

BLUE NILE INC  
Form PREM14A  
November 29, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**BLUE NILE, INC.**

**(Name of Registrant as Specified In Its Charter)**

**N/A**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Company Common Stock, \$0.001

(2) Aggregate number of securities to which transaction applies:

As of November 18, 2016, 11,722,578 shares of Company Common Stock were issued and outstanding (which excludes the shares of Company Common Stock relating to the Company Stock-Based Awards and Company Options and the shares held by the Company as treasury shares).

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

Solely for the purposes of calculating the filing fee, the maximum aggregate value was determined based upon the sum of: (A) 11,722,578 shares of Company Common Stock multiplied by \$40.75 per share; (B) options to purchase 520,029 shares of Company Common Stock multiplied by \$8.98 (the difference between \$40.75 and the weighted average exercise price of \$31.77); and (C) 340,729 shares of Company Common Stock underlying restricted stock units multiplied by \$40.75 per share. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying the sum calculated in the preceding sentence by .0001159.

(4) Proposed maximum aggregate value of transaction:

\$496,249,620.67

(5) Total fee paid:

\$57,515.33

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**Preliminary Proxy Statement Subject to Completion, Dated November 29, 2016**

**BLUE NILE, INC.**

411 First Avenue South, Suite 700

Seattle, Washington 98104

[ ], 2016

To the stockholders of Blue Nile, Inc.:

On November 6, 2016, your Board of Directors approved an Agreement and Plan of Merger (the Merger Agreement ) by and among Blue Nile, Inc. ( Blue Nile, the Company, we, us, or our ), BC Cyan Parent Inc. ( Parent ) and BC Acquisition Inc. ( Merger Sub ), which are legal entities formed by funds managed by Bain Capital Private Equity to facilitate its acquisition of Blue Nile. Under the terms of the Merger Agreement, Merger Sub will be merged into Blue Nile, each outstanding share of our common stock will be cancelled and converted into the right to receive \$40.75 in cash (without interest) and Blue Nile will become a privately held subsidiary of Parent. We refer to this transaction as the Merger. We cannot complete the Merger until our stockholders have adopted the Merger Agreement. Accordingly, you are cordially invited to attend a company stockholder meeting (the Company Stockholder Meeting ) of Blue Nile to be held on [ ], 2017, at [ ], Pacific Time, at 411 First Avenue South, Suite 210, Seattle, WA 98104 in order to vote on a proposal to adopt the Merger Agreement.

At the Company Stockholder Meeting, you will be asked to consider and vote on a proposal to postpone or adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting, and a proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

If our stockholders adopt the Merger Agreement in accordance with applicable law, the other closing conditions in the Merger Agreement are satisfied and the Merger is completed, our stockholders will be entitled to receive \$40.75 in cash, without interest and less applicable withholding tax, for each share of Blue Nile common stock (the Company Common Stock ) held at the effective time of the Merger. This price represents a premium of approximately 33.9% from the closing price of \$30.44 on November 4, 2016, the last trading day prior to the execution of the Merger Agreement.

**After considering the factors more fully described in the enclosed proxy statement, your Board of Directors unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein; (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations thereunder, and the consummation of the Merger upon the terms and conditions set forth therein; and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the Delaware General Corporation Law ( DGCL ).**

**Accordingly, your Board of Directors recommends that you vote (1) FOR the adoption of the Merger Agreement; (2) FOR the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) FOR the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.**

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The enclosed proxy statement provides detailed information about the Merger Agreement and the Merger, as well as the Company Stockholder Meeting. In addition, a copy of the Merger Agreement is attached as Annex A to the proxy statement. The enclosed proxy statement also describes the process by which the Board of Directors considered, negotiated and ultimately approved the Merger Agreement and the Merger, as well as the reasons the Board of Directors approved the Merger Agreement and recommends that Blue Nile's stockholders adopt it. **We encourage you to read the proxy statement and its annexes, including the Merger Agreement, carefully and in their entirety, as they contain important information. You may also obtain more information about Blue Nile from documents Blue Nile has filed with the Securities and Exchange Commission (the SEC).**

Whether or not you plan to attend the Company Stockholder Meeting in person, please sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope or grant your proxy electronically over the internet or by telephone. If you attend the Company Stockholder Meeting and vote in person by ballot, your vote will revoke any proxy that you have previously submitted. The failure of any stockholder to vote will have the same effect as a vote against adopting the Merger Agreement.

If you hold your shares in street name, you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your bank, broker or other nominee cannot vote on any of the proposals, including the proposal to adopt the Merger Agreement, without your instructions.

**We cannot complete the Merger unless the proposal to adopt the Merger Agreement is approved by the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote. For this purpose, non-votes will be counted as votes against the Merger Agreement and the Merger. Your affirmative vote is very important regardless of the number of shares of Company Common Stock that you own.**

If you have any questions or need assistance voting your shares, please contact our Proxy Solicitor:

D.F. King & Co., Inc.

48 Wall Street, 22<sup>nd</sup> Floor

New York, NY 10005

Shareholder toll free phone number: (800) 317-8033

Banks and Brokers collect call phone number: (212) 493-3910

On behalf of the Board of Directors, I thank you for your support and appreciate your consideration of this matter.

Sincerely,

Harvey Kanter  
Chairman, Chief Executive Officer and President

The accompanying proxy statement is dated November [ ], 2016 and, together with the enclosed form of proxy card, is first being mailed to stockholders of Blue Nile on or about [ ].

**Neither the SEC nor any state securities commission has approved or disapproved the Merger, passed upon the merits or fairness of the Merger Agreement or the proposed Merger, or passed upon the adequacy or accuracy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.**

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**BLUE NILE, INC.**

411 First Avenue South

Suite 700

Seattle, Washington 98104

**NOTICE OF COMPANY STOCKHOLDER MEETING**

**To Be Held [ ], 2017**

Notice is hereby given that a company stockholder meeting (the Company Stockholder Meeting ) of Blue Nile, Inc., a Delaware corporation ( Blue Nile, the Company, we, us, or our ), will be held on [ ], 2017, at [ ], Pacific Time, 411 First Avenue South, Suite 210, Seattle, WA 98104, for the following matters:

1. To consider and vote on the proposal to adopt the Agreement and Plan of Merger, made and entered into as of November 6, 2016 (the Merger Agreement ), by and among Blue Nile, BC Cyan Parent Inc. ( Parent ), and BC Cyan Acquisition Inc. ( Merger Sub ). Each of Parent and Merger Sub is affiliated with an investor group comprised of funds managed by Bain Capital Private Equity, a leading private equity firm, and Bow Street LLC, a New York-based investment fund (collectively, the Investor Group ). Pursuant to the terms of the Merger Agreement, Merger Sub will be merged with and into Blue Nile and Blue Nile will continue as the surviving corporation of the Merger and a private subsidiary of Parent (the Merger );
2. To consider and vote on the proposal to postpone or adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and
3. To consider and vote on the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

Only stockholders of record as of the close of business on [ ] are entitled to notice of the Company Stockholder Meeting and to vote at the Company Stockholder Meeting or any adjournment, postponement or other delay thereof.

**The Board of Directors recommends that you vote (1) FOR the adoption of the Merger Agreement; (2) FOR the proposal to postpone or adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) FOR the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with**



**the Merger.**

All stockholders of record are cordially invited to attend the Company Stockholder Meeting in person. The adoption of the Merger Agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock. Whether or not you plan to attend the Company Stockholder Meeting in person, please sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope or grant your proxy electronically over the internet or by telephone.

If you attend the Company Stockholder Meeting and vote in person by ballot, your vote will revoke any proxy that you have previously submitted. If you hold your shares in street name, you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your bank, broker or other nominee cannot vote on any of the proposals, including the proposal to adopt the Merger Agreement, without your instructions.

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By the Order of the Board of Directors,

Lauren Neiswender

General Counsel and Corporate Secretary

Dated: [ ], 2016

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**YOUR VOTE IS IMPORTANT**

WHETHER OR NOT YOU PLAN TO ATTEND THE COMPANY STOCKHOLDER MEETING IN PERSON, WE ENCOURAGE YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE (1) BY TELEPHONE; (2) THROUGH THE INTERNET; OR (3) BY SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE POSTAGE-PAID ENVELOPE PROVIDED. IF YOU ARE A STOCKHOLDER OF RECORD, YOU MAY REVOKE YOUR PROXY OR CHANGE YOUR VOTE AT ANY TIME BEFORE IT IS VOTED AT THE COMPANY STOCKHOLDER MEETING. If you are a stockholder of record, voting in person by ballot at the Company Stockholder Meeting will revoke any proxy that you previously submitted. If you hold your shares through a bank, broker or other nominee, you must obtain a legal proxy in order to vote in person at the Company Stockholder Meeting.

If you fail to (1) return your proxy card; (2) grant your proxy electronically over the internet or by telephone; or (3) attend the Company Stockholder Meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the Company Stockholder Meeting; and, if a quorum is present, your shares will have the same effect as a vote AGAINST the proposal to adopt the Merger Agreement, but will have no effect on the other proposals.

We encourage you to read the accompanying proxy statement and its annexes, including all documents incorporated by reference into the accompanying proxy statement, carefully and in their entirety. If you have any questions concerning the Merger, the Company Stockholder Meeting or the accompanying proxy statement, would like additional copies of the accompanying proxy statement or need help voting your shares of Company Common Stock, please contact our Proxy Solicitor:

D.F. King & Co., Inc.

48 Wall Street, 22<sup>nd</sup> Floor

New York, NY 10005

Shareholder toll free phone number: (800) 317-8033

Banks and Brokers collect call phone number: (212) 493-3910

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**FORWARD-LOOKING STATEMENTS**

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This proxy statement, the documents incorporated by reference in this proxy statement and information included in oral statements or other written statements made or to be made by us or on our behalf contain forward-looking statements that do not directly or exclusively relate to historical facts. You can typically identify forward-looking statements by terms such as "would," "could," "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "potential," "targets," "seek," or "continue," the negative of these terms or other variations of such terms. In addition, any statements that refer to the expected completion and timing of the Merger and other expectations relating to the Merger 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. These risks and uncertainties include, but are not limited to, the risks detailed in our filings with the Securities and Exchange Commission (the "SEC"), including in our most recent filings on Forms 10-K and 10-Q, factors and matters described or incorporated by reference in this proxy statement, and the following factors:

the inability to complete the Merger due to the failure to obtain the requisite vote to adopt the Merger Agreement (as defined in the section captioned "Summary") by stockholders of Blue Nile or failure to satisfy the other conditions to the completion of the Merger, including the expiration or termination of the applicable waiting period under the HSR Act and the Austrian Cartel Act;

the risk that the Merger Agreement may be terminated in circumstances that require Blue Nile to pay Parent (as defined in the section captioned "Summary") a termination fee of up to \$17.4 million, as further described in the Merger Agreement;

the outcome of any legal proceedings that may be instituted against us and others related to the Merger Agreement;

the fact that receipt of the all-cash Per Share Price (as defined in the section of this proxy statement captioned "Summary The Merger and the Per Share Price") would be taxable to stockholders that are treated as U.S. holders for U.S. federal income tax purposes;

the fact that, if the Merger is completed, stockholders will forgo the opportunity to realize the potential long-term value of the successful execution of Blue Nile's current strategy as an independent company;

the possibility that Parent could, at a later date, engage in unspecified transactions, including restructuring efforts, special dividends or the sale of some or all of Blue Nile's assets to one or more as yet unknown purchasers, which would conceivably produce a higher aggregate value than that available to stockholders in the Merger;

the fact that under the terms of the Merger Agreement, Blue Nile is unable to solicit other acquisition proposals after the Cut-Off Date (as defined in the section captioned *Summary-Acquisition Proposals; Change in the Recommendation of Blue Nile's Board of Directors* ) during the then-remaining pendency of the Merger;

the effect of the announcement or pendency of the Merger on our business relationships, operating results and business generally, including the risk of delays or deferments of certain business decisions by our customers, suppliers and other business partners, the risk that the pendency of the Merger diverts management's or employees' attention from ongoing business operations, and the risk that the pendency of the Merger adversely effects our ability to retain or recruit key employees;

the inability to pursue alternative business opportunities or make appropriate changes to our business because of requirements of the Merger Agreement and the related equity and debt financing commitments that we conduct our business in the ordinary course of business consistent with past practice and not engage in certain kinds of transactions prior to the completion of the Merger;



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the amount of the costs, fees, expenses and charges related to the Merger Agreement or the Merger; and

risks that our stock price may decline significantly if the Merger is not completed.

Consequently, all of the forward-looking statements that we make in this proxy statement are qualified by the information contained or incorporated by reference herein, including (1) the information contained under this caption; and (2) the information contained under the caption *Risk Factors* and information in our consolidated financial statements and notes thereto included in our most recent filings on Forms 10-K and 10-Q. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Except as required by applicable law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any future disclosures that we make on related subjects as may be detailed in our other filings made from time to time with the SEC.

