BLUE NILE INC
Form 10-Q
August 08, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2008

OR

( ) 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	91-1963165
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
705 Fifth Avenue South, Suite 900, Seattle, Washington	98104
(Address of principal executive offices)	*(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 x 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. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of July 25, 2008, the registrant had 14,567,609 shares of common stock outstanding.

Table of Contents

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 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, predict, 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.

BLUE NILE, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 29, 2008
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

BLUE NILE, INC.
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except par value)

	June 29, 2008	December 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,177	$ 122,793
Trade accounts receivable	1,323	2,452
Other accounts receivable	586	1,124
Inventories	16,782	20,906
Deferred income taxes	520	799
Prepaids and other current assets	1,013	1,072
Total current assets	67,401	149,146
Property and equipment, net	7,530	7,601
Intangible assets, net	271	286
Deferred income taxes	4,586	3,489
Other assets	64	64
Total assets	$ 79,852	$ 160,586
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 41,077	$ 85,866
Accrued liabilities	4,827	9,549
Current portion of long-term financing obligation	39	38
Current portion of deferred rent	221	238
Total current liabilities	46,164	95,691
Long-term financing obligation, less current portion	860	880
Deferred rent, less current portion	463	538
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; 19,569 shares and 19,513 shares issued, respectively 15,028 shares and 15,973 shares outstanding, respectively	20	20
Additional paid-in capital	139,328	134,207
Deferred compensation		(3)
Accumulated other comprehensive income	185	75
Retained earnings	30,345	24,569

Treasury stock, at cost; 4,541 shares and 3,540 shares outstanding, respectively	(137,513)	(95,391)
Total stockholders equity	32,365	63,477
Total liabilities and stockholders equity	$ 79,852	$ 160,586

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

Table of Contents

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

	Quarter ended		Year to date ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net sales	$ 73,706	$ 72,093	$ 144,166	$ 140,003
Cost of sales	58,583	57,150	115,119	111,811
Gross profit	15,123	14,943	29,047	28,192
Selling, general and administrative expenses	10,758	9,909	21,656	19,473
Operating income	4,365	5,034	7,391	8,719
Other income, net:				
Interest income, net	280	803	1,115	1,776
Other income	285	12	376	215
Total other income, net	565	815	1,491	1,991
Income before income taxes	4,930	5,849	8,882	10,710
Income tax expense	1,725	2,068	3,106	3,766
Net income	$ 3,205	$ 3,781	$ 5,776	$ 6,944
Basic net income per share	$ 0.21	$ 0.24	$ 0.38	$ 0.44
Diluted net income per share	$ 0.20	$ 0.23	$ 0.36	$ 0.42

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

Table of Contents

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders Equity
Balance, December 30, 2007	19,513	$ 20	$ 134,207	$ (3)	$ 24,569	$ 75	(3,540)	$ (95,391)	$ 63,477
Net income					5,776				5,776
Other comprehensive income:									
Foreign currency translation adjustment						110			110
Total comprehensive income									5,886
Tax benefit from exercise of stock options			282						282
Amortization of deferred stock compensation				3					3
Exercise of common stock options	55		1,093						1,093
Issuance of common stock to directors	1		60						60
Stock-based compensation			3,686						3,686
Repurchase of common stock							(1,001)	(42,122)	(42,122)
Balance, June 29, 2008	19,569	$ 20	$ 139,328	$	$ 30,345	$ 185	(4,541)	$ (137,513)	$ 32,365

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

Table of Contents

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

	Year to date ended June 29, 2008	Year to date ended July 1, 2007
Operating activities:		
Net income	$ 5,776	$ 6,944
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	953	776
Loss (gain) on disposal of property and equipment	18	(6)
Stock-based compensation	3,708	2,723
Deferred income taxes	(818)	(563)
Tax benefit from exercise of stock options	281	2,974
Excess tax benefit from exercise of stock options	(141)	(320)
Changes in assets and liabilities:		
Receivables	1,667	62
Inventories	4,124	(53)
Prepaid federal income taxes		(1,596)
Prepaid expenses and other assets	59	(246)
Accounts payable	(44,789)	(24,124)
Accrued liabilities	(4,751)	(3,134)
Deferred rent and other	(33)	(95)
Net cash used in operating activities	(33,946)	(16,658)
Investing activities:		
Purchases of property and equipment	(880)	(2,066)
Proceeds from the sale of property and equipment	7	8
Purchases of marketable securities		(20,230)
Proceeds from the maturity of marketable securities		40,000
Transfers of restricted cash		120
Net cash (used in) provided by investing activities	(873)	17,832
Financing activities:		
Repurchase of common stock	(42,122)	(13,532)
Proceeds from stock option exercises	1,093	2,668
Excess tax benefit from exercise of stock options	141	320
Principal payments under long-term financing obligation	(19)	
Net cash used in financing activities	(40,907)	(10,544)

Effect of exchange rate changes on cash and cash equivalents	110	(5)
Net decrease in cash and cash equivalents	(75,616)	(9,375)
Cash and cash equivalents, beginning of period	122,793	78,540
Cash and cash equivalents, end of period	$ 47,177	$ 69,165

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

Table of Contents

Blue Nile, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollar amounts in thousands except for ratios and per share data, unless noted otherwise)

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

The Company

Blue Nile, Inc. (the Company) was formed in March 1999. We are the leading online retailer of diamonds, fine jewelry and watches. We offer in-depth educational materials and unique online tools that place consumers in control of the jewelry shopping process. We ship our products to over 25 countries across the globe. We maintain our primary website at www.bluenile.com and we also operate the www.bluenile.co.uk and www.bluenile.ca websites.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K filed for the year ended December 30, 2007 and filed with the Securities and Exchange Commission (SEC) on February 27, 2008. 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 period have been included and are of a normal, recurring nature.

The financial information as of December 30, 2007 is derived from our audited consolidated financial statements and notes thereto for the fiscal year ended December 30, 2007, included in Item 8 of the Annual Report on Form 10-K for the year ended December 30, 2007.

