lane held 6,136 shares of common stock, options to purchase 26,500 shares of common stock and an unvested stock award for 900 shares of common stock.

Ms. Meads was granted an initial stock award for 3,173 shares of common stock in 2013 with a grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$99,981. (8) Ms. Meads received her annual equity grant in the form of an option for 4,051 shares of common stock, with a grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$62,964. As of December 29, 2013, Ms. Meads held 396 shares of common stock, options to purchase 4,051 shares of common stock and an unvested stock award for 2,777 shares of common stock.

Mr. Potter received his annual equity grant in the form of a stock award for 1,800 shares of common stock, with a (9) grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$63,000. As of December 29, 2013, Mr. Potter held 5,872 shares of common stock, options to purchase 28,875 shares of common stock and an unvested stock award for 900 shares of common stock.

Mr. Scheid received his annual equity grant in the form of a stock award for 1,800 shares, with a grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$63,000. As (10) of December 29, 2013, Mr. Scheid held 7,048 shares of common stock, options to purchase 28,875 shares of common stock and an unvested stock award for 900 shares of common stock.

Ms. Taylor received her annual equity grant in the form of a stock award for 1,800 shares of common stock, with (11) a grant date fair value, computed in accordance with Topic 718 of the FASB Accounting Standards Codification, of \$63,000. As of December 29, 2013, Ms. Taylor held 11,821 shares of common stock, options to purchase 53,452 shares of common stock and an unvested stock award for 900 shares of common stock.

(12) Scott Howe was appointed to the board of directors in January 2014 and did not receive any compensation for serving on our board of directors in fiscal year 2013.

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Non-employee Director Equity Ownership Guidelines. The compensation committee believes that equity ownership guidelines help align the interests of our non-employee directors with that of our stockholders. In August 2009, the compensation committee approved equity ownership guidelines for our directors. Pursuant to these guidelines, within three years of the joining the board of directors, our non-employee directors are expected to accumulate an ownership interest in our securities equal to three times the value of the annual retainer paid to non-employee directors for service on the board of directors. The value of the securities may be comprised of: common stock owned individually; common stock owned joining with, or separately by a spouse, domestic partner,

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and/or minor children, either directly or indirectly; vested restricted stock units; or vested stock options. The value of the securities is determined based on the intrinsic value of the securities using a rolling three month average stock price.

TRANSACTIONS WITH RELATED PERSONS

RELATED PERSON TRANSACTIONS POLICY AND PROCEDURES

In February 2007, our audit committee adopted a written Related Person Transactions Policy that sets forth our policies and procedures regarding the identification, review, consideration and approval or ratification of “related person transactions.” For purposes of this policy only, a “related person transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any “related person” are, were or will be participants in which the amount involved exceeds \$120,000. Transactions involving compensation for services provided to us as an employee or director shall not be considered related person transactions under the policy. A related person is any executive officer, director, or more than 5% stockholder of the Company, including any of their immediate family members, and any entity owned or controlled by such persons. Under our Related Person Transactions Policy, where a transaction has been identified as a related person transaction, our management presents such related person transaction to the audit committee for review, consideration and approval or ratification. The presentation includes, to the extent reasonably available, (a) a description of (i) the parties thereto; (ii) the interests, direct or indirect, of any related person in the transaction in sufficient detail so as to enable the audit committee to assess such interests; and (iii) the material facts of the proposed related person transaction, including the proposed aggregate value of such transaction, or, in the case of indebtedness, that amount of principal that would be involved; (b) an assessment of (i) the benefits to us of the proposed related person transaction; and (ii) whether the proposed related person transaction is on terms that are comparable to the terms available to or from, as the case may be, an unrelated third party or to employees generally; and (c) management's recommendation with respect to the proposed related person transaction. In the event the audit committee is asked to consider whether to ratify an ongoing related person transaction, in addition to the information identified above, the presentation includes a description of the extent of work performed and remaining to be performed in connection with the transaction and an assessment of the potential risks and costs of termination of the transaction.

The audit committee, in approving or rejecting the proposed related person transaction, considers all the relevant facts and circumstances deemed relevant by and available to the audit committee, including, but not limited to (a) the risks, costs and benefits to us, (b) the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated, (c) the terms of the transaction, (d) the availability of other sources for comparable services or products and (e) the terms available to or from, as the case may be, unrelated third parties or to or from employees generally. The audit committee approves only those related party transactions that, in light of known circumstances, are in, or are not inconsistent with, our best interests and those of our stockholders, as the audit committee determines in the good faith exercise of its discretion.

CERTAIN RELATED-PERSON TRANSACTIONS

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

ANNUAL REPORT ON FORM 10-K

A copy of our Annual Report on Form 10-K for the fiscal year ended December 29, 2013, to the Securities and Exchange Commission, is available on our website at <http://investor.bluenile.com>. A copy will be furnished without charge to stockholders of record upon request by mail to Investor Relations at Blue Nile, 411 First Avenue South, Suite 700, Seattle Washington 98104.

HOUSEHOLDING OF PROXY MATERIALS

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

This year, a number of brokers with account holders who are our stockholders will be “householding” our proxy materials. A single proxy statement and annual report will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to Blue Nile, Inc., Corporate Secretary, at 411 First Avenue South, Suite 700, Seattle, Washington 98104 or contact Lauren Neiswender, our Corporate Secretary, at (206) 336-6700. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request “householding” of their communications should contact their broker.

OTHER MATTERS

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

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

Seattle, Washington
April 11, 2014