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**SUMMARY**

*This summary highlights selected information from this proxy statement related to the merger of BC Cyan Acquisition Inc. with and into Blue Nile, Inc. (the Merger ), and may not contain all of the information that is important to you. To understand the Merger more fully and for a more complete description of the legal terms of the Merger, you should carefully read this entire proxy statement, the annexes to this proxy statement and the documents that we refer to in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under the section of this proxy statement captioned Where You Can Find More Information. The Agreement and Plan of Merger, made and entered into as of November 6, 2016 (the Merger Agreement ), by and among Blue Nile, Parent and Merger Sub is attached as Annex A to this proxy statement. We encourage you to read the Merger Agreement, which is the legal document that governs the Merger, carefully and in its entirety.*

*Except as otherwise specifically noted in this proxy statement, Blue Nile, the Company, we, our, us, and similar words refer to Blue Nile, Inc., including, in certain cases, our subsidiaries. Throughout this proxy statement, we refer to BC Cyan Parent Inc. as Parent, and BC Cyan Merger Inc. as Merger Sub. In addition, throughout this proxy statement we refer to the Agreement and Plan of Merger, dated November 6, 2016, among Blue Nile, Parent and Merger Sub, as the Merger Agreement.*

**Parties Involved in the Merger (Page [ ])**

***Blue Nile, Inc.***

Blue Nile is a leading retailer of high-quality diamonds and fine jewelry. In addition to sales of diamonds and fine jewelry, Blue Nile provides education, guidance and support to enable customers to more effectively learn about and purchase diamonds and fine jewelry. Blue Nile, a Delaware corporation based in Seattle, Washington, was formed in March 1999. Blue Nile serves consumers in over forty (40) countries and territories all over the world through its website at [www.bluenile.com](http://www.bluenile.com).

Blue Nile's common stock is quoted on the NASDAQ Stock Market LLC ( NASDAQ ) under the symbol NILE .

Blue Nile's principal executive office is located at 411 First Avenue South, Suite 700, Seattle, WA 98104, and its telephone number is (206) 336-6700.

***BC Cyan Parent Inc.***

Parent was formed by funds managed by Bain Capital Private Equity on October 26, 2016 for the purpose of engaging in the transactions contemplated by the Merger Agreement, and has not engaged in any business activities other than in connection with the transactions contemplated by the Merger Agreement and arranging of the equity financing and any debt financing in connection with the Merger.

***BC Cyan Acquisition Inc.***

Merger Sub is a wholly-owned direct subsidiary of Parent and was formed by funds managed by Bain Capital Private Equity on October 26, 2016 for the purpose of engaging in the transactions contemplated by the Merger Agreement, and has not engaged in any business activities other than in connection with the transactions contemplated by the Merger Agreement and arranging of the equity financing and any debt financing in connection with the Merger.



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Parent and Merger Sub are affiliated with an investor group comprised of funds managed by Bain Capital Private Equity, a leading private equity firm, and Bow Street LLC, a New York-based investment fund (collectively, the Investor Group). Parent, Merger Sub and Blue Nile will cause the Merger to be consummated pursuant to the Delaware General Corporation Law ( DGCL ) by filing a certificate of merger in customary form and substance (the Certificate of Merger ) with the Secretary of State of the State of Delaware to be effective on the date and time specified in the Certificate of Merger (the Effective Time ). Blue Nile, as the Surviving Corporation, will be indirectly owned by the Investor Group.

Parent and Merger Sub have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, which will be available to fund the aggregate purchase price and certain other payments contemplated by, and subject to the terms and conditions of, the Merger Agreement. In addition, Bain Capital Fund XI, L.P. ( Bain Capital Fund XI ) has also provided Blue Nile with a limited guaranty in favor of Blue Nile, which guarantees the payment of the Parent Termination Fee that may become payable by Parent under the Merger Agreement.

**The Merger and the Per Share Price (Page [ ])**

Upon the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into Blue Nile, with Blue Nile continuing as the surviving corporation and as a wholly-owned direct subsidiary of Parent (the Surviving Corporation ). As a result of the Merger, at the Effective Time, Blue Nile will cease to be a publicly traded company and all outstanding shares of Blue Nile common stock ( Company Common Stock ) will be cancelled and converted into the right to receive \$40.75 in cash, without interest and less any applicable withholding tax (the Per Share Price ), and you will no longer own any shares of the capital stock or any other rights or interest in the Surviving Corporation. After the Merger is completed, you will have the right to receive the Per Share Price, but you will no longer have any rights as a stockholder.

Each holder of shares of Company Common Stock will be entitled to receive, upon (i) surrender to the payment agent of a certificate or certificates, together with a properly completed letter of transmittal, or (ii) receipt of an agent s message by the payment agent (or such other evidence, if any, of transfer as the payment agent would reasonably request) in the case of a book-entry transfer of uncertificated shares, the Per Share Price payable for each share of Company Common Stock represented by a certificate or for each uncertificated share, without interest.

At the Effective Time, each outstanding Company Option, whether unvested or vested, that has an exercise price per share less than \$40.75 will be cancelled and converted into the right to receive an amount in cash equal, to \$40.75 (less the exercise price per share attributable to such Company Option), *multiplied* by the total number of shares of Company Common Stock that are issuable upon full exercise of such Company Option, *less* any applicable tax withholdings. At the Effective Time, each outstanding Company Option, whether unvested or vested, that has an exercise price per share equal to or greater than \$40.75 will be cancelled without payment of any consideration.

At the Effective Time, each outstanding RSU that is only subject to time-vesting requirements, whether vested or unvested, will be cancelled and converted into the right to receive an amount in cash equal to \$40.75, *multiplied* by the total number of shares subject to such RSUs, *less* any applicable tax withholdings. At the Effective Time, each outstanding RSU that is subject to time- and performance-based requirements, will be cancelled and converted into the right to receive an amount in cash equal to \$40.75, *multiplied* by the total number of shares determined to be performance vested, with the performance goals deemed achieved at the maximum levels and with the remaining time-vesting requirements deemed satisfied, *less* any applicable tax withholdings. Amounts payable to the holders of Company Option and RSUs will be payable no later than the second payroll cycle of the Surviving Corporation following the Effective Time.



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**Material U.S. Federal Income Tax Consequences of the Merger (Page [ ])**

For U.S. federal income tax purposes, the receipt of cash by a U.S. Holder (as defined in the section of this proxy statement captioned *The Merger Material U.S. Federal Income Tax Consequences of the Merger* ) in exchange for such U.S. Holder's shares of Company Common Stock in the Merger generally will result in the recognition of gain or loss in an amount measured by the difference, if any, between the amount of cash that such U.S. Holder receives in the Merger and such U.S. Holder's adjusted tax basis in the shares of Company Common Stock surrendered in the Merger.

A Non-U.S. Holder (as defined in the section of this proxy statement captioned *The Merger Material U.S. Federal Income Tax Consequences of the Merger* ) generally will not be subject to U.S. federal income tax with respect to the exchange of Company Common Stock for cash in the Merger, unless such Non-U.S. Holder has certain connections to the United States.

**Stockholders should consult their own tax advisors concerning the U.S. federal income tax consequences relating to the Merger in light of their particular circumstances and any consequences arising under U.S. federal non-income tax laws or the laws of any state, local or non-U.S. tax jurisdiction.**

**Appraisal Rights (Page [ ])**

If the Merger is consummated, Blue Nile stockholders who do not vote their shares of Company Common Stock in favor of the adoption of the Merger Agreement, who continuously hold such shares of Company Common Stock through the Effective Time, who properly perfect appraisal of their shares of Company Common Stock and who meet certain other conditions (including relating to the amount of stock ownership) will be entitled to appraisal rights in connection with the Merger under Section 262 of the DGCL. This means that such stockholders would be entitled to have their shares of Company Common Stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of their shares of Company Common Stock, exclusive of any elements of value arising from the accomplishment or expectation of the Merger, together with interest to be paid on the amount determined to be fair value, if any, as determined by the court (subject, in the case of interest payments, to any voluntary cash payments made by the Surviving Corporation pursuant to subsection (h) of Section 262 of the DGCL). Due to the complexity of the appraisal process, stockholders who wish to seek appraisal of their shares of Company Common Stock are encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights. Stockholders considering seeking appraisal should be aware that the fair value of their shares of Company Common Stock as determined pursuant to Section 262 of the DGCL could be more than, the same as or less than the value of the consideration that they would receive pursuant to the Merger Agreement if they did not seek appraisal of their shares of Company Common Stock. For more information, please see the section of this proxy statement captioned *The Merger Appraisal Rights*, beginning on page [ ].

**Conditions to the Merger (Page [ ])**

Each party's obligation to consummate the Merger is subject to the satisfaction or (where permitted by applicable law) written waiver of the following conditions:

at and as of the Closing, the adoption of the Merger Agreement by the requisite affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote;

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at and as of the Closing, the expiration or termination of the applicable waiting period under the HSR Act and the Austrian Cartel Act;

at and as of the Closing, the consummation of the Merger not being restrained, enjoined, rendered illegal or otherwise prohibited by any applicable law or order of any governmental authority;

at or prior to the Effective Time, the absence of any continuing change, event, violation, inaccuracy, effect or circumstance at Blue Nile that, individually or in the aggregate, generally: (1) is or would

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reasonably be expected to be materially adverse to Blue Nile's business, financial condition or results of operations, taken as a whole; or (2) would reasonably be expected to prevent or materially impair or delay the consummation of the Merger;

at or prior to the Effective Time, the accuracy of the representations and warranties of Blue Nile, Parent and Merger Sub in the Merger Agreement, subject to materiality qualifiers, made at and as of the Closing Date or the date in respect of which such representation or warranty was specifically made;

at or prior to the Effective Time, the performance in all material respects by Blue Nile, Parent and Merger Sub of their respective covenants and obligations required to be performed by them under the Merger Agreement at or prior to the Closing;

at or prior to the Effective Time, receipt of certificates executed by authorized officers of Blue Nile, on the one hand, and Parent and Merger Sub, on the other hand, to the effect that the conditions described in the preceding two bullets have been satisfied; and

the absence of any Company Material Adverse Effect (as defined in the section of this proxy statement captioned *The Merger Agreement Representations and Warranties*) having occurred after the date of Merger Agreement that is continuing.

## **Financing (Page [ ])**

The completion of the Merger is not subject to any financing conditions. Although the obligation of Parent and Merger Sub to consummate the Merger is not subject to any financing condition, the Merger Agreement provides that the Closing of the Merger will not occur earlier than the third Business Day after the expiration of the marketing period during which Parent's debt financing sources will be afforded an opportunity to syndicate portions of their debt financing commitment to other third parties (the Marketing Period). Under the terms of the Merger Agreement, the Marketing Period is the first period of twenty (20) consecutive Business Days commencing on the date that is the first Business Day after the later of (a) the date this proxy statement is mailed to stockholders and (b) January 2, 2017 throughout which (y) Parent has received certain financial information from Blue Nile necessary to syndicate any debt financing and (z) certain conditions to the consummation of the Merger are satisfied (other than the requisite stockholder approval, conditions to Blue Nile's obligations to effect the Merger and other than those conditions by their nature can only be satisfied at Closing). For more information, please see the section of this proxy statement captioned *The Merger Financing of the Merger*.

## **Recommendations of the Board of Directors (Page [ ])**

After considering various factors more fully described in the section of this proxy statement captioned *The Merger Recommendation of the Board of Directors and Reasons for the Merger*, the Board of Directors of Blue Nile (the Board of Directors) has unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein; (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations thereunder, and the consummation of the Merger upon the terms and conditions set forth therein; and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the DGCL.



Accordingly, the Board of Directors recommends that you vote (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to postpone or adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

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Notwithstanding the foregoing, if an Intervening Event (as defined in the Merger Agreement) occurs at any time prior to the adoption of the Merger Agreement by Blue Nile's stockholders, the Board of Directors may withdraw or change its recommendation regarding the Merger Agreement and the Merger, provided that the Board of Directors determines in good faith, after consultation with its outside legal counsel, that the failure to take such action would be inconsistent with the fiduciary duties of the Board of Directors under the applicable law, as further described and subject to compliance with the obligations described in the section of this proxy statement captioned *The Merger Agreement Other Covenants Under the Merger Agreement Acquisition Proposals; Change in the Recommendation of Blue Nile's Board of Directors*.

In addition, at any time prior to the adoption of the Merger Agreement by Blue Nile's stockholders, if Blue Nile receives a bona fide written competing acquisition proposal for Blue Nile that was not solicited in material breach of the non-solicitation provisions of the Merger Agreement and that the Board of Directors determines in good faith, after consultation with its financial advisor and outside legal counsel, that the acquisition proposal constitutes a Superior Proposal (within the meaning of the Merger Agreement), then the Board of Directors may (i) withdraw or change its recommendation regarding the Merger Agreement and the Merger, or (ii) terminate the Merger Agreement to concurrently enter into a definitive agreement with respect to such Superior Proposal, provided that in either case the Board of Directors determines in good faith, after consultation with its outside legal counsel, that the failure to take the actions described in clauses (i) or (ii) above would be inconsistent with the fiduciary duties of the Board of Directors under the applicable law.

**Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Page [ ])**

In connection with the Merger, Merrill Lynch, Pierce, Fenner & Smith Incorporated (BofA Merrill Lynch), Blue Nile's financial advisor, delivered to the Board of Directors a written opinion, dated November 6, 2016, as to the fairness, from a financial point of view and as of the date of the opinion, of the Per Share Price to be received in the Merger by holders of Company Common Stock (other than Owned Company Shares and Dissenting Company Shares (each as defined in the Merger Agreement)). The full text of the written opinion, dated November 6, 2016, of BofA Merrill Lynch, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this document and is incorporated by reference herein in its entirety.

**BofA Merrill Lynch provided its opinion to the Board of Directors (in its capacity as such) for the benefit and use of the Board of Directors in connection with and for purposes of its evaluation of the Per Share Price from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the Merger and no opinion or view was expressed as to the relative merits of the Merger in comparison to other strategies or transactions that might be available to Blue Nile or in which Blue Nile might engage or as to the underlying business decision of Blue Nile to proceed with or effect the Merger. BofA Merrill Lynch's opinion does not address any other aspect of the Merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed Merger or any related matter.**

**For a more complete description, please see the section of this proxy statement captioned *The Merger Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated*.**

**Interests of Blue Nile's Directors and Executive Officers in the Merger (Page [ ])**

When considering the recommendation of the Board of Directors that you vote to adopt the Merger Agreement, you should be aware that our directors and executive officers have interests in the Merger that are different from, or in addition to, your interests as a stockholder. In (i) evaluating and negotiating the Merger Agreement; (ii) adopting the

Merger Agreement; and (iii) recommending that the Merger Agreement be adopted

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by Blue Nile's stockholders, the Board of Directors was aware of and considered these interests to the extent that they existed at the time, among other matters. These interests include the following:

accelerated vesting and cash out of Company Options and RSUs at the Effective Time, with the performance conditions applicable to outstanding performance RSUs (including those held by executive officers) deemed to have been achieved at the maximum levels and with the remaining time-vesting requirements deemed satisfied;

the entitlement of each executive officer to receive payments and benefits under the 2015 Change of Control Severance Plan and his or her individual participation notice thereunder previously entered into with Blue Nile (each, a Change of Control Agreement), upon either (1) an involuntary termination of service other than for Cause, death, or disability or (2) voluntary resignation for Good Reason, in each case, as set forth in the applicable Change of Control Agreement, and, in each case, occurring within the 12-month period (or 24-month period for Mr. Kanter and Mr. Binder) following the Effective Time. These payments and benefits may include:

a lump sum severance payment equal to a percentage of the executive officers' annual base salary and annual target bonus; and

payment of the premium costs for continuing health benefits for a period of time following termination; and

continued indemnification and directors' and officers' liability insurance.

If the proposal to adopt the Merger Agreement is approved, the shares of Company Common Stock held by our directors and executive officers will be treated in the same manner as outstanding shares of Company Common Stock held by all other stockholders.

**Go Shop Period & Non-Solicitation of Competing Acquisition Proposals After Go Shop Period (Page [ ])**

*Go Shop Period*

Until 11:59 p.m., Eastern time, on December 6, 2016 (the Go-Shop Period End Date), Blue Nile is permitted to:

solicit, initiate and encourage, facilitate and assist any proposal or inquiry that constitutes, or is reasonably expected to lead to, a competing acquisition proposal for Blue Nile;

subject to the execution of an acceptable confidentiality agreement, furnish to any person non-public information relating to Blue Nile or afford to any such person access to the business, properties, assets, books, records or other non-public information, or to any personnel, of Blue Nile, in any such case with the

intent to induce the making, submission or announcement of, or to encourage, facilitate and assist, any proposal or inquiry that constitutes, or is reasonably expected to lead to, a competing acquisition proposal for Blue Nile or any inquiries or the making of any proposal that would reasonably be expected to lead to any such competing acquisition proposals; or

subject to the execution of an acceptable confidentiality agreement, participate or engage in discussions or negotiations with any person with respect to a competing acquisition proposal for Blue Nile or any proposal that would reasonably be expected to lead to a competing acquisition proposal for Blue Nile.

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*Non-Solicitation After Go Shop Period*

Commencing at 11:59 p.m., Eastern time, on December 6, 2017, Blue Nile and its Subsidiaries, and its and their respective directors and officers may not:

solicit, initiate, propose or induce the making, submission or announcement of, or knowingly encourage, facilitate or assist, any proposal or inquiry that constitutes, or is reasonably expected to lead to a competing acquisition proposal for Blue Nile;

furnish to any person (other than to Parent, Merger Sub or any designees of Parent or Merger Sub) any non-public information relating to Blue Nile or afford to any person access to the business, properties, assets, books, records or other non-public information, or to any personnel, of Blue Nile (other than Parent, Merger Sub or any designees of Parent or Merger Sub), in any such case with the intent to induce the making, submission or announcement of, or to knowingly encourage, facilitate or assist, a competing acquisition proposal for Blue Nile or any inquiries or the making of any proposal that would reasonably be expected to lead to a competing acquisition proposal for Blue Nile;

participate, engage in or continue discussions or negotiations with any person with respect to a competing acquisition proposal for Blue Nile or inquiry that would reasonably be expected to lead to a competing acquisition proposal for Blue Nile;

approve, endorse or recommend any proposal that constitutes, or is reasonably expected to lead to, a competing acquisition proposal for Blue Nile;

enter into any letter of intent, memorandum of understanding, merger agreement, acquisition agreement or other contract relating to a competing acquisition proposal for Blue Nile;

waive the applicability of all or any portion of any anti-takeover laws in respect of any person (other than Parent and its Affiliates); or

resolve or agree to take any of the foregoing actions.

Notwithstanding the foregoing, if any person submits a competing acquisition proposal prior to the Go-Shop Period End Date, then Blue Nile may continue discussions and negotiations with the person that submitted such competing acquisition proposal, provide non-public information to such person, and otherwise facilitate such competing acquisition proposal after the Go-Shop Period End Date.

In addition, under certain circumstances, after the Go-Shop Period End Date and prior to the adoption of the Merger Agreement by the stockholders, Blue Nile may engage in discussions or negotiations with, furnish any non-public information to, or and afford access to the business, properties, assets, books, records or other non-public information, or to any personnel, of Blue Nile to any person that has made or delivered to Blue Nile a bona fide written competing

acquisition proposal for Blue Nile after the date of the Merger Agreement, or otherwise facilitate or assist such competing acquisition proposal or assist such person with such competing acquisition proposal, provided that such competing acquisition proposal was not solicited in material breach the foregoing non-solicitation provisions of the Merger Agreement and (i) the Company Board has determined in good faith (after consultation with its financial advisor and outside legal counsel) that such competing acquisition proposal either constitutes a Superior Proposal (as defined in the Merger Agreement) or is reasonably expected to lead to a Superior Proposal, (ii) the Board of Directors has determined in good faith (after consultation with its financial advisor and outside legal counsel) that the failure to take the actions would be inconsistent with its fiduciary duties pursuant to applicable law; and (iii) Blue Nile makes available to Parent any non-public information that is provided to any such person that was not previously made available to Parent. For more information, see the section of this proxy statement captioned *The Merger Agreement Termination of the Merger Agreement; Termination Fees*.

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**Termination of the Merger Agreement (Page [ ])**

The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after the adoption of the Merger Agreement by stockholders, in the following ways:

by mutual written agreement of Blue Nile and Parent at any time prior to the Effective Time;

by either Blue Nile or Parent if, at any time prior to the Effective Time (whether prior to or after the receipt of the adoption of the Merger Agreement by its stockholders):

(1) any permanent injunction or other judgment or order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger will be in effect, or any action has been taken by any Governmental Authority of competent jurisdiction, that, in each case, prohibits, makes illegal or enjoins the consummation of the Merger and has become final and non-appealable; or (2) any statute, rule, regulation or order that will be enacted, entered, enforced or deemed applicable to the Merger that prohibits, makes illegal or enjoins the consummation of the Merger;

the Effective Time has not occurred by 5:00 p.m., Eastern time, on May 6, 2017 (the Outside Date ); or

stockholders of Blue Nile fail to adopt the Merger Agreement at the Company Stockholder Meeting (or any adjournment or postponement thereof) at which a vote is taken on the Merger;

by Blue Nile if:

(whether prior to or after receipt of the adoption of the Merger Agreement by its stockholders), Parent or Merger Sub has breached or failed to perform in any material respect any of its respective representations, warranties, covenants or other agreements set forth in the Merger Agreement such that certain conditions set forth in the Merger Agreement are not satisfied, and such breach is not capable of being cured, or is not cured, before the earlier of the Outside Date or the date that is thirty (30) calendar days following Blue Nile's delivery of written notice of such breach;

at any time prior to receipt of the adoption of the Merger Agreement by its stockholders if (1) Blue Nile has received a Superior Proposal; (2) the Board of Directors has authorized Blue Nile to enter into a definitive Alternative Acquisition Agreement to consummate the Acquisition Transaction contemplated by that Superior Proposal; (3) Blue Nile has complied in all material respects with the Merger Agreement with respect to such Superior Proposal; (4) prior to or concurrently with such termination Blue Nile pays, or causes to be paid the Company Termination Fee (as defined below) and (5) immediately after such termination Blue Nile enters into an Alternative Acquisition Agreement



with respect to such Superior Proposal; or

at any time prior to the Effective Time (whether prior to or after receipt of the adoption of the Merger Agreement by its stockholders) if (1) the Merger is not consummated within five Business Days of the first date upon which Parent is required to consummate the Closing pursuant to the Merger Agreement; (2) all mutual, Merger Sub and Parent closing conditions set forth in the Merger Agreement (other than those conditions that by their terms are to be satisfied at closing, each of which is capable of being satisfied at Closing) are satisfied; (3) Blue Nile has irrevocably notified Parent in writing that it is ready, willing and able to consummate the Closing and that all of Blue Nile's closing conditions are satisfied or waived; (4) Blue Nile has provided Parent five Business Days written notice prior to the termination stating Blue Nile's intention to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger on the date required by the Merger Agreement; and (5) Parent and Merger Sub fail to consummate the Merger Sub on the later of (x) the expiration of the five Business Day period contemplated by the foregoing clause, and (y) the date of Closing contemplated by the Merger Agreement.

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by Parent if (whether prior to or after the receipt of the adoption of the Merger Agreement by its stockholders):

Blue Nile has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements set forth in the Merger Agreement such that certain conditions set forth in the Merger Agreement are not satisfied and such breach is not capable of being cured, or is not cured, before the earlier of the Outside Date or the date that is thirty (30) calendar days following Parent's delivery of written notice of such breach; or

if at any time the Board of Directors has effected a Company Board Recommendation Change.

### **Termination Fees (Page [ ])**

Except in specified circumstances, whether or not the Merger is completed, Blue Nile, on the one hand, and Parent and Merger Sub, on the other hand, are each responsible for all of their own respective costs and expenses incurred in connection with the Merger and the other transactions contemplated by the Merger Agreement.

Under the terms of the Merger Agreement, Blue Nile has agreed to pay Parent a termination fee of \$7.4 million if Blue Nile terminates the Merger Agreement in connection with entering into an alternative acquisition agreement with an Excluded Party on or prior to the Cut-Off Date. If the termination fee becomes payable under any other circumstance, the amount of the termination fee will be \$17.4 million. Additionally, if the Merger Agreement is terminated by either Parent or Blue Nile due to: (i) failure to consummate the Closing by the Outside Date if Blue Nile has not held the Company Stockholder Meeting by that date, or (ii) failure of the Blue Nile stockholders to adopt the Merger Agreement at the Company Stockholder Meeting, Blue Nile must also reimburse Parent for its out-of-pocket expenses up to an aggregate of \$5.0 million. For more information, please see the section of this proxy statement captioned *The Merger Agreement Termination of the Merger Agreement; Termination Fees*.

Under the terms of the Merger Agreement, Parent has agreed to pay Blue Nile a fee of \$32.2 million in the event that (1) the Merger is not consummated within five Business Days of the first date upon which Parent is required to consummate the Closing pursuant to the Merger Agreement; (2) Blue Nile is in compliance with all conditions set forth in the Merger Agreement; (3) Blue Nile has irrevocably notified Parent in writing that it is ready, willing and able to consummate the Closing and has satisfied or is capable of satisfying all conditions laid out in the Merger Agreement that are to be consummated by the Closing; (4) Blue Nile has provided Parent five Business Days written notice stating its intention to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger on the date required by the Merger Agreement; and (5) Parent and Merger Sub fail to consummate the Merger Sub on the later of (x) the expiration of the five Business Day period contemplated by the foregoing clause, and (y) the date of Closing contemplated by the Merger Agreement.