Due to a number of factors, including the seasonal nature of the retail industry and other factors described in this report, 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 Blue Nile, Inc. and its wholly-owned subsidiaries, Blue Nile, LLC (LLC), Blue Nile Worldwide, Inc. (Worldwide) and Blue Nile Jewellery, Ltd. (Jewellery). The Company, LLC, and Worldwide are Delaware corporations located in Seattle, Washington. Jewellery is an Irish limited company located in Ireland. All significant intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 and the estimated fair value of stock options granted. Actual results could differ materially from those estimates.

Foreign Currency Translation

The assets and liabilities of Jewellery have been translated to U.S. dollars using the exchange rates effective on the balance sheet date, while income and expense accounts are translated at the average rates in effect during the periods presented. The resulting translation adjustments are recorded in accumulated other comprehensive income.

Table of Contents

Blue Nile, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a common definition for fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

In January 2008, the FASB issued FSP FAS 157-2, delaying the effective date of SFAS 157 by one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. For these items, SFAS 157 will go into effect in fiscal years beginning after November 15, 2008.

Adoption of the SFAS 157 provisions for financial assets in the first quarter of 2008 did not have a material impact on our consolidated results of operations or financial condition. We will adopt the SFAS 157 provisions for nonfinancial assets in the first quarter of fiscal 2009 in accordance with FSP 157-2, and we do not anticipate this statement to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits all entities to elect to measure certain financial instruments and other items at fair value with changes in fair value reported in earnings. We adopted SFAS 159 in the first quarter of 2008 and there was no material impact on our consolidated results of operations or financial condition.

Note 2. Stock-based Compensation

We account for stock-based compensation arrangements in accordance with the provisions of FASB Statement No. 123R, Share-Based Payment (SFAS 123R). Stock options are granted at prices equal to the fair market value of our common stock on the date of grant. Stock-based compensation is reduced for estimated forfeitures and compensation expense is recognized on a straight-line basis over the requisite service period for each stock option grant. Stock options granted generally provide for 25% vesting on the first anniversary of the date of grant, with the remainder vesting monthly in equal amounts over three years, and expire 10 years from the date of grant. As of June 29, 2008, we had four stock option plans. Additional information regarding these plans is disclosed in our Annual Report on Form 10-K for the year ended December 30, 2007.

The fair value of each option on the date of grant is estimated using the Black-Scholes-Merton option valuation model. The following weighted-average assumptions were used for the valuation of options granted during the quarters and years to date ended June 29, 2008 and July 1, 2007, respectively:

	Quarter ended		Year to date ended	
	June 29, 2008	**July 1, 2007**	**June 29, 2008**	**July 1, 2007**
Expected term	4.0 years	4.5 years	4.0 years	4.5 years
Expected volatility	48.2%	36.0%	47.2%	36.0%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.95%	4.65%	2.40%	4.66%
Estimated fair value per option granted	$ 19.25	$ 20.16	$ 17.92	$ 17.99

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

Table of Contents

Blue Nile, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of stock option activity for the year to date ended June 29, 2008 is as follows:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 30, 2007	2,037	$ 32.84		
Granted	324	45.52		
Exercised	(55)	19.99		
Cancelled	(79)	62.16		
Balance, June 29, 2008	2,227	$ 33.96	6.82	$ 38,362
Vested and expected to vest at June 29, 2008	2,010	$ 32.46	6.67	$ 36,718
Exercisable, June 29, 2008	1,279	$ 21.97	5.67	$ 32,154

The aggregate intrinsic value in the table above is before applicable income taxes and represents the amount option recipients would have received if all options had been exercised on the last business day of the period indicated, based on our closing stock price.

The total intrinsic value of options exercised during the year to date ended June 29, 2008 was $1.8 million. During the year to date ended June 29, 2008, the total fair value of options vested was $2.5 million. As of June 29, 2008, we had total unrecognized compensation costs related to unvested stock options of $14.0 million. We expect 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:

	June 29, 2008	December 30, 2007
Loose diamonds	$ 906	$ 690
Fine jewelry, watches and other	15,876	20,216
	$ 16,782	$ 20,906

Table of Contents

Blue Nile, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 common shares issuable upon assumed exercise of outstanding stock options, except when the effect of their inclusion would be antidilutive.

The following table sets forth the computation of basic and diluted net income per share:

	Quarter ended		Year to date ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net income	$ 3,205	$ 3,781	$ 5,776	$ 6,944
Weighted average common shares outstanding	15,018	15,802	15,309	15,838
Basic net income per share	$ 0.21	$ 0.24	$ 0.38	$ 0.44
Dilutive effect of stock options	676	815	675	760
Common stock and common stock equivalents	15,694	16,617	15,984	16,598
Diluted net income per share	$ 0.20	$ 0.23	$ 0.36	$ 0.42

For the quarter and year to date ended June 29, 2008, we excluded 525,667 and 462,539 stock option shares, respectively, from the computation of net income per diluted share due to their antidilutive effect. For the quarter and year to date ended July 1, 2007, we excluded 14,816 and 43,432 stock option shares, respectively, from the computation of net income per diluted share due to their antidilutive effect.

Table of Contents

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 the Annual Report on Form 10-K filed for our fiscal year ended December 30, 2007.

Management Overview

We are the leading online retailer of high quality diamonds and fine jewelry. We showcase thousands of independently certified diamonds and fine jewelry on our websites at www.bluenile.com, www.bluenile.ca, and www.bluenile.co.uk, and we ship our products to more than 25 countries across the globe.

We have a capital-efficient business model that enables us to eliminate much of the costs associated with carrying diamond inventory. Generally, we purchase diamonds on a just in time basis from our suppliers when a customer places an order for a specific diamond. We then assemble the customized diamond jewelry to our customer s specifications and deliver the finished jewelry to the customer, generally within three business days from the order date.

A principal component of our value proposition is providing a high quality customer experience. The Blue Nile customer experience is designed to empower our customers by providing them with education, guidance, selection and service. We believe that maintaining focus on perfecting the customer experience is critical to our ongoing efforts to promote the Blue Nile brand and to continue to profitably grow our business.

Our key initiatives for 2008 include continuing to enhance the Blue Nile customer experience and maintaining our efficient and lean cost structure. In addition, we plan to continue to drive international growth and expand the Blue Nile customer experience to consumers around the world.

