Saunders Anne Form 4 May 25, 2006

FORM 4

if no longer

subject to

Section 16.

Form 4 or

obligations

may continue.

Form 5

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

Check this box

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF **SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,

Section 17(a) of the Public Utility Holding Company Act of 1935 or Section

30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:

3235-0287 January 31,

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See Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person * Saunders Anne

2. Issuer Name and Ticker or Trading

5. Relationship of Reporting Person(s) to Issuer

Symbol

BLUE NILE INC [NILE]

(First) (Middle) (Last)

3. Date of Earliest Transaction

X_ Director 10% Owner

(Check all applicable)

C/O BLUE NILE, INC., 705 FIFTH

(Street)

05/23/2006

Officer (give title Other (specify below)

AVENUE S. STE 900

4. If Amendment, Date Original

(Month/Day/Year)

Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check

Applicable Line)

X Form filed by One Reporting Person Form filed by More than One Reporting

(Instr. 4)

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

SEATTLE, WA 98104

Security

(Instr. 3)

(City) (State) (Zip) 1.Title of 2. Transaction Date 2A. Deemed

(Month/Day/Year)

3. 4. Securities Execution Date, if TransactionAcquired (A) or Code Disposed of (D) (Month/Day/Year) (Instr. 8) (Instr. 3, 4 and 5)

5. Amount of Securities Beneficially Owned Following

7. Nature of 6. Ownership Form: Direct Indirect (D) or Indirect Beneficial (I) Ownership

(Instr. 4)

(A) or

Reported Transaction(s) (Instr. 3 and 4)

Code V Amount (D) Price

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

Persons who respond to the collection of SEC 1474 information contained in this form are not (9-02)required to respond unless the form displays a currently valid OMB control number.

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

1. Title of 3. Transaction Date 3A. Deemed Derivative Conversion (Month/Day/Year) Execution Date, if Security or Exercise any

4. 5. Number of **Transaction**Derivative Code Securities

6. Date Exercisable and **Expiration Date** (Month/Day/Year)

7. Title and Amount of 8 **Underlying Securities** (Instr. 3 and 4)

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(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8	or Dispose (D)	(Instr. 3, 4,				
				Code '	V (A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to Buy)	\$ 30.62	05/23/2006	05/23/2006	A	20,000		<u>(1)</u>	05/22/2016	Common Stock	20,000

Reporting Owners

Reporting Owner Name / Address	Relationships					
	Director	10% Owner	Officer	Other		
Saunders Anne C/O BLUE NILE, INC. 705 FIFTH AVENUE S, STE 900 SEATTLE, WA 98104	X					

Signatures

/s/ Diane M. Irvine, Power of Attorney 05/25/2006

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- One-thirtieth of the shares vest monthly from May 23, 2006 for twelve months and one-sixtieth of the shares vest monthly thereafter over (1) the next three years, provided however, if a Change in Control (as defined in the 2004 Non-Employee Directors? Stock Option Plan) occurs, then immediately prior to such Change in Control, the Optionholder?s Options shall become fully vested and exercisable.
- (2) Not applicable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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