Pursuant to the limited guaranty delivered by Bain Capital Fund XI in favor of Blue Nile, dated as of November 6, 2016 (the Limited Guaranty), Bain Capital Fund XI has guaranteed the payment of the Parent Termination Fee if it becomes payable under the Merger Agreement, subject to an aggregate cap equal to \$32.2 million.

### **Remedies**

Blue Nile, Parent and Merger Sub agree that irreparable damage for which monetary damages, even if available, would not be an adequate remedy would occur in the event that the parties do not perform the provisions of the Merger Agreement (including any party failing to take such actions as are required of it thereunder in order to

consummate the Merger Agreement) in accordance with its specified terms or otherwise breach such provisions. Parent and Merger Sub, on the one hand, and Blue Nile, on the other hand, will be entitled, in addition to any other remedy to which they are entitled at law or in equity, to an injunction, specific

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performance and other equitable relief to prevent breaches (or threatened breaches) of the Merger Agreement and to enforce specifically the terms and provisions thereof. Notwithstanding the foregoing, it is explicitly agreed that Blue Nile will have the right to an injunction, specific performance or other equitable remedies in connection with enforcing Parent's and Merger Sub's obligations to consummate the Merger and cause the Equity Financing to be funded to fund the Merger (including to cause Parent to enforce the obligations of the Guarantor under the Equity Commitment Letter in order to cause the Equity Financing to be timely completed in accordance with and subject to the terms and conditions set forth in the Equity Commitment Letter) if and only if (1) the Marketing Period has ended and all conditions to each party's obligations to effect the Merger and conditions to the obligations of Parent and Merger Sub have been satisfied (other than those conditions that, by their nature, are to be satisfied at the Closing (provided such conditions would be satisfied as of such date)) at the time when the Closing would have occurred pursuant the Merger Agreement but for the failure of the Equity Financing to be funded, (2) the Debt Financing has been funded or will be funded at the Closing on the terms set forth in the Debt Commitment Letter or the Definitive Agreement if the Equity Financing is funded to fund the Merger at the Closing, and (3) Blue Nile has irrevocably confirmed in writing to Parent that if specific performance is granted and the Equity Financing is funded, then the Closing pursuant the Merger Agreement will occur. However, Blue Nile may not be entitled to receive both a grant of specific performance that results in the occurrence of the Closing and monetary damages (including any monetary damages in lieu of specific performance and all or any portion of a termination fee paid by Parent).

### **Company Stockholder Meeting (Page [ ])**

#### ***Date, Time and Place***

The Company Stockholder Meeting of Blue Nile will be held on [ ], 2017, at [ ], Pacific Time, at 411 First Avenue South, Suite 210, Seattle, WA 98104.

#### ***Record Date; Shares of Company Common Stock Entitled to Vote***

You are entitled to receive notice of and vote at the Company Stockholder Meeting if you owned shares of Company Common Stock at the close of business on [ ], 2016 (the record date). You will have one vote at the Company Stockholder Meeting for each share of Company Common Stock that you owned and are entitled to vote at the close of business on the record date. If you own shares that are registered in the name of someone else, such as a broker, you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting.

#### ***Purpose***

At the Company Stockholder Meeting, we will ask stockholders to vote on proposals to (1) adopt the Merger Agreement; (2) adjourn the Company Stockholder Meeting to a later date or dates to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

#### ***Quorum***

As of the record date, there were [ ] shares of Company Common Stock outstanding and entitled to vote at the Company Stockholder Meeting. The stockholders of Blue Nile representing a majority of the voting power of the issued and outstanding Company Common Stock of Blue Nile entitled to vote, present in person or represented by proxy, will constitute a quorum for purposes of transacting business at the Company Stockholder Meeting.



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### *Required Vote*

The affirmative vote of a majority of the outstanding shares of Company Common Stock of Blue Nile entitled to vote is required to adopt the Merger Agreement. Abstentions and, because the required votes of Blue Nile stockholders are based upon the number of outstanding shares of Company Common Stock with respect to the stockholder approval and not based on the number of shares represented in person or by proxy at the Company Stockholder Meeting, a failure to vote your shares of Company Common Stock or a broker non-vote, will all have the same effect as a vote **AGAINST** the Merger Agreement proposal.

Approval of the proposal to adjourn the Company Stockholder Meeting, if a quorum is present at the Company Stockholder Meeting, requires the affirmative vote of the holders of a majority of the shares of Company Common Stock present or represented by proxy at the Company Stockholder Meeting and entitled to vote thereon. Abstentions will have the same effect as a vote **AGAINST** the adjournment proposal, and a failure to vote your shares of Company Common Stock or a broker non-vote will each have no effect on the outcome of the proposal.

Approval, by non-binding, advisory vote, of certain compensation that will or may become payable to Blue Nile's executive officers in connection with the Merger requires the affirmative vote of the holders of a majority of the shares of Company Common Stock having present or represented by proxy at the Company Stockholder Meeting and entitled to vote thereon. Abstentions will have the same effect as a vote **AGAINST** the compensation proposal, and a failure to vote your shares of Company Common Stock or a broker non-vote will each have no effect on the outcome of the proposal.

### *Share Ownership of Our Directors and Executive Officers*

As of the record date, our directors and executive officers beneficially owned and were entitled to vote, in the aggregate, [ ] shares of Company Common Stock, representing approximately [ ]% of the shares of Company Common Stock outstanding on the record date. All of our directors and executive officers have informed us that they intend to vote all of their shares of Company Common Stock (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

### *Voting and Proxies*

Any stockholder of record entitled to vote at the Company Stockholder Meeting may submit a proxy by returning a signed proxy card by mail in the accompanying prepaid reply envelope or granting a proxy electronically over the internet or by telephone, or may vote in person by appearing at the Company Stockholder Meeting. If you are a beneficial owner and hold your shares of Company Common Stock in street name through a bank, broker or other nominee, you should instruct your bank, broker or other nominee on how you wish to vote your shares of Company Common Stock using the instructions provided by your bank, broker or other nominee. Under applicable stock exchange rules, banks, brokers or other nominees have the discretion to vote on routine matters. The proposals to be considered at the Company Stockholder Meeting are non-routine matters, and banks, brokers and other nominees cannot vote on these proposals without your instructions. **Therefore, it is important that you cast your vote or instruct your bank, broker or nominee on how you wish to vote your shares.**

If you are a stockholder of record on the record date, you may change your vote or revoke your proxy at any time before it is voted at the Company Stockholder Meeting by (1) signing another proxy card with a later date



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and returning it to us prior to the Company Stockholder Meeting; (2) submitting a new proxy electronically over the internet or by telephone after the date of the earlier submitted proxy; (3) delivering a written notice of revocation to our corporate secretary; or (4) attending the Company Stockholder Meeting and voting in person by ballot.

If you hold your shares of Company Common Stock in street name, you should contact your bank, broker or other nominee for instructions regarding how to change your vote. You may also vote in person at the Company Stockholder Meeting if you obtain a legal proxy from your bank, broker or other nominee.

All shares represented by properly executed proxies received in time for the Company Stockholder Meeting will be voted at the Company Stockholder Meeting in accordance with the instructions of the stockholder. Properly executed proxies that do not contain voting instructions will be voted (1) **FOR** the proposal regarding adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

Shares of Company Common Stock represented at the Company Stockholder Meeting but not voted, including shares of Company Common Stock for which proxies have been received but for which stockholders have abstained, will be treated as present at the Company Stockholder Meeting for purposes of determining the presence or absence of a quorum for the transaction of all business.

Only shares affirmatively voted for the proposal regarding adoption of the Merger Agreement, including properly executed proxies that do not contain specific voting instructions, will be counted **FOR** that proposal. If you abstain from voting, it will have the same effect as a vote **AGAINST** the proposal regarding adoption of the Merger Agreement, the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement, and the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger. If you do not execute a proxy card and do not attend the Company Stockholder Meeting in person, it will have the same effect as a vote **AGAINST** the proposal regarding adoption of the Merger Agreement, but will not have any effect on the other proposals.

**Effect on Blue Nile if the Merger is Not Completed (Page [ ])**

If the Merger Agreement is not adopted by stockholders or if the Merger is not completed for any other reason, Blue Nile's stockholders will not receive any payment for their shares of Company Common Stock. Instead, Blue Nile will remain an independent public company, Company Common Stock will continue to be listed and traded on NASDAQ and registered under the Exchange Act and we will continue to file periodic reports with the SEC. Under specified circumstances, Blue Nile will be required to pay to Parent a termination fee upon the termination of the Merger Agreement.



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**QUESTIONS AND ANSWERS**

The following questions and answers address some commonly asked questions regarding the Merger, the Merger Agreement and the Company Stockholder Meeting. These questions and answers may not address all questions that are important to you. We encourage you to read carefully the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents we refer to in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions in the section of this proxy statement captioned *Where You Can Find More Information*.

**Q: Why am I receiving these materials?**

**A:** The Board of Directors is furnishing this proxy statement and form of proxy card to the holders of shares of Company Common Stock of Blue Nile in connection with the solicitation of proxies to be voted at the Company Stockholder Meeting.

**Q: What am I being asked to vote on at the Company Stockholder Meeting?**

**A:** You are being asked to vote on the following proposals:

- 1) To adopt the Merger Agreement pursuant to which Merger Sub will be merged with and into Blue Nile and Blue Nile will continue as the surviving corporation of the Merger and a private subsidiary of Parent (the Merger );
- 2) To approve the postponement or adjournment of the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and
- 3) To approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Q: When and where is the Company Stockholder Meeting?**

**A:** The Company Stockholder Meeting will take place on [ ], 2017, at [ ], Pacific Time, at 411 First Avenue South, Suite 210, Seattle, Washington 98104.

**Q: Who is entitled to vote at the Company Stockholder Meeting?**

**A:** Stockholders as of [ ] (the record date ) are entitled to notice of the Company Stockholder Meeting and to vote at the Company Stockholder Meeting. Each holder of shares of Company Common Stock is entitled to cast one vote on each matter properly brought before the Company Stockholder Meeting for each share of Company Common Stock owned as of the record date.

**Q: May I attend the Company Stockholder Meeting and vote in person?**

**A:** Yes. All stockholders as of the record date may attend the Company Stockholder Meeting and vote in person. Seating will be limited. Stockholders will need to present proof of ownership of shares of Company Common Stock, such as a bank or brokerage account statement, and a form of personal identification to be admitted to the Company Stockholder Meeting. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Company Stockholder Meeting.

Even if you plan to attend the Company Stockholder Meeting in person, to ensure that your shares will be represented at the Company Stockholder Meeting we encourage you to sign, date and return the enclosed proxy card in the accompanying prepaid reply envelope or grant your proxy electronically over the internet or by telephone. If you attend the Company Stockholder Meeting and vote in person by ballot, your vote will revoke any proxy previously submitted by you with respect to the shares so voted in person.

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If you hold your shares in street name, you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your broker or other agent cannot vote on any of the proposals, including the proposal to adopt the Merger Agreement, without your instructions. If you hold your shares in street name, you may not vote your shares in person at the Company Stockholder Meeting unless you obtain a legal proxy from your bank, broker or other nominee.

**Q: What is the proposed Merger and what effects will it have on Blue Nile?**

**A:** The proposed Merger is the acquisition of Blue Nile by Parent. If the proposal to adopt the Merger Agreement is approved by stockholders and the other closing conditions under the Merger Agreement have been satisfied or waived, Merger Sub will merge with and into Blue Nile with Blue Nile continuing as the Surviving Corporation. As a result of the Merger, Blue Nile will become a private subsidiary of Parent, and Company Common Stock will no longer be publicly traded and will be delisted from NASDAQ. In addition, Company Common Stock will be deregistered under the Exchange Act, and we will no longer file periodic reports with the SEC.

**Q: What will I receive if the Merger is completed?**

**A:** Upon completion of the Merger, you will be entitled to receive the Per Share Price for each share of Company Common Stock that you own. For example, if you own 100 shares of Company Common Stock, you will receive \$4,075.00 in cash in exchange for your shares of Company Common Stock, less any applicable withholding taxes.

**Q: How does the Per Share Price compare to the unaffected market price of the Company Common Stock?**

**A:** The relationship of the Per Share Price to the trading price of the Company Common Stock constituted a premium of approximately 33.9% to the closing price of \$30.44 on November 4, 2016, the last trading day prior to the execution of the Merger Agreement.

**Q: What do I need to do now?**

**A:** We encourage you to read this proxy statement, the annexes to this proxy statement and the documents that we refer to in this proxy statement carefully and consider how the Merger affects you. Then sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying reply envelope, or grant your proxy electronically over the internet or by telephone, so that your shares can be voted at the Company Stockholder Meeting. If you hold your shares in street name, please refer to the voting instruction forms provided by your bank, broker or other nominee to vote your shares. **Please do not send your stock certificates with your proxy card.**

**Q: Should I send in my stock certificates now?**

**A:** No. After the Merger is completed, you will receive a letter of transmittal containing instructions for how to send your stock certificates to the payment agent in order to receive the appropriate cash payment for the shares of Company Common Stock represented by your stock certificates, as described in the section of this proxy statement captioned *The Merger Agreement Exchange of Certificates and Payment Procedures*. You should use the letter of transmittal to exchange your stock certificates for the cash payment to which you are entitled. **Please do not send your stock certificates with your proxy card.**

If your shares are held in street name by your broker, bank, or other nominee, you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your shares held in street name.