Quarter ended June 29, 2008 Highlights

During the quarter ended June 29, 2008 we experienced robust growth in our international business, but the weakness in the U.S. consumer environment that we experienced in the first quarter of 2008 continued. The weakness in the U.S. economy has affected the U.S. retail sector overall and impacted our sales results for the period. We believe the U.S. economic environment will continue to be a factor in our sales growth for the foreseeable future. We were pleased with the quarterly revenue growth from the new international markets that we began serving in the quarter ended March 30, 2008 through our U.S. and U.K. websites. Our international net sales totaled $8.1 million for the quarter ended June 29, 2008, compared with $2.9 million for the quarter ended July 1, 2007.

Table of Contents

Results of Operations

Comparison of the Quarter Ended June 29, 2008 to the Quarter Ended July 1, 2007

The following table presents our operating results for the quarters ended June 29, 2008 and July 1, 2007, respectively, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Quarter ended June 29, 2008	Quarter ended July 1, 2007	$ Change	% Change
Net sales	$ 73,706	$ 72,093	$ 1,613	2.2%
Cost of sales	58,583	57,150	1,433	2.5%
Gross profit	15,123	14,943	180	1.2%
Selling, general and administrative expenses	10,758	9,909	849	8.6%
Operating income	4,365	5,034	(669)	-13.3%
Other income, net:				
Interest income, net	280	803	(523)	-65.1%
Other income	285	12	273	*
Total other income, net	565	815	(250)	-30.7%
Income before income taxes	4,930	5,849	(919)	-15.7%
Income tax expense	1,725	2,068	(343)	-16.6%
Net income	$ 3,205	$ 3,781	$ (576)	-15.2%
Basic net income per share	$ 0.21	$ 0.24	$ (0.03)	-12.5%
Diluted net income per share	$ 0.20	$ 0.23	$ (0.03)	-13.0%

** Not meaningful*

Net Sales

Net sales increased 2.2% during the second quarter of 2008 compared with the second quarter of 2007. In the U.S., sales were impacted by the softening in the consumer environment and rising prices for diamonds and metals. Net sales in the U.S. totaled $65.6 million for the quarter ended June 29, 2008, compared with $69.2 million for the quarter ended July 1, 2007. International sales experienced strong growth of 179.3% in the quarter, increasing to $8.1 million from $2.9 million in the second quarter of 2007. Our international sales are defined as products sold through our U.S., U.K. and Canadian websites and delivered to customers outside the U.S. In May 2007, we launched the capability to transact in local currency on our U.K. and Canadian websites. The growth rates of our international sales may be impacted as we anniversary this launch.

Gross Profit

The increase in gross profit in the quarter ended June 29, 2008 compared with the quarter ended July 1, 2007 resulted from sales growth for the period. Gross profit as a percentage of net sales was 20.5% in the quarter ended June 29, 2008 compared with 20.7% in the quarter ended July 1, 2007. In the second quarter of 2007, gross profit was affected by an approximately $0.2 million one-time benefit related to a refund of shipping charges. As a percentage of sales, the shipping refund increased gross margin by 30 basis points in the second quarter of 2007. We expect that gross profit will fluctuate in the future based on changes in product acquisition costs, product mix and pricing decisions.

Table of Contents

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $10.8 million increased 8.6% in the second quarter of 2008 compared with the second quarter of 2007 due to several factors. Stock-based compensation increased approximately $0.5 million in the quarter ended June 29, 2008 compared with the quarter ended July 1, 2007 due to the number and fair value of stock options expensed under SFAS 123R. Legal costs increased approximately $0.2 million, related to intellectual property and other corporate matters. Marketing and advertising costs increased approximately $0.2 million, driven by increased spending in online marketing vehicles. Depreciation expense related to our Ireland fulfillment center and the expansion of our U.S. fulfillment facility added approximately $0.1 million to expenses in the second quarter of 2008 compared with the second quarter of 2007. As a percentage of net sales, selling, general and administrative expenses were 14.6% and 13.7% in the quarters ended June 29, 2008 and July 1, 2007, respectively.

We expect selling, general and administrative expenses to increase in absolute dollars in future periods as a result of our marketing effort to drive increases in net sales, growth in our fulfillment and customer service operations to support higher sales volumes, increases in credit card processing fees, additional personnel, increases in stock-based compensation expense and other volume related and corporate expenses.

Other Income, Net

Interest income decreased in the quarter ended June 29, 2008 as compared with the quarter ended July 1, 2007 due to a decrease in interest rates and lower overall cash balances resulting primarily from share repurchases. The increase in other income was primarily due to legal settlements.

Comparison of the Year to Date Ended June 29, 2008 to the Year to Date Ended July 1, 2007

The following table presents our operating results for the years to date ended June 29, 2008 and July 1, 2007, respectively, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Year to date ended June 29, 2008	Year to date ended July 1, 2007	$ Change	% Change
Net sales	$ 144,166	$ 140,003	$ 4,163	3.0%
Cost of sales	115,119	111,811	3,308	3.0%
Gross profit	29,047	28,192	855	3.0%
Selling, general and administrative expenses	21,656	19,473	2,183	11.2%
Operating income	7,391	8,719	(1,328)	-15.2%
Other income, net:				
Interest income	1,115	1,776	(661)	-37.2%
Other income	376	215	161	74.9%
Total other income, net	1,491	1,991	(500)	-25.1%
Income before income taxes	8,882	10,710	(1,828)	-17.1%
Income tax expense	3,106	3,766	(660)	-17.5%

Net income	$	5,776	$	6,944	$	(1,168)	-16.8%
Basic net income per share	$	0.38	$	0.44	$	(0.06)	-13.6%
Diluted net income per share	$	0.36	$	0.42	$	(0.06)	-14.3%

Table of Contents

Net Sales

Net sales increased 3.0% compared with year to date 2007 and were impacted by the challenging U.S. economic environment and rising prices for diamonds and metals as discussed earlier. Net sales in the U.S. totaled $130.3 million for the year to date ended June 29, 2008, compared with $134.6 million for the year to date ended July 1, 2007. International sales grew by 155.6%, increasing to $13.8 million for the year to date ended June 29, 2008 from $5.4 million for the year to date ended July 1, 2007.

Gross Profit

Gross profit increased due to the increase in net sales. As a percentage of net sales, gross profit was 20.1% in the year to date ended June 29, 2008 compared with 20.1% in the year to date ended July 1, 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 11.2% to $21.7 million in the year to date ended June 29, 2008 compared with $19.5 million for the year to date ended July 1, 2007 due to several factors. Stock-based compensation expense increased approximately $1.0 million in the year to date ended June 29, 2008 compared with the year to date ended July 1, 2007 due to the number and fair value of stock options expensed under SFAS 123R. Marketing and advertising costs increased approximately $0.7 million, driven by spending in online marketing vehicles. Legal costs increased approximately $0.2 million, related to our intellectual property and corporate matters. Credit card processing fees increased approximately $0.2 million, due primarily to higher sales volume. Depreciation expense related to our Ireland fulfillment center and the expansion of our U.S. fulfillment facility added approximately $0.1 million to expenses in 2008 compared with the year to date ended July 1, 2007. As a percentage of net sales, selling, general and administrative expenses were 15.0% and 13.9% in the year to date ended June 29, 2008 and the year to date ended July 1, 2007, respectively.

Other Income, Net

Other income, net, consists primarily of interest income. The decrease in interest income in the year to date ended June 29, 2008 as compared with the year to date ended July 1, 2007 is due to a decrease in interest rates and lower overall cash balances, primarily due to share repurchases.

Liquidity and Capital Resources

As of June 29, 2008, working capital totaled $21.2 million, including cash and cash equivalents of $47.2 million and inventory of $16.8 million, partially offset by accounts payable of $41.1 million. We believe that our current cash and cash equivalents, as well as cash flows from operations, will be sufficient to continue our operations and meet our capital needs for the next year.

Net cash of $33.9 million was used in operating activities for the year to date ended June 29, 2008, compared to net cash used in operating activities of $16.7 million for the year to date ended July 1, 2007. Net payment of payables totaled $44.8 million for the year to date ended June 29, 2008 and $24.1 million for the year to date ended July 1, 2007. In the first quarter, we generally have a significant pay down of our accounts payable balance that was built up during the fourth quarter holiday season. The volume of sales in the quarter ended December 30, 2007 was greater than the volume of sales in the quarter ended December 31, 2006, resulting in a higher net payment of payables in the year to date ended June 29, 2008 compared to the year to date ended July 1, 2007. This payment cycle reflects what we believe to be the beneficial working capital characteristics of our business model, wherein we collect cash from customers within several business days following a related sale while we typically have longer payment terms with our suppliers. The increase in cash used in operating activities in the year to date ended June 29, 2008 was partially offset by decreasing inventory and receivables balances.

Net cash used in investing activities of $0.9 million for the year to date ended June 29, 2008 related primarily to purchases of property and equipment to support our operations. Net cash provided by investing activities of $17.8 million for the year to date ended July 1, 2007 related primarily to net proceeds from the sale of marketable securities of $19.8 million, partially offset by purchases of property and equipment.

Net cash used in financing activities for the years to date ended June 29, 2008 and July 1, 2007 was $40.9 million and $10.5 million, respectively, related primarily to repurchases of Blue Nile, Inc. common stock. During the year to date ended June 29, 2008, we repurchased 1.0 million shares of our common stock for an aggregate purchase price of approximately $42.1 million. On July 27, 2006, our board of directors authorized the repurchase of up to $50 million of our common stock within the 24-month period following the approval date of the repurchase program. As of June 29, 2008, approximately $7.9 million remained under this repurchase authorization, which expired July 27, 2008. On February 6, 2008, our board of directors authorized the repurchase of up to an additional $100 million of Blue Nile, Inc. common stock during the 24-month period following the approval date of such additional repurchase. As of June 29, 2008, no shares had been repurchased under this repurchase authorization.

Table of Contents

In the third quarter to date, we have repurchased an additional 466,400 shares of our common stock for $18.2 million. Since the inception of the buyback program in the first quarter of 2005, we have repurchased 4.3 million shares for a total of $155.0 million. The 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 management based on our evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws.

Contractual Obligations

There have been no material changes to the contractual obligations during the period covered by this report, outside of the ordinary course of business, from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007.

Off-Balance Sheet Arrangements

As of June 29, 2008, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s 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 on Form 10-K for the year ended December 30, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

During the quarter ended June 29, 2008, 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 Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and SEC reports. 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 are effective in the timely recording, processing, summarizing and reporting of material financial and non-financial information and are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 29, 2008, that our certifying officers concluded materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

You should carefully consider the risks described below and elsewhere in this report, which could materially and adversely affect our business, results of operations or financial condition. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment. For the current quarter, there have been no material changes to the risk factors discussed below since we filed our Form 10-K for the fiscal year ended December 30, 2007.

Our limited operating history makes it difficult for us to accurately forecast net sales and appropriately plan our expenses.

We were incorporated in March 1999 and have a limited operating history. As a result, it is difficult to accurately forecast our net sales and plan our operating expenses. We 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 internationally. 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 growth. 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 options granted and the expected rate of stock option 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.

We expect our quarterly financial results to fluctuate, which may lead to volatility in our stock price.

We expect our net sales and operating results to vary significantly from quarter to quarter due to a number of factors, including changes in:

- demand for our products;
- the costs to acquire diamonds and precious metals;
- our ability to attract visitors to our websites and convert those visitors into customers;
- general economic conditions, both domestically and internationally;
- our ability to retain existing customers or encourage repeat purchases;
- our ability to manage our product mix and inventory;
- wholesale diamond prices;
- consumer tastes and preferences for diamonds and fine jewelry;
- our ability to manage our operations;
- the extent to which we provide for and pay taxes;

stock-based compensation expense as a result of the nature, timing and amount of stock options granted, the underlying assumptions used in valuing these options, the estimated rate of stock option forfeitures and other factors;

advertising and other marketing costs;

Table of Contents

- our, or our competitors , pricing and marketing strategies;
- the introduction of competitive websites, products, price decreases or improvements;
- conditions or trends in the diamond and fine jewelry industry;
- conditions or trends in the Internet and e-commerce industry;
- the success of our geographic, service and product line expansions;
- foreign exchange rates;
- interest rates; and
- costs of expanding or enhancing our technology or websites.