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**Q: What happens if I sell or otherwise transfer my shares of Company Common Stock after the record date but before the Company Stockholder Meeting?**

**A:** The record date for the Company Stockholder Meeting is earlier than the date of the Company Stockholder Meeting and the date the Merger is expected to be completed. If you sell or transfer your shares of Company Common Stock after the record date but before the Company Stockholder Meeting, unless special arrangements (such as provision of a proxy) are made between you and the person to whom you sell or otherwise transfer your shares and each of you notifies Blue Nile in writing of such special arrangements, you will transfer the right to receive the Per Share Price, if the Merger is completed, to the person to whom you sell or transfer your shares, but you will retain your right to vote those shares at the Company Stockholder Meeting. **Even if you sell or otherwise transfer your shares of Company Common Stock after the record date, we encourage you to sign, date and return the enclosed proxy card in the accompanying reply envelope or grant your proxy electronically over the internet or by telephone.**

**Q: How does the Board of Directors recommend that I vote?**

**A:** The Board of Directors, after considering the various factors described in the section of this proxy statement captioned *The Merger Recommendation of the Board of Directors and Reasons for the Merger*, has unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein; (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations thereunder, and the consummation of the Merger upon the terms and conditions set forth therein; and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the DGCL.

The Board of Directors recommends that you vote (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Q: What happens if the Merger is not completed?**

**A:** If the Merger Agreement is not adopted by stockholders or if the Merger is not completed for any other reason, stockholders will not receive any payment for their shares of Company Common Stock. Instead, Blue Nile will remain an independent public company, Company Common Stock will continue to be listed and traded on NASDAQ and registered under the Exchange Act, and we will continue to file periodic reports with the SEC. Please see the section of this proxy statement captioned *The Merger Effect on Blue Nile if the Merger is Not Completed*.

Under specified circumstances, Blue Nile will be required to pay Parent a termination fee upon the termination of the Merger Agreement, as described in the section of this proxy statement captioned *The Merger Agreement Termination of the Merger Agreement; Termination Fees*.

**Q: What constitutes a quorum?**

**A:** Stockholders of Blue Nile representing a majority of the voting power of the issued and outstanding Company Common Stock of Blue Nile entitled to vote, present in person, or represented by proxy, will constitute a quorum for the transaction of any business at such meeting. As of the record date, [ ] shares of Company Common Stock will be required to obtain a quorum. Abstentions and any broker non-votes are considered as present for the purpose of determining the presence of a quorum.

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**Q: What vote is required to adopt the Merger Agreement?**

**A:** The affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote is required to adopt the Merger Agreement.

The failure of any stockholder of record to (1) submit a signed proxy card; (2) grant a proxy over the internet or by telephone; or (3) vote in person by ballot at the Company Stockholder Meeting will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement. If you hold your shares in street name and a quorum is present at the Company Stockholder Meeting, the failure to instruct your bank, broker or other nominee how to vote your shares will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement. Abstentions will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement.

**Q: What vote is required to approve any proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting?**

**A:** Approval of the proposal to adjourn the Company Stockholder Meeting requires the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy and entitled to vote at the Company Stockholder Meeting.

The failure of any stockholder of record to: (1) submit a signed proxy card; (2) grant a proxy over the Internet or by telephone; or (3) vote in person by ballot at the Company Stockholder Meeting will not have any effect on the adjournment proposal. If you hold your shares in street name, the failure to instruct your bank, broker or other nominee how to vote your shares will not have any effect on the adjournment proposal. Abstentions will have the same effect as a vote **AGAINST** the adjournment proposal.

**Q: What vote is required to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger?**

**A:** Approval, by non-binding, advisory vote, of certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger requires the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy and entitled to vote at the Company Stockholder Meeting.

The failure of any stockholder of record to (1) submit a signed proxy card; (2) grant a proxy over the internet or by telephone; or (3) vote in person by ballot at the Company Stockholder Meeting will not have any effect on the proposal to approve, by non-binding advisory vote, of certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger. If you hold your shares in street name, the failure to instruct your bank, broker or other nominee how to vote your shares will not have any effect on the compensation proposal. Abstentions will have the same effect as a vote **AGAINST** the compensation proposal.

**Q:**

**Why am I being asked to cast a non-binding, advisory vote regarding certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger?**

**A:** SEC rules require Blue Nile to seek a non-binding, advisory vote regarding certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Q: What is the compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger for purposes of this advisory vote?**

**A:** The compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger is certain compensation that is tied to or based on the Merger and payable to



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certain of Blue Nile's named executive officers. For further detail, please see the section in this proxy statement captioned *Proposal 3: Advisory, Non-Binding Vote to Approve Certain Merger Related Executive Compensation Arrangements*.

**Q: What will happen if stockholders do not approve the compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger at the Company Stockholder Meeting?**

**A:** Approval of the compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger is not a condition to completion of the Merger. The vote with respect to the compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger is an advisory vote and will not be binding on Blue Nile or Parent. If the Merger Agreement is adopted by the stockholders and the Merger is completed, the compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger may be paid to Blue Nile's named executive officers even if stockholders fail to approve the payment of that compensation.

**Q: Are there any other risks to me from the Merger that I should consider?**

**A:** Yes. There are risks associated with all business combinations, including the Merger. For further detail, please see the section of this proxy statement captioned *Forward-Looking Statements*.

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

**A:** If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, you are considered, with respect to those shares, to be the stockholder of record as of the record date. In this case, this proxy statement and your proxy card have been sent directly to you by Blue Nile. If your shares are held through a bank, broker or other nominee as of the record date, you are considered the beneficial owner of shares of Company Common Stock held in street name. In that case, this proxy statement has been forwarded to you by your bank, broker or other nominee who is considered, with respect to those shares, to be the stockholder of record. As the beneficial owner, you have the right to direct your bank, broker or other nominee how to vote your shares by following their instructions for voting. You are also invited to attend the Company Stockholder Meeting. However, because you are not the stockholder of record, you may not vote your shares in person at the Company Stockholder Meeting unless you obtain a legal proxy from your bank, broker or other nominee.

**Q: Will my shares held in street name or another form of record ownership be combined for voting purposes with shares I hold of record?**

**A:** No. For voting purposes, any shares you may hold in street name will be deemed to be held by a different stockholder than any shares you hold of record, and as a result, any shares held in street name will not be

combined for voting purposes with shares that you hold of record. Similarly, if you own shares in various registered forms, such as jointly with your spouse, as trustee of a trust or as custodian for a minor, you will receive, and will need to sign and return, a separate proxy card for the shares held in each such form, because they are held in a different form of record ownership. Shares of Company Common Stock held by a corporation or business entity must be voted by an authorized officer of the entity.

**Q: How may I vote?**

**A:** If you are a stockholder of record (that is, if your shares of Company Common Stock are registered in your name with American Stock Transfer & Trust Company, LLC, our transfer agent), there are four ways to vote:

by signing, dating and returning the enclosed proxy card in the accompanying prepaid reply envelope;

by visiting the internet at the address on your proxy card;

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by calling toll-free (within the U.S. or Canada) the phone number on your proxy card; or

by attending the Company Stockholder Meeting and voting in person by ballot.

A control number, located on your proxy card, is designed to verify your identity and allow you to vote your shares of Company Common Stock, and to confirm that your voting instructions have been properly recorded when voting electronically over the internet or by telephone. Please be aware that, although there is no charge for voting your shares, if you vote electronically over the internet or by telephone, you may incur costs such as internet access and telephone charges for which you will be responsible.

Even if you plan to attend the Company Stockholder Meeting in person, you are strongly encouraged to vote your shares of Company Common Stock by proxy. If you are a record holder or if you obtain a legal proxy to vote shares that you beneficially own, you may still vote your shares of Company Common Stock in person by ballot at the Company Stockholder Meeting even if you have previously voted by proxy. If you are present at the Company Stockholder Meeting and vote in person by ballot, your previous vote by proxy will not be counted.

If your shares are held in street name through a bank, broker or other nominee, you may vote through your bank, broker or other nominee by completing and returning the voting form provided by your bank, broker or other nominee, or, if such a service is provided by your bank, broker or other nominee, electronically over the internet or by telephone. To vote over the internet or by telephone through your bank, broker or other nominee, you should follow the instructions on the voting form provided by your bank, broker or nominee.

**Q: If my broker holds my shares in street name, will my broker vote my shares for me?**

**A:** No. Your bank, broker or other nominee is permitted to vote your shares on any proposal currently scheduled to be considered at the Company Stockholder Meeting only if you instruct your bank, broker or other nominee how to vote. You should follow the procedures provided by your bank, broker or other nominee to vote your shares. Without instructions, your shares will not be voted on such proposals, which will have the same effect as if you voted against adoption of the Merger Agreement, but will have no effect on the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting, or the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Q: May I change my vote after I have mailed my signed proxy card?**

**A:** Yes. If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is voted at the Company Stockholder Meeting by:

signing another proxy card with a later date and returning it to us in accordance with the instructions therein prior to the Company Stockholder Meeting;

submitting a new proxy electronically over the internet or by telephone after the date of the earlier submitted proxy;

delivering a written notice of revocation to the corporate secretary; or

attending the Company Stockholder Meeting and voting in person by ballot.

If you hold your shares of Company Common Stock in street name, you should contact your bank, broker or other nominee for instructions regarding how to change your vote. You may also vote in person at the Company Stockholder Meeting if you obtain a legal proxy from your bank, broker or other nominee.

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**Q: What is a proxy?**

**A:** A proxy is your legal designation of another person, referred to as a proxy, to vote your shares of Company Common Stock. The written document describing the matters to be considered and voted on at the Company Stockholder Meeting is called a proxy statement. The document used to designate a proxy to vote your shares of Company Common Stock is called a proxy card. David Binder and Harvey Kanter are the proxy holders for the Company Stockholder Meeting.

**Q: If a stockholder gives a proxy, how are the shares voted?**

**A:** Regardless of the method you choose to vote, the proxy holders will vote your shares in the way that you indicate. When completing the internet or telephone process or the proxy card, you may specify whether your shares should be voted for or against or to abstain from voting on all, some or none of the specific items of business to come before the Company Stockholder Meeting.

If you properly sign your proxy card but do not mark the boxes showing how your shares should be voted on a matter, the shares represented by your properly signed proxy will be voted (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Q: What should I do if I receive more than one set of voting materials?**

**A:** Please sign, date and return (or grant your proxy electronically over the internet or by telephone) each proxy card and voting instruction card that you receive.

You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card.

**Q: Where can I find the voting results of the Company Stockholder Meeting?**

**A:** Blue Nile intends to publish final voting results in a Current Report on Form 8-K to be filed with the SEC following the Company Stockholder Meeting. All reports that Blue Nile files with the SEC are publicly available when filed. Please see the section of this proxy statement captioned *Where You Can Find More Information*.

**Q:**

**Will I be subject to U.S. federal income tax upon the exchange of Company Common Stock for cash pursuant to the Merger?**

**A:** If you are a U.S. Holder (as defined in the section of this proxy statement captioned *The Merger Material U.S. Federal Income Tax Consequences of the Merger* ), the exchange of Company Common Stock for cash pursuant to the Merger will be a taxable transaction for U.S. federal income tax purposes, which generally will require a U.S. Holder to recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received by such U.S. Holder in the Merger and such U.S. Holder's adjusted tax basis in the shares of Company Common Stock surrendered in the Merger.

A Non-U.S. Holder (as defined in the section of this proxy statement captioned *The Merger Material U.S. Federal Income Tax Consequences of the Merger* ) generally will not be subject to U.S. federal income tax with respect to the exchange of Company Common Stock for cash in the Merger unless such Non-U.S. Holder has certain connections to the United States.

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Because particular circumstances may differ, we recommend that you consult your own tax advisor to determine the U.S. federal income tax consequences relating to the Merger in light of your own particular circumstances and any consequences arising under U.S. Federal non-income tax laws or the laws of any state, local or non-U.S. tax jurisdiction. A more complete description of the material U.S. federal income tax consequences of the Merger is provided in the section of this proxy statement captioned *The Merger Material U.S. Federal Income Tax Consequences of the Merger*.

### **Q: What will the holders of Company Options and RSUs receive in the Merger?**

**A:** At the Effective Time, each outstanding Company Option, whether unvested or vested, that has an exercise price per share less than \$40.75 will be cancelled and converted into the right to receive an amount in cash equal to \$40.75 (less the exercise price per share attributable to such Company Option), *multiplied* by the total number of shares of Company Common Stock that are issuable upon full exercise of such Company Option, *less* any applicable tax withholdings. At the Effective Time, each outstanding Company Option, whether unvested or vested, that has an exercise price per share equal to or greater than \$40.75, will be cancelled without payment of any consideration.