As a result of the variability of these and other factors, our operating results in future quarters may be below the expectations of public market analysts and investors. In this event, the price of our common stock may decline.

Our revenues are influenced by general economic cycles.

Luxury products, such as diamonds and fine jewelry, are discretionary purchases for consumers. The volume and dollar value of such purchases may significantly decrease during economic downturns. The success of our business depends in part on many macroeconomic factors, including market downturns, consumer confidence, employment levels, salary levels, tax rates and credit availability, all of which affect consumer spending and disposable income. Any reduction in consumer spending or disposable income would harm our business and results of operations and may affect us more significantly than companies in other industries and companies with a diversified product offering.

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 35%, 36%, and 36% of our net sales in the years ended December 30, 2007, December 31, 2006, and January 1, 2006, 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 jewelry and additional staffing in our fulfillment and customer support operations. If we were to experience lower than expected net sales during any future fourth quarter, it would 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 cost 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 and Mother s Day. 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 would substantially harm our business and results of operations.

Our failure to acquire quality diamonds and fine jewelry at commercially reasonable prices would result in higher costs and damage our operating results and competitive position.

If we are unable to acquire quality diamonds and fine jewelry at commercially reasonable prices, our costs may exceed our forecasts, our gross margins and operating results may suffer and our competitive position could be damaged. 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. 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 relationship with these firms. Our ability to acquire diamonds and fine jewelry is also substantially dependent on our relationships with various suppliers. Approximately 21%, 21% and 25% of our payments to our diamond and fine jewelry suppliers in the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively, were made to our top three suppliers. 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.

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 for the products that they sell. To the extent such vertical integration efforts are successful, some of the fragmentation in the existing diamond supply chain could be eliminated, and 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.

Our failure to meet customer expectations with respect to price would adversely affect our business and results of operations.

Demand for our products has been highly sensitive to pricing changes. Changes in our pricing strategies have had and may continue to have a significant impact on our net sales, gross margins and net income. In the past, we have instituted retail price changes as part of our strategy to stimulate growth in net sales and optimize gross profit. We may institute similar price changes in the future. Such price changes may not result in an increase in net sales or in the optimization of gross profits. In addition, many external factors, including the costs to acquire diamonds and precious metals and our competitors pricing and marketing strategies, can significantly impact our pricing strategies. If we fail to meet customer expectations with respect to price in any given period, our business and results of operations would suffer.

Our net sales may be negatively affected if we are required to collect taxes on purchases.

We do not collect or have imposed upon us sales or other taxes related to the products we sell, except for certain corporate level taxes, sales taxes with respect to purchases by customers located in the State of Washington and the State of New York, and certain taxes required to be collected on sales to customers outside of the United States of America. Additionally, one or more states or foreign countries may seek to impose sales or other tax collection obligations on us in the future. A successful assertion by one or more states or foreign countries that we should be collecting sales or other taxes on the sale of our products could result in substantial tax liabilities for past sales, discourage customers from purchasing products from us, decrease our competitive advantage with respect to traditional retailers or otherwise substantially harm our business and results of operations.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, implementation of the restrictions imposed by these Supreme Court decisions is subject to interpretation by state and local taxing authorities. While we believe that these Supreme Court decisions currently restrict state and local taxing authorities outside the State of Washington from requiring us to collect sales and use taxes from purchasers located within their jurisdictions, taxing authorities outside the State of Washington could disagree with our interpretation of these decisions. Moreover, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court s position regarding sales and use taxes on Internet sales. If any state or local taxing jurisdiction were to disagree with our interpretation of the Supreme Court s current position regarding state and local taxation of Internet sales, or if any of these initiatives were to address the Supreme Court s constitutional concerns and result in a reversal of its current position, we could be required to collect sales and use taxes from purchasers located in other states. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us and could decrease our future net sales.

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

A significant component of our business strategy is the continued establishment and promotion of the Blue Nile brand. Due to the competitive nature of the online market for diamonds and fine jewelry, if we do not continue to establish 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 customer experience. To promote our brand and branded products, we have incurred and will continue to incur substantial expense related to advertising and other marketing efforts.

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 multiple websites, technology infrastructure, fulfillment operations and customer service operations.

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 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 websites, which may, on occasion, be inaccurate. Our failure to provide our customers with 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.

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. We have 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 websites. Our agreements with these 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 which we have online-advertising arrangements could provide advertising services to other online or traditional retailers, 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.

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

The retail jewelry industry is intensely competitive, and we expect competition in the sale of diamonds and fine jewelry to increase and intensify in the future. Increased competition may result in price pressure, reduced gross margins and loss of market share, any of which could substantially harm our business and results of operations. Current and potential competitors include:

- independent jewelry stores;
- retail jewelry store chains, such as Tiffany & Co. and Bailey Banks & Biddle;
- other online retailers that sell jewelry, such as Amazon.com;
- 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 Home Shopping Network and QVC; and
- discount superstores and wholesale clubs, such as Wal-Mart and Costco Wholesale.

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.

Many of our current and potential competitors have advantages over us, including longer operating histories, greater brand recognition, existing customer and supplier relationships, and significantly greater financial, marketing and other resources. 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.

Some of our 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. In addition, larger, more established and better capitalized entities may acquire, invest or partner with traditional and online competitors as use of the Internet and other online services increases. Our online competitors can duplicate many of the products, services and content we offer, which could harm our business and results of operations.

Table of Contents

We may be unsuccessful in further expanding our operations internationally.

To date, international sales have been a small portion of our business, but we have recently expanded our operations to include a fulfillment operation in Ireland to serve customers acquired through our United Kingdom website. Additionally, we have increased our product offerings and marketing and sales efforts throughout Europe, Canada and the Asia-Pacific region and anticipate continuing to expand our international sales and operations in the future either by expanding local versions of our website for foreign markets or through acquisitions or alliances with third parties. 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 minimal experience in selling our products in international markets and in conforming to the local cultures, standards or policies necessary to successfully compete in those markets. Outside of the United Kingdom and Canada, we have very limited web content localized for foreign markets and 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 of our brand to resonate with foreign consumers and the adoption of electronic 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.

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 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;

- increased payment risk and greater difficulty addressing credit card fraud;
- consumer and data protection laws;
- lower levels of adoption or use of the Internet; and
- geopolitical events, including war and terrorism.

Our failure to successfully expand our international operations may cause our business and results of operations to suffer.

Table of Contents

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 third-party carriers for product shipments to our customers. We and our suppliers are therefore subject to the risks, including employee strikes, inclement weather and rising fuel costs 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 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.

If our fulfillment operations are interrupted for any significant period of time, our business and results of operations would be substantially harmed.

Our success depends on our ability to successfully receive and fulfill orders and to promptly and securely deliver our products to our customers. Most of our inventory management, jewelry assembly, packaging, labeling and product return processes are performed in a single fulfillment center located in the United States. This facility is susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, break-ins, earthquake and similar events. We have recently added another fulfillment center in Ireland that would also be susceptible to these events. Our business interruption insurance may be insufficient to compensate us for losses that may occur in the event operations at our fulfillment centers are interrupted. We have recently expanded our existing fulfillment center located in the United States. 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 the services of our key personnel, any 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, our business could suffer. Competition for qualified personnel in our industry is intense. We believe that our future success will depend on our continued ability to attract, hire and retain key employees. Other than for our Executive Chairman, we do not have key person life insurance policies covering any of our employees.

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. We have taken steps to prevent such theft. 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.

If the single facility where substantially all of our computer and communications hardware is located fails, our business, results of operations and financial condition would be harmed.

Our ability to successfully receive and fulfill orders and to provide high quality customer service depends in part on the efficient and uninterrupted operation of our computer and communications systems. Substantially all of the computer hardware necessary to operate our websites is located at a single leased facility. Our systems and operations are vulnerable to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, break-ins, earthquake and similar events. 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. In addition, our servers are vulnerable to computer viruses, denial of service attacks, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of critical data, the inability to fulfill customer orders or the unauthorized disclosure of confidential customer data. The occurrence of any of the foregoing risks could substantially harm our business and results of operations.

Our failure to protect confidential information of our customers and our network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.

A significant barrier to online commerce and communications is the secure transmission of confidential information over public networks. Our failure to prevent security breaches could damage our reputation and brand and substantially harm our business and results of operations. Currently, a majority of our sales are billed to our customers credit card accounts directly.

22

We rely on encryption and authentication technology licensed from third parties to effect secure transmission of confidential information, including credit card numbers. Advances in computer capabilities, human errors, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect customer transaction data. In addition, any party who is able to illicitly obtain a user s password could access the customer s transaction data. An increasing number of websites and Internet companies have reported breaches of their security. Any such compromise of our security could damage our reputation, business and brand and expose us to a risk of loss or litigation and possible liability, which would substantially harm our business, and results of operations. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. These issues are likely to become more difficult as we expand the number of countries in which we operate. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches.

We rely exclusively on the sale of diamonds and fine jewelry for our net sales, 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 or customs with respect to engagement shift away from the presentation of diamond jewelry, 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.

In recent years, increasing attention has been focused on conflict diamonds, which are diamonds extracted from war-torn regions in Africa and sold by rebel forces to fund insurrection. 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 seek to 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.

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 jewelry offerings must reflect the tastes and preferences of a wide range of consumers whose preferences may change regularly. Our strategy has been to offer primarily what we consider to be classic styles of fine jewelry, but there can be no assurance that these styles will continue to be popular with consumers in the future. If the styles we offer become less 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.

Table of Contents

Our failure to effectively manage the growth in our operations may prevent us from successfully expanding our business.

We have experienced, and in the future may experience, rapid growth in operations, which has placed, and could continue to place, a significant strain on our operations, services, internal controls and other managerial, operational and financial resources. To effectively manage future expansion, we will need to maintain our operational and financial systems and managerial controls and procedures, which include the following processes:

- transaction-processing and fulfillment;
- inventory management;
- customer support;
- management of multiple supplier relationships;
- operational, financial and managerial controls;
- reporting procedures;
- management of our facilities;
- recruitment, training, supervision, retention and management of our employees; and
- technology operations.

If we are unable to manage future expansion, our ability to provide a high quality customer experience could be harmed, which would damage our reputation and brand and substantially harm our business and results of operations.

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

Our ability to significantly increase our net sales and maintain and increase our profitability may depend on our ability to successfully expand our product lines beyond our current offerings. If we offer a new product category that is not accepted by consumers, the Blue Nile brand and reputation could be adversely affected, our net sales may fall short of expectations and we may incur substantial expenses that are not offset by increased net sales. Expansion of our product lines may also strain our management and operational resources.

If we are unable to accurately manage our inventory of fine jewelry, our reputation and results of operations could suffer.

Except for loose diamonds, substantially all of the fine jewelry we sell is from our physical inventory. Changes in consumer tastes for these products subject us to significant inventory risks. The demand for specific products can change between the time we order an item and the date we receive it. If we under-stock one or more of our products, we may not be able to obtain additional units in a timely manner on terms favorable to us, if at all, which would damage our reputation and substantially harm our business and results of operations. In addition, if demand for our products increases over time, we may be forced to increase inventory levels. If one or more of our products does not achieve widespread consumer acceptance, we may be required to take significant inventory markdowns, or may not be able to sell the product at all, which would substantially harm our results of operations.

Repurchases of our common stock may not prove to be the best use of our cash resources.

On July 27, 2006, our board of directors authorized the repurchase of up to $50 million of Blue Nile, Inc. common stock during the 24-month period following the approval date of such repurchases. On February 6, 2008, our board of directors authorized the repurchase of up to an additional $100 million of Blue Nile, Inc. common stock during the 24-month period following the approval date of the additional repurchases. 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.

We have foreign exchange risk.
The results of operations of our foreign subsidiary are exposed to foreign exchange rate fluctuations. Upon translation from foreign currency into U.S. dollars, operating results may differ materially from expectations, and we may record significant gains or losses. As we expand our international operations, our exposure to exchange rate fluctuations may increase.