At the Effective Time, each outstanding RSU that is only subject to time-vesting requirements, whether vested or unvested, will be cancelled and converted into the right to receive an amount in cash equal to \$40.75, *multiplied* by the total number of shares subject to such RSUs, *less* any applicable tax withholdings.

At the Effective Time, each outstanding RSU that is subject to time- and performance-based requirements, will be cancelled and converted into the right to receive an amount in cash equal to \$40.75, *multiplied* by the total number of shares determined to be performance vested, with the performance goals deemed achieved at the maximum levels and with the remaining time-vesting requirements deemed satisfied *less* any applicable tax withholdings.

Amounts payable to the holders of Company Options and RSUs will be payable no later than the second payroll cycle of the Surviving Corporation following the Effective Time.

### **Q: What will happen to the Employee Stock Purchase Plan?**

**A:** With respect to the 2004 Employee Stock Purchase Plan (the ESPP), Blue Nile has no participants in the ESPP, and new enrollments are prohibited under the Merger Agreement.

### **Q: When do you expect the Merger to be completed?**

**A:** We are working toward completing the Merger as quickly as possible and currently expect to complete the Merger in the first calendar quarter of 2017. However, the exact timing of completion of the Merger cannot be predicted because the Merger is subject to the closing conditions described in the section of this proxy statement captioned *The Merger Agreement Conditions to the Merger*, many of which are outside of our control.

**Q: If the Merger is completed, how will I receive the cash for my shares?**

**A:** If the Merger is completed and your shares of Company Common Stock are held as uncertificated shares, the payment agent will issue and deliver to you a check or wire transfer for your shares without any further action on your part. If you are a stockholder of record with your shares held in certificated form, you will receive a letter of transmittal with instructions on how to send your shares of Company Common Stock to the payment agent in connection with the Merger. The payment agent will issue and deliver to you a check or wire transfer for your shares after you comply with these instructions. **Please do not send your stock certificates with your proxy card.** Please see the section in this proxy statement captioned *The Merger Agreement Exchange of Certificates and Payment Procedures*.

If your shares are held in street name by your broker, bank, or other nominee, you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your shares held in street name.



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**Q: Am I entitled to appraisal rights under the Delaware General Corporation Law?**

**A:** If the Merger is completed, stockholders who do not vote in favor of the adoption of the Merger Agreement, who continuously hold shares through the Effective Time, and who properly demand appraisal of their shares of Company Common Stock and who meet certain other conditions and statutory requirements described herein will be entitled, provided certain other conditions (including relating to the amount of shares of Company Common Stock owned by stockholders seeking appraisal) are met, to appraisal rights in connection with the Merger under Section 262 of the Delaware General Corporation law ( DGCL ). This means that holders of shares of Company Common Stock may be entitled to have their shares of Company Common Stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of the shares of Company Common Stock, exclusive of any elements of value arising from the accomplishment or expectation of the Merger, together with interest to be paid on the amount determined to be fair value, if any, as determined by the court (subject, in the case of interest payments, to any voluntary cash payments made by the Surviving Corporation pursuant to subsection (h) of Section 262 of the DGCL). Stockholders who wish to seek appraisal of their shares of Company Common Stock are in any case encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights due to the complexity of the appraisal process. The DGCL requirements for exercising appraisal rights are described in additional detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced in Annex C to this proxy statement.

**Q: Do any of Blue Nile s directors or officers have interests in the Merger that differ from those of Blue Nile stockholders generally?**

**A:** Yes. In considering the recommendation of the Board of Directors with respect to the proposal to adopt the Merger Agreement, you should be aware that our directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of stockholders generally. In (i) evaluating and negotiating the Merger Agreement; (ii) adopting the Merger Agreement and the Merger; and (iii) recommending that the Merger Agreement be adopted by stockholders, the Board of Directors was aware of and considered these interests to the extent that they existed at the time, among other matters. For more information, please see the section of this proxy statement captioned *The Merger Interests of Blue Nile s Directors and Executive Officers of Blue Nile in the Merger*.

**Q: Who can help answer my questions?**

**A:** If you have any questions concerning the Merger, the Company Stockholder Meeting or the accompanying proxy statement, would like additional copies of the accompanying proxy statement or need help voting your shares of Company Common Stock, please contact our Proxy Solicitor:

D.F. King & Co., Inc.

48 Wall Street, 22<sup>nd</sup> Floor

New York, NY 10005

Shareholder toll free phone number: (800) 317-8033

Edgar Filing: BLUE NILE INC - Form PREM14A

Banks and Brokers collect call phone number: (212) 493-3910

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**THE COMPANY STOCKHOLDER MEETING**

The enclosed proxy is solicited on behalf of the Board of Directors for use at the Company Stockholder Meeting.

**Date, Time and Place**

We will hold the Company Stockholder Meeting on [ ], 2017, at [ ], Pacific Time, at 411 First Avenue South, Suite 210, Seattle, Washington 98104.

**Purpose of the Company Stockholder Meeting**

At the Company Stockholder Meeting, we will ask stockholders to vote on proposals to (i) adopt the Merger Agreement; (ii) adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (iii) approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

**Record Date; Shares Entitled to Vote; Quorum**

Only stockholders of record as of [ ] (the record date ) are entitled to notice of the Company Stockholder Meeting and to vote at the Company Stockholder Meeting. A list of stockholders entitled to vote at the Company Stockholder Meeting will be available at our principal executive offices, located at 411 First Avenue South, Suite 700, Seattle, WA 98104, during regular business hours beginning for a period of no less than ten (10) days before the Company Stockholder Meeting and will be made available at the place of the Company Stockholder Meeting during the meeting.

As of the record date, there were [ ] shares of Company Common Stock outstanding and entitled to vote at the Company Stockholder Meeting.

Stockholders of Blue Nile representing a majority of the outstanding shares entitled to vote, present in person or represented by proxy, will constitute a quorum at the Company Stockholder Meeting. In the event that a quorum is not present at the Company Stockholder Meeting, it is expected that the meeting will be adjourned to solicit additional proxies.

**Vote Required; Abstentions and Broker Non-Votes**

Each share of Company Common Stock outstanding at the close of business on the record date is entitled to one vote on each of the proposals to be considered at the Company Stockholder Meeting.

The affirmative vote of the holders of a majority of the shares of Company Common Stock issued, outstanding and entitled to vote as of the close of business on the record date is required to adopt the Merger Agreement. Adoption of the Merger Agreement by stockholders is a condition to the Closing of the Merger.

If a quorum is present, the affirmative vote of a majority of the shares of Company Common Stock having voting power present in person or represented by proxy at the Company Stockholder Meeting and entitled to vote on the subject matter will have the power to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting. If a quorum is not present, then either the chairman of the meeting or the vote of the holders of a

majority of the shares represented thereat, present in person or represented by proxy, will have the power to adjourn the Company Stockholder Meeting, but no other business shall be transacted at such meeting. In the event that a quorum is not present at the Company Stockholder Meeting, the Company currently expects that the meeting will be adjourned to solicit additional proxies.

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If a stockholder abstains from voting, that abstention will have the same effect as if the stockholder voted **AGAINST** the proposal to adopt the Merger Agreement. For stockholders who attend the meeting or are represented by proxy and abstain from voting, the abstention will have the same effect as if the stockholder voted **AGAINST** all other proposals.

Each broker non-vote will also count as a vote **AGAINST** the proposal to adopt the Merger Agreement, but will have no effect on the other proposals. A broker non-vote generally occurs when a bank, broker or other nominee holding shares of Company Common Stock on your behalf does not vote on a proposal because the bank, broker or other nominee has not received your voting instructions and lacks discretionary power to vote the shares of Company Common Stock. Under applicable stock exchange rules, brokers, banks or other nominees have the discretion to vote your shares on routine matters if you fail to instruct your broker, bank or other nominee on how to vote your shares with respect to such matters. The proposals in this proxy statement are non-routine matters, and brokers, banks and other nominees therefore cannot vote on the proposals without your instructions.

## **Shares Held by Blue Nile's Directors and Executive Officers**

As of the record date, our directors and executive officers beneficially owned and were entitled to vote, in the aggregate, [ ] shares of Company Common Stock, representing approximately [ ]% of the shares of Company Common Stock outstanding on the record date. All of our directors and executive officers have informed us that they intend to vote, all of their shares of Company Common Stock (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

## **Voting of Proxies**

If your shares are registered in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, you may cause your shares to be voted by returning a signed and dated proxy card in the accompanying prepaid envelope, or you may vote in person at the Company Stockholder Meeting. Additionally, you may grant a proxy electronically over the internet or by telephone by following the instructions on your proxy card. You must have the enclosed proxy card available, and follow the instructions on the proxy card, in order to grant a proxy electronically over the internet or by telephone. Based on your proxy cards or internet and telephone proxies, the proxy holders will vote your shares according to your directions.

If you plan to attend the Company Stockholder Meeting and wish to vote in person, you will be given a ballot at the Company Stockholder Meeting. If your shares are registered in your name, you are encouraged to vote by proxy even if you plan to attend the Company Stockholder Meeting in person. If you attend the Company Stockholder Meeting and vote in person by ballot, your vote will revoke any previously submitted proxy.

Voting instructions are included on your proxy card. All shares represented by properly signed and dated proxies received in time for the Company Stockholder Meeting will be voted at the Company Stockholder Meeting in accordance with the instructions of the stockholder. Properly signed and dated proxies that do not contain voting instructions will be voted (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

If you submit a signed proxy card or submit your proxy by telephone or the Internet, but do not specify how you want to vote your shares on a particular proposal, then the proxy holders will vote your shares in accordance

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with the recommendations of the Board of Directors on all matters presented in this proxy statement. With respect to any other matters properly presented for a vote at the Company Stockholder Meeting, the proxy holders will vote your shares in accordance with their best judgment. If you fail to return your proxy card and you are a holder of record on the record date, unless you attend the Company Stockholder Meeting and vote in person, the effect will be that your shares of Company Common Stock will not be considered for purposes of determining whether a quorum is present at the Company Stockholder Meeting, will have the same effect as a vote against the proposal to adopt the Merger Agreement and will not have any effect on the other proposals.

If your shares of Company Common Stock are held in street name through a bank, broker or other nominee, you may vote through your bank, broker or other nominee by completing and returning the voting form provided by your bank, broker or other nominee or attending Company Stockholder Meeting and voting in person with a legal proxy from your bank, broker or other nominee. If such a service is provided, you may vote over the Internet or telephone through your bank, broker or other nominee by following the instructions on the voting form provided by your bank, broker or other nominee. If you do not return your bank's, broker's or other nominee's voting form, do not vote via the Internet or telephone through your bank, broker or other nominee, if possible, or do not attend the Company Stockholder Meeting and vote in person with a legal proxy from your bank, broker or other nominee, it will have the same effect as if you voted AGAINST the proposal to adopt the Merger Agreement, but will not have any effect on the other proposals.

## **Revocability of Proxies**

If you are a stockholder of record on the record date, you may change your vote or revoke your proxy at any time before it is voted at the Company Stockholder Meeting by:

signing another proxy card with a later date and returning it to us prior to the Company Stockholder Meeting;

submitting a new proxy electronically over the internet or by telephone after the date of the earlier submitted proxy;

delivering a written notice of revocation to our corporate secretary; or

attending the Company Stockholder Meeting and voting in person by ballot.

If you have submitted a proxy, your appearance at the Company Stockholder Meeting, in the absence of voting in person or submitting an additional proxy or revocation, will not have the effect of revoking your prior proxy.

If you hold your shares of Company Common Stock in street name, you should contact your bank, broker or other nominee for instructions regarding how to change your vote. You may also vote in person at the Company Stockholder Meeting if you obtain a legal proxy from your bank, broker or other nominee.

Any adjournment, postponement or other delay of the Company Stockholder Meeting, including for the purpose of soliciting additional proxies, will allow stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Company Stockholder Meeting as adjourned, postponed or delayed.

**Board of Directors Recommendation**

The Board of Directors, after considering various factors described under the section of this proxy statement captioned *The Merger Recommendation of the Board of Directors and Reasons for the Merger*, has unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein; (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations thereunder, and the consummation of the Merger upon the terms and conditions set forth therein; and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the Delaware General Corporation Law ( DGCL ).



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The Board of Directors recommends that you vote (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to postpone or adjourn the Company Stockholder Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

## **Solicitation of Proxies**

The expense of soliciting proxies will be borne by Blue Nile. We have retained D.F. King & Co., Inc., a proxy solicitation firm (the Proxy Solicitor), to solicit proxies in connection with the Company Stockholder Meeting at a cost of \$11,500.00, plus certain expenses. We will also indemnify the Proxy Solicitor against certain losses arising out of its provision of these services on our behalf. In addition, we may reimburse banks, brokers and other nominees representing beneficial owners of shares for their expenses in forwarding soliciting materials to such beneficial owners. Proxies may also be solicited by our directors, officers and employees, personally or by telephone, email, fax, over the internet or by other means of communication. No additional compensation will be paid for such services.