We have incurred significant operating losses in the past and may not be able to sustain profitability in the future.
We experienced significant operating losses in each quarter from our inception in 1999 through the second quarter of 2002. As a result, our business has a limited record of profitability and may not continue to be profitable or increase profitability. If we are unable to acquire diamonds and fine jewelry at commercially reasonable prices, if net sales decline or if our expenses otherwise exceed our expectations, we may not be able to sustain or increase profitability on a quarterly or annual basis.

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 features, compilation and functionality or to obtain and use information that we consider as proprietary, such as the technology used to operate our websites, our content and our trademarks. We have registered Blue Nile, bluenile.com, the BN logo and the Blue Nile BN stylized logo 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.

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. If we lose the ability to use a domain name in a particular country, we would be forced to either incur significant additional expenses to market our products within that country, including the development of a new brand and the creation of new promotional materials and packaging, or elect not to sell products in that country. Either result could substantially harm our business and results of operations. The regulation of domain names in the United States and in foreign countries is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the name Blue Nile in all of the countries in which we currently or intend to conduct business.

Litigation or proceedings before the U.S. Patent and Trademark Office or similar international regulatory agencies 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.

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 technology 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.

Table of Contents

Increased product returns and the failure to accurately predict product returns could substantially harm our business and results of operations.

We generally offer our customers an unconditional 30-day return policy that allows our customers to return most products if they are not satisfied for any reason. We make allowances for product returns in our financial statements based on historical return rates and current economic conditions. Actual merchandise returns are difficult to predict and may differ from our allowances. Any significant increase in merchandise returns above our allowances would substantially harm our business and results of operations.

Interruptions to our systems that impair customer access to our websites would damage our reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our websites, transaction processing systems and network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels. Any future systems interruptions or downtime or technical difficulties that result in the unavailability of our websites 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 or an overwhelming number of visitors trying to reach our websites 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.

Purchasers of diamonds and fine jewelry may not choose to shop online, which would prevent us from increasing net sales.

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 consumers who have historically purchased diamonds and fine jewelry through traditional retailers. Furthermore, we may have to incur significantly higher and 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 websites and convert them into purchasing customers. Specific factors that could prevent consumers from purchasing diamonds and fine jewelry from us include:

- concerns about buying luxury products such as diamonds and fine jewelry 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 Internet purchased items; and
- usability, functions and features of our websites.

If use of the Internet, particularly with respect to online commerce, does not continue to increase as rapidly as we anticipate, our business will be harmed.

Our future net sales and profits are substantially dependent upon the continued growth in the use of the Internet as an effective medium of business and communication by our target customers. Internet use may not continue to develop at historical rates and consumers may not continue to use the Internet and other online services as a medium for commerce. Highly publicized failures by some online retailers to meet consumer demands could result in consumer reluctance to adopt the Internet as a means for commerce, and thereby damage our reputation and brand and substantially harm our business and results of operations.

Table of Contents

In addition, the Internet may not be accepted as a viable long-term commercial marketplace for a number of reasons, including:

- actual or perceived lack of security of information or privacy protection;
- possible disruptions, computer viruses, spyware, phishing, attacks or other damage to the Internet servers, service providers, network carriers and Internet companies or to users computers; and
- excessive governmental regulation.

Our success will depend, in large part, upon third parties maintaining the Internet infrastructure to provide a reliable network backbone with the speed, data capacity, security and hardware necessary for reliable Internet access and services. Our business, which relies on a contextually rich website that requires the transmission of substantial secure data, is also significantly dependent upon the availability and adoption of broadband Internet access and other high speed Internet connectivity technologies.

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, which may increase over time and raise our operating costs and lower our operating margins.

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 single financial institution to provide financing to our customers. 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 undertake acquisitions to expand our business, which may pose risks to our business and dilute the ownership of our existing stockholders.

A key component of our business strategy includes strengthening our competitive position and refining the customer experience on our websites through internal development. However, from time to time, we may selectively pursue acquisitions of businesses, technologies or services. Integrating any newly acquired businesses, technologies or services may be expensive and time-consuming. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us, and, in the case of equity financings, would result in dilution to our stockholders. If we do complete any acquisitions, we may be unable to operate such acquired businesses profitably or otherwise implement our strategy successfully. If we are unable to integrate any newly acquired entities or technologies effectively, our business and results of operations could suffer. 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. 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. We have no current plans, agreements or commitments with respect to any such acquisitions.

Table of Contents

Our failure to rapidly respond to technological change could result in our services or systems becoming obsolete and substantially harm our business and results of operations.

As the Internet and online commerce industries evolve, we may be required to license emerging technologies useful in our business, enhance our existing services, develop new services and technologies that address the increasingly sophisticated and varied needs of our prospective customers and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We may not be able to successfully implement new technologies or adapt our websites, proprietary technologies and transaction-processing systems to customer requirements or emerging industry standards. Our failure to do so would substantially harm our business and results of operations. We may be required to upgrade existing technologies or business applications, or implement new technologies or business applications. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure.

We may have exposure to greater than anticipated tax liabilities.

We are subject to income, payroll, duties and other taxes in both the United States and foreign jurisdictions. 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 review by applicable tax authorities. Any adverse outcome of such a review could have a negative effect on our operating results and financial condition. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Government regulation of the Internet and e-commerce is evolving and unfavorable changes could substantially harm our business and results of operations.

We are not currently subject to direct federal, state or local regulation other than regulations applicable to businesses generally or directly applicable to retailing and online commerce. However, as the Internet becomes increasingly popular, it is possible that laws and regulations may be adopted with respect to the Internet, which may impede the growth of the Internet or other online services. These regulations and laws may cover issues such as taxation, advertising, intellectual property rights, freedom of expression, 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 and the characteristics and quality of products and services. Further, the growth of online commerce may prompt calls for more stringent consumer protection laws. Several states have proposed legislation to limit the uses of personal user information gathered online or require online companies to establish privacy policies. The Federal Trade Commission has also initiated action against at least one online company regarding the manner in which personal information is collected from users and provided to third parties. The adoption of additional privacy or consumer protection laws could create uncertainty in Internet usage and reduce the demand for our products and services.