## **Anticipated Date of Completion of the Merger**

Assuming timely satisfaction of necessary closing conditions, including the approval by stockholders of the proposal to adopt the Merger Agreement, we anticipate that the Merger will be completed in the first calendar quarter of 2017.

## **Appraisal Rights**

If the Merger is consummated, stockholders who do not vote in favor of the adoption of the Merger Agreement, who continuously hold such shares through the Effective Time and who properly perfect appraisal of their shares of Company Common Stock will be entitled, provided certain other conditions (including relating to the aggregate amount of shares of Company Common Stock owned by stockholders seeking appraisal) are met, to appraisal of their shares of Company Common Stock in connection with the Merger under Section 262 of the DGCL. This means that such holders of shares of Company Common Stock may be entitled to have their shares of Company Common Stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of their shares of Company Common Stock, exclusive of any elements of value arising from the accomplishment or expectation of the Merger, together with interest to be paid on the amount determined to be fair value, if any, as determined by the court (subject, in the case of interest payments, to any voluntary cash payments made by the Surviving Corporation pursuant to subsection (h) of Section 262 of the DGCL), so long as they comply with the procedures established by Section 262 of the DGCL. Due to the complexity of the appraisal process, Blue Nile stockholders who wish to seek appraisal of their shares of Company Common Stock are encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights.

**Stockholders considering seeking appraisal should be aware that the fair value of their shares of Company Common Stock is determined pursuant to Section 262 of the DGCL could be more than, the same as or less than the value of the Per Share Price that they would receive pursuant to the Merger Agreement if they did not seek appraisal of their shares of Company Common Stock.**

To exercise your appraisal rights, you must (1) submit a written demand for appraisal to Blue Nile before the vote is taken on the adoption of the Merger Agreement; (2) not vote, in person or by proxy, in favor of the proposal to adopt the Merger Agreement; and (3) continue to hold the subject shares of Company Common Stock of record through the time (the Effective Time) Parent, Merger Sub and Blue Nile cause the Merger to be consummated pursuant to the DGCL. Your failure to follow exactly the procedures specified under the DGCL may result in the loss of your

appraisal rights. In addition, the Delaware Court of Chancery will dismiss appraisal

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proceedings as to all Blue Nile stockholders who assert appraisal rights unless (x) the total number of shares of Company Common Stock for which appraisal rights have been pursued and perfected exceeds 1% of Blue Nile's outstanding shares of Company Common Stock as measured in accordance with subsection (g) of Section 262 of the DGCL or (y) the value of the aggregate Per Share Price in respect of the shares of Company Common Stock for which appraisal rights have been pursued and perfected exceeds \$1 million. The DGCL requirements for exercising appraisal rights are described in further detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex C to this proxy statement. If you hold your shares of Company Common Stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, brokerage firm or other nominee to determine the appropriate procedures for the making of a demand for appraisal by such bank, brokerage firm or nominee.

## **Other Matters**

At this time, we know of no other matters to be voted on at the Company Stockholder Meeting. If any other matters properly come before the Company Stockholder Meeting, your shares of Company Common Stock will be voted in accordance with the discretion of the appointed proxy holders.

## **Householding of Company Stockholder Meeting Materials**

Unless we have received contrary instructions, we may send a single copy of this proxy statement to any household at which two or more stockholders reside if we believe the stockholders are members of the same family. Each stockholder in the household will continue to receive a separate proxy card. This process, known as householding, reduces the volume of duplicate information received at your household and helps to reduce our expenses.

If you would like to receive your own set of our disclosure documents, follow the instructions described below. Similarly, if you share an address with another stockholder and together both of you would like to receive only a single set of our disclosure documents, follow these instructions.

If you are a stockholder of record, you may contact us by writing to Blue Nile, Inc., Attention: Investor Relations, 411 First Avenue South, Suite 700, Seattle, WA 98104. Eligible stockholders of record receiving multiple copies of this proxy statement can request householding by contacting us in the same manner. If a bank, broker or other nominee holds your shares, please contact your bank, broker or other nominee directly.

## **Questions and Additional Information**

If you have any questions concerning the Merger, the Company Stockholder Meeting or the proxy statement, would like additional copies of the proxy statement or need help voting your shares of Company Common Stock, please contact our Proxy Solicitor:

D.F. King & Co., Inc.

48 Wall Street, 22<sup>nd</sup> Floor

New York, NY 10005

Shareholder toll free phone number: (800) 317-8033

Banks and Brokers collect call phone number: (212) 493-3910



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**PROPOSAL 1: ADOPTION OF THE MERGER AGREEMENT**

We are asking you to adopt the Merger Agreement.

For a summary of and detailed information regarding this proposal, see the information about the Merger Agreement and the Merger throughout this proxy statement, including the information set forth in the sections captioned *The Merger* and *The Merger Agreement*. A copy of the Merger Agreement is attached to this proxy statement as Annex A. You are urged to read the Merger Agreement carefully in its entirety.

Under applicable law, we cannot complete the Merger without the affirmative vote of a majority of the outstanding shares of Company Common Stock entitled to vote voting in favor of the proposal to adopt the Merger Agreement. If you abstain from voting or fail to cast your vote, in person or by proxy, it will have the same effect as a vote against the proposal to adopt the Merger Agreement.

**The Board of Directors unanimously recommends that you vote **FOR** this proposal.**

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**PROPOSAL 2: ADJOURNMENT OF THE COMPANY STOCKHOLDER MEETING**

We are asking you to approve a proposal for one or more adjournments of the Company Stockholder Meeting, if necessary or appropriate and to the extent permitted by the Merger Agreement, to solicit additional proxies if we have not obtained sufficient affirmative stockholder votes to adopt the Merger Agreement. If the stockholders of Blue Nile approve the adjournment proposal, we could adjourn the Company Stockholder Meeting, and any adjourned session of the Company Stockholder Meeting, and use the additional time to solicit additional proxies.

If, at the Company Stockholder Meeting, the number of shares of Company Common Stock present in person or by proxy and voting in favor of the proposal to adopt the Merger Agreement is not sufficient to approve that proposal, we may move to adjourn the Company Stockholder Meeting in order to enable our directors, officers and employees to solicit additional proxies for the adoption of the Merger Agreement. In that event, we will ask the stockholders of Blue Nile to vote only upon the adjournment proposal, and not the Merger Agreement proposal.

The adjournment proposal relates only to an adjournment of the Company Stockholder Meeting occurring for purposes of soliciting additional proxies to adopt the Merger Agreement in the event that there are insufficient votes to approve that proposal. We retain full authority to the extent set forth in our bylaws and the DGCL (subject to the terms of the Merger Agreement) to adjourn the Company Stockholder Meeting for any other purpose without the consent of any stockholders of Blue Nile.

**The Board of Directors unanimously recommends that you vote FOR this proposal.**

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**PROPOSAL 3: ADVISORY, NON-BINDING VOTE TO APPROVE**

**CERTAIN MERGER RELATED EXECUTIVE COMPENSATION ARRANGEMENTS**

Section 14A of the Exchange Act, which was enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requires that we provide stockholders with the opportunity to vote to approve, on an advisory, non-binding basis, the payment of certain compensation that will or may become payable to Blue Nile's named executive officers by Blue Nile in connection with the Merger, as disclosed in the section of this proxy statement captioned *The Merger Interests of Blue Nile's Directors and Executive Officers in the Merger Payments Upon Termination In Connection with Change of Control*.

We are asking stockholders to indicate their approval of the various compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger. These payments are set forth in the section of this proxy statement captioned *The Merger Interests of Blue Nile's Directors and Executive Officers in the Merger Golden Parachute Compensation* and the accompanying footnotes. In general, the various plans and arrangements pursuant to which these compensation payments may be made have previously formed part of Blue Nile's overall compensation program for our named executive officers and previously have been disclosed to stockholders as part of the compensation discussion and analysis and related sections of our annual proxy statements. These historical arrangements were approved and adopted by the Compensation Committee of the Board of Directors, which is composed solely of non-management directors, and are believed to be reasonable and in line with marketplace norms. The compensation that may be provided to the named executive officers in connection with any new employment agreements entered into with Parent is not subject to this advisory, non-binding vote.

Accordingly, we are seeking approval of the following resolution at the Company Stockholder Meeting:

RESOLVED, that the stockholders of Blue Nile, Inc. approve, on a nonbinding, advisory basis, the compensation that will or may become payable by Blue Nile to its named executive officers by Blue Nile that is based on or otherwise relates to the Merger as disclosed pursuant to Item 402(t) of Regulation S-K in the section of this proxy statement captioned *The Merger Interests of Blue Nile's Directors and Executive Officers in the Merger Golden Parachute Compensation*.

Stockholders should note that this proposal is not a condition to completion of the Merger, and as an advisory vote, the result will not be binding on Blue Nile, the Board of Directors or Parent. Further, the underlying plans and arrangements are contractual in nature and not, by their terms, subject to stockholder approval. Accordingly, regardless of the outcome of the advisory vote, if the Merger is consummated, our named executive officers will be eligible to receive the compensation that is based on or otherwise relates to the Merger in accordance with the terms and conditions applicable to those payments.

**The Board of Directors unanimously recommends that you vote **FOR** this proposal.**

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**THE MERGER**

This discussion of the merger of BC Cyan Acquisition Inc. with and into Blue Nile, Inc. (the Merger) is qualified in its entirety by reference to the Agreement and Plan of Merger, made and entered into as of November 6, 2016 (the Merger Agreement) by and among Blue Nile, Inc. (Blue Nile), BC Cyan Parent Inc. (Parent), and BC Cyan Acquisition Inc. (Merger Sub), which is attached to this proxy statement as Annex A and incorporated into this proxy statement by reference. You should read the entire Merger Agreement carefully as it is the legal document that governs the Merger.

**Parties Involved in the Merger**

***Blue Nile, Inc.***

Blue Nile is a leading retailer of high-quality diamonds and fine jewelry. In addition to sales of diamonds and fine jewelry, Blue Nile provides education, guidance and support to enable customers to more effectively learn about and purchase diamonds and fine jewelry. Blue Nile, a Delaware corporation based in Seattle, Washington, was formed in March 1999. Blue Nile serves consumers in over 40 countries and territories all over the world through its website at [www.bluenile.com](http://www.bluenile.com).

Blue Nile's Company Common Stock is listed on the NASDAQ Stock Market LLC (NASDAQ) under the symbol NILE.

Blue Nile's principal executive office is located at 411 First Avenue South, Suite 700, Seattle, WA 98104 and its telephone number is (206) 336-6700.

***BC Cyan Parent Inc.***

Parent was formed by funds managed by Bain Capital Private Equity on October 26, 2016 for the purpose of engaging in the transactions contemplated by the Merger Agreement, and has not engaged in any business activities other than in connection with the transactions contemplated by the Merger Agreement and arranging of the equity financing and any debt financing in connection with the Merger.

***BC Cyan Acquisition Inc.***

Merger Sub is a wholly-owned direct subsidiary of Parent and was formed by funds managed by Bain Capital Private Equity on October 26, 2016 for the purpose of engaging in the transactions contemplated by the Merger Agreement, and has not engaged in any business activities other than in connection with the transactions contemplated by the Merger Agreement and arranging of the equity financing and any debt financing in connection with the Merger.

Parent and Merger Sub are affiliated with the Investor Group. At the time (the Effective Time), Parent, Merger Sub and Blue Nile will cause the Merger to be consummated pursuant to the Delaware General Corporation Law (the DGCL) by filing a certificate of merger (the Certificate of Merger) with the Secretary of State of the State of Delaware, Blue Nile, as the Surviving Corporation, will be indirectly owned by funds managed by Bain Capital Private Equity, a leading private equity firm, and Bow Street LLC, a New York-based investment fund (collectively, the Investor Group).

Parent and Merger Sub have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, which will be available to fund the aggregate purchase price and certain other payments



contemplated by, and subject to the terms and conditions of, the Merger Agreement. In addition, Bain Capital Fund XI, LP ( Bain Capital Fund XI ) has also provided Blue Nile with a limited guaranty in favor of Blue Nile, which guarantees the payment of the Parent Termination Fee (as defined below) that may become payable by Parent under the Merger Agreement.

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### **Effect of the Merger**

Upon the terms and subject to the conditions set forth in the Merger Agreement, if the Merger is completed, Merger Sub will be merged with and into Blue Nile and Blue Nile will continue as the Surviving Corporation of the Merger and a private subsidiary of Parent. As a result of the Merger, Company Common Stock will no longer be publicly traded and will be delisted from NASDAQ. At this time, all of the property, rights, privileges, powers and franchises of Blue Nile, and Merger Sub will vest in the Surviving Corporation; and all debts, liabilities and duties of Blue Nile and Merger Sub will become the debts, liabilities and duties of the Surviving Corporation. In addition, all outstanding shares of Blue Nile common stock ( Company Common Stock ) will be deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and we will no longer file periodic reports with the Securities and Exchange Commission (the SEC ). If the Merger is completed, you will not own any shares of the capital stock or any other rights or interest in the Surviving Corporation.