We are not certain how our business may be affected by the application of existing laws governing issues such as property ownership, copyrights, personal property, encryption and other intellectual property issues, taxation, libel, obscenity, qualification to do business and export or import matters. The vast majority of these laws were adopted prior to the advent of the Internet. As a result, they do not contemplate or address the unique issues of the Internet and related technologies. Changes in laws intended to address these issues could create uncertainty for those conducting online commerce. This uncertainty could reduce demand for our products and services or increase the cost of doing business as a result of litigation costs or increased fulfillment costs and may substantially harm our business and results of operations.

We may need to implement additional finance and accounting systems, procedures and controls as we grow our business and organization and to satisfy 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. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements may increase our costs and require additional management time and resources. We may need to continue to implement additional finance and accounting systems, procedures and controls to satisfy new reporting requirements. If our internal control over financial reporting is determined to be ineffective, investors could lose confidence in the reliability of our internal control over financial reporting, which could adversely affect our stock price.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary of stock repurchases during the quarter ended June 29, 2008.

Issuer Purchases of Equity Securities

(Dollars in thousands except per share amounts)

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs		Approximate dollar value of shares that may yet be purchased under the plans or programs **(1)**
March 31, 2008 through April 27, 2008		$			$	108,337
April 28, 2008 through May 25, 2008	5,900	$	45.02	5,900	$	108,071
May 26, 2008 through June 29, 2008	4,600	$	42.03	4,600	$	107,877
Total shares purchased	10,500			10,500		

(1) On July 27, 2006, our board of directors authorized the repurchase of up to $50 million of the Company s common stock within the 24-month period following the approval date of such repurchase. As of June 29, 2008, approximately $7.9 million remained under this repurchase authorization. On February 6, 2008, our board of directors authorized the repurchase of up to an additional $100 million of Blue Nile, Inc. common stock during the subsequent 24-month period following the approval date of such additional repurchase. As of June 29, 2008, no shares had been repurchased under this repurchase authorization. The 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 the Company s management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders of the Company held on May 20, 2008, the stockholders elected three directors to serve until the 2011 Annual Meeting of Stockholders, ratified the Audit Committee s selection of Deloitte & Touche LLP to serve as the Company s independent registered public accounting firm for the fiscal year ending January 4, 2009, and approved the terms of the 2004 Equity Incentive Plan. The terms of the other members of the Company s Board of Directors, Mary Alice Taylor, Michael Potter, Steve Scheid, Diane Irvine and Joseph Jimenez, continued after the 2008 Annual Meeting of Stockholders. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended.

The table below shows the results of the stockholders voting:

	Votes in Favor	Votes Against	Votes Withheld/ Abstentions	Broker Non- Votes
Proposal 1:				
Election of three directors for three-year terms expiring at the 2011 annual meeting of stockholders:				
Mark Vadon	14,102,163	NA	102,127	NA
Eric Carlborg	14,084,291	NA	119,999	NA
Joanna Strober	14,096,623	NA	107,667	NA
Proposal 2:				
Ratification of the selection of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending January 4, 2009	14,112,860	13,256	78,173	NA
Proposal 3:				
Approval of the terms of the Company s 2004 Equity Incentive Plan	8,112,485	5,151,319	82,517	1,604,886

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Blue Nile, Inc.
3.2(2)	Amended and Restated Bylaws of Blue Nile, Inc.
3.3(3)	Amendment to the Bylaws of Blue Nile, Inc.
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3.
4.2(4)	Specimen Stock Certificate.
4.3(2)	Fourth Amended and Restated Investor Rights Agreement dated June 29, 2001 by and between Blue Nile, Inc. and certain holders of Blue Nile, Inc. s preferred stock.
10.1(5)+	Offer letter to Marc Stolzman, dated May 2, 2008.
10.2(6)+	2008 Executive Officer Cash Incentive Plan.
31.1(7)	Certification of Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2(7)	Certification of Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1(7)*	Certification of Chief Executive Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2(7)*	Certification of Chief Financial Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

(1) Previously filed as Exhibit 3.1 to Blue Nile, Inc. s 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.
(2) Previously filed as the like numbered exhibit to Blue Nile, Inc. s Registration Statement on Form S-1 (No. 333-113494), as filed with the Securities and Exchange Commission on March 11, 2004, as amended, and incorporated by reference herein.
(3) Previously filed as Exhibit 3.2 to Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on February 7, 2008, and incorporated by reference herein.
(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) Previously filed as Exhibit 10.1 to Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on May 6, 2008, and incorporated by reference herein.
(6) Previously filed on Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on May 19, 2008, and incorporated by reference herein.
(7) Filed herewith.

\+ Indicates management contract or compensatory plan.
* 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.

Table of Contents

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

Date: August 7, 2008

/s/ Marc D. Stolzman

Marc D. Stolzman
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

Exhibit Index

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Blue Nile, Inc.
3.2(2)	Amended and Restated Bylaws of Blue Nile, Inc.
3.3(3)	Amendment to the Bylaws of Blue Nile, Inc.
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3.
4.2(4)	Specimen Stock Certificate.
4.3(2)	Fourth Amended and Restated Investor Rights Agreement dated June 29, 2001 by and between Blue Nile, Inc. and certain holders of Blue Nile, Inc. s preferred stock.
10.1(5)+	Offer letter to Marc Stolzman, dated May 2, 2008.
10.2(6)+	2008 Executive Officer Cash Incentive Plan.
31.1(7)	Certification of Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2(7)	Certification of Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1(7)*	Certification of Chief Executive Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2(7)*	Certification of Chief Financial Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

(1) Previously filed as Exhibit 3.1 to Blue Nile, Inc. s 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.
(2) Previously filed as the like numbered exhibit to Blue Nile, Inc. s Registration Statement on Form S-1 (No. 333-113494), as filed with the Securities and Exchange Commission on March 11, 2004, as amended, and incorporated by reference herein.
(3) Previously filed as Exhibit 3.2 to Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on February 7, 2008, and incorporated by reference herein.
(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) Previously filed as Exhibit 10.1 to Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on May 6, 2008, and incorporated by reference herein.
(6) Previously filed on Blue Nile, Inc. s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on May 19, 2008, and incorporated by reference herein.
(7) Filed herewith.

+ Indicates management contract or compensatory plan.
* 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.