The Effective Time will occur upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such later time as would be specified in the Certificate of Merger.

### **Effect on Blue Nile if the Merger is Not Completed**

If the Merger Agreement is not adopted by stockholders or if the Merger is not completed for any other reason, Blue Nile's stockholders will not receive any payment for their shares (or interests in shares) of Company Common Stock. Instead, Blue Nile will remain an independent public company, Company Common Stock will continue to be listed and traded on NASDAQ and registered under the Exchange Act and we will continue to file periodic reports with the SEC. In addition, if the Merger is not completed, we expect that management will operate the business in a manner similar to that in which it is being operated today and that stockholders will continue to be subject to the same risks and opportunities to which they are currently subject, including risks related to the highly competitive industry in which Blue Nile operates and risks related to adverse economic conditions.

Furthermore, if the Merger is not completed, and depending on the circumstances that caused the Merger not to be completed, the price of Company Common Stock may decline significantly. If that were to occur, it is uncertain when, if ever, the price of Company Common Stock would return to the price at which it trades as of the date of this proxy statement. In addition, stockholders could be exposed to significant new risks that may arise as a result of the pendency of the transactions contemplated by the Merger Agreement or the failure of the Merger to be completed, such as risks associated with a potential deterioration of Blue Nile's reputation, credibility and standing with customers and commercial partners, and impairment of its ability to retain employees and attract new employees.

Accordingly, if the Merger is not completed, we cannot assure you as to the effect of these risks and opportunities on the future value of your shares of Company Common Stock. If the Merger is not completed, the Board of Directors of Blue Nile (the Board of Directors ) will continue to evaluate and review Blue Nile's business operations, strategic direction and capitalization, among other things, and will make such changes as are deemed appropriate. If the Merger Agreement is not adopted by stockholders or if the Merger is not completed for any other reason, there can be no assurance that any other transaction acceptable to the Board of Directors will be offered or that Blue Nile's business, prospects or results of operation will not be adversely impacted.

In addition, upon termination of the Merger Agreement under specified circumstances, Blue Nile will be required to pay Parent a termination fee. If the termination fee becomes payable by Blue Nile due to (x) Blue Nile's termination of the Merger Agreement on or prior to 11:59 p.m., Eastern time, on December 16, 2016 (the Cut-Off Date ) with respect to Blue Nile entering into an alternative acquisition agreement with an Excluded Party (as such term is defined in the Merger Agreement), the amount of the termination fee will be \$7.4 million, and (y) if the termination fee becomes

payable under any other circumstance, the amount of the termination fee will be \$17.4 million. For more information please see the section of this proxy statement captioned *The Merger Agreement Termination of the Merger Agreement; Termination Fees*.

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The Merger Agreement also provides that Parent will be required to pay Blue Nile a reverse termination fee of \$32.2 million (the Parent Termination Fee ) if (i) the Closing does not occur within five (5) Business Days of the first date Parent is required to close; (ii) all mutual, Merger Sub, and Parent closing conditions are satisfied (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iii) Blue Nile has irrevocably notified Parent in writing that it is ready, willing and able to close and that all Blue Nile's closing conditions are satisfied or waived (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iv) Blue Nile has given Parent written notice five (5) Business Days prior to termination stating Blue Nile's intent to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger; and (v) Parent and Merger Sub fail to close on the later of five (5) Business Days of the notice and the date Parent is otherwise required to close. For more information please see the section of this proxy statement captioned *The Merger Agreement Termination of the Merger Agreement; Termination Fees*.

## **The Per Share Price**

At the Effective Time, and without any action required by any stockholder, each share of Company Common Stock that is outstanding immediately prior to the Effective Time (other than Owned Company Shares or Dissenting Company Shares, each as such terms are defined in the Merger Agreement) will be cancelled and extinguished, and automatically converted into the right to receive cash in the amount equal to \$40.75 without interest thereon and less any applicable withholding taxes.

After the Merger is completed, you will have the right to receive the Per Share Price, but you will no longer have any rights as a stockholder (except that stockholders who properly exercise their appraisal rights may have the right to receive a payment for the fair value of their shares of Company Common Stock as determined pursuant to an appraisal proceeding as contemplated by Delaware law, as described below under the caption *The Merger Agreement Appraisal Rights* ).

For more information regarding the treatment of Company Options and RSUs, please see the section of this proxy statement captioned *Interests of Blue Nile's Directors and Executive Officers in the Merger Treatment of Equity-Based Awards*.

## **Background of the Merger**

The Board of Directors regularly reviews Blue Nile's business and operations, strategy and prospects as an independent company with a view toward building stockholder value. As part of its evaluation, from time to time the Board of Directors has considered a variety of strategic alternatives to Blue Nile's business strategies as an independent company, including consideration of potential changes to Blue Nile's strategy, potential commercial partnerships, potential strategic acquisitions, and a sale of Blue Nile.

From time to time, Blue Nile has received inbound inquiries from, and has held discussions with, third parties regarding the possibility of pursuing commercial partnerships or other strategic transactions involving Blue Nile. More recently, in the summer of 2015, Blue Nile engaged in conversations with Party A, a large jeweler in mainland China, who had been having ongoing discussions with Blue Nile to explore the possibility of a commercial partnership through which Party A would acquire a minority interest in Blue Nile and the two companies would work jointly to expand their collective footprint in China. Blue Nile was introduced to Party A through an individual at an investment firm, who had previously worked at Party B, a Chinese department store, with whom Blue Nile previously held discussions since late 2014 regarding the possibility of Party B acquiring Blue Nile. The conversations in the summer of 2015 also included continued conversations with Party C, a financial sponsor, who had been having ongoing discussions with Blue Nile throughout the previous year to explore the possibility of acquiring both Blue Nile

and Party D, a private diamond and jewelry company; separate continued conversations with Party D, who had been having discussions with Blue Nile throughout the previous two years to explore the possibility of Blue Nile acquiring or entering into other strategic transactions

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with Party D; and continued conversations with Party E, a large department store chain, regarding the possibility of a strategic partnership between the companies or acquisition by Party E of Blue Nile. These discussions also included conversations with financial sponsors, including Party F, with whom members of management held meetings during the summer of 2015, regarding the possibility of Party F acquiring Blue Nile. During this time, management had regular communication with various members of the Board of Directors, including the then lead independent director, Mr. Mike Potter.

Throughout this time, the Board of Directors held various meetings to discuss these inbound inquiries and discussions. More recently, on June 22, 2015, the Board of Directors held a telephonic meeting. At this meeting, management updated the Board of Directors on the various inbound inquiries from, and discussions with, financial sponsors and strategic parties referenced in the preceding paragraph that expressed interest in exploring a potential transaction with Blue Nile. The Board of Directors discussed the advisability of further exploring these commercial partnerships and strategic transactions, including the advisability of exploring a potential sale of Blue Nile at that time. As part of this conversation, the Board of Directors also discussed Blue Nile's business results, strategic plans and opportunities as a standalone company. Following discussion, the Board of Directors authorized management to continue the discussions with the third parties. In addition, following discussion regarding the capabilities and experience of several financial advisors, the Board of Directors authorized management to engage BofA Merrill Lynch as Blue Nile's financial advisor in connection with this strategic review. The Board of Directors also held a telephonic meeting on July 24, 2015 with members of management and representatives of BofA Merrill Lynch in attendance and held its regularly scheduled meetings on August 3 and August 4, 2015 with members of management and representatives of BofA Merrill Lynch in attendance. The July 24, 2015 and August 4, 2015 meetings included executive sessions with only the independent directors in attendance. During those meetings the Board of Directors discussed and evaluated the ongoing process, and during the July 24, 2015 meeting, Ms. Neiswender, Blue Nile's General Counsel, led the Board of Directors in a discussion regarding the Board of directors' fiduciary duties, among other matters. On August 4, 2015, the Board of Directors authorized representatives of BofA Merrill Lynch to begin contacting third parties regarding possible strategic transactions involving Blue Nile.

In accordance with the Board of Directors' instructions, commencing in August 2015, representatives of BofA Merrill Lynch contacted representatives of a total of thirteen strategic buyers, including strategic buyers in the e-commerce, retail distribution and jewelry specialty market, as well as one financial sponsor, to gauge their respective interests in exploring a potential acquisition of Blue Nile. These strategic buyers included Party G, a domestic jewelry retailer.

Throughout the second half of 2015, at the direction of the Board of Directors, Mr. Kanter, Blue Nile's Chief Executive Officer, held further discussions and meetings with Party A to further explore the possibility of a commercial partnership. Party A and Blue Nile exchanged drafts of preliminary indicative term sheets for an investment by Party A in Blue Nile, and the Board of Directors held a telephonic meeting on October 5, 2015 and regularly scheduled meetings on November 2 and November 3, 2015 (with an executive session with only the independent directors in attendance at the November 3, 2015 meeting), at which the Board of Directors discussed and evaluated the potential synergies, opportunities for growth, and potential execution risks of such a commercial partnership, in light of Blue Nile's stand-alone plan and long-term objectives, including in China. In addition, throughout the second half of 2015, at the direction of the Board of Directors, management had further discussions and meetings with Party C regarding the possibility of Party C acquiring Blue Nile, and Party D regarding the possibility of Blue Nile acquiring Party D. During this time the Board of Directors discussed and evaluated the potential synergies, opportunities for growth, and potential execution risks of an acquisition of Party D at the meetings on October 5, 2015, November 2, 2015 and November 3, 2015 referenced above.

Also in the second half of 2015, Mr. Kanter, at the direction of the Board of Directors, had preliminary conversations with third parties who had previously contacted Blue Nile, or who had been contacted at the direction of the Board of

Directors by representatives of BofA Merrill Lynch as part of the August 2015 outreach process, regarding the possibility of an acquisition of Blue Nile.

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As part of the foregoing discussions, each of Party A, Party B, Party C, Party D, Party E, Party F and Party G executed a confidentiality agreement in favor of Blue Nile. None of these confidentiality agreements contained standstill provisions with respect to Blue Nile, except for the confidentiality agreement with Party C, which contained a standstill provision that expired in July 2015, and the confidentiality agreements with Party E and Party G, both of which contained standstill provisions that expired in August 2016.

By the end of 2015, all of the third parties who had expressed an interest in the possibility of acquiring Blue Nile had terminated discussions, citing, among other reasons, the difficulty in justifying a premium to Blue Nile's then current stock price. Further, Party C and Party E each informed Blue Nile of their respective decisions to cease discussions with respect to the possibility of a strategic partnership at that time, citing, among other reasons, the terms of the proposed transactions and their valuation of Blue Nile. However, at the direction of the Board of Directors, management continued discussions with Party A regarding the possibility of a commercial partnership and Party D regarding the possibility of Blue Nile acquiring Party D.

On February 1 and 2, 2016, the Board of Directors held regularly scheduled meetings, with members of management in attendance at the February 1 and 2, 2016 meetings and representatives of BofA Merrill Lynch in attendance at the February 1, 2016 meeting. The February 2, 2016 meeting included an executive session with only the independent directors in attendance. At these meetings, after discussion and consultation with management, the Board of Directors decided that it was not in the best interest of the stockholders to pursue the commercial partnership with Party A at this time, based upon, among other factors, the final terms proposed by Party A for the commercial partnership, the execution risks of such a commercial partnership, and Blue Nile's stand-alone plan and long-term objectives, including in China. The Board of Directors also discussed the potential acquisition of Party D, including Party D's supply chain, brand, employee base and customer profile, as well as the potential integration challenges, execution risks and impact on Blue Nile's other initiatives and uses of capital for pursuing such a transaction. To assist the Board of Directors in evaluating the potential acquisition of Party D, after discussion, the Board of Directors resolved to establish a committee (the Strategic Committee) to assist the Board of Directors in evaluating potential acquisition targets. The Strategic Committee was also authorized to assist the Board of Directors in evaluating a potential sale of Blue Nile and other strategic matters. The designated members of the Strategic Committee were Blue Nile directors Ms. Mindy Meads (who, at the February 2, 2016 meeting, was appointed to be Blue Nile's lead independent director, replacing Mr. Potter in such role) and Messrs. Harvey Kanter, Mike Potter and Robert van Schoonenberg.

On February 29, 2016, the Board of Directors held a telephonic meeting, with members of management in attendance. At this meeting, the Board of Directors discussed the potential acquisition of Party D, including potential synergies, integration, Party D's valuation, the risks and opportunities associated with acquiring Party D and the potential impact of the transaction on the Company's business and the Company's stockholders.

In January of 2016, representatives of Party H, a major supplier and business partner of Blue Nile, introduced Mr. Kanter to Party I, a financial sponsor, which also had a relationship with Party H. In March of 2016, Party H initiated a conversation between Mr. Kanter and Party I, during which there were general discussions about the possibility of Party I pursuing an acquisition of Blue Nile. On April 18 and 19, 2016, Mr. Kanter had additional conversations with Party I about Blue Nile's business. These conversations also included a discussion of the possibility of Party I pursuing an acquisition of Blue Nile in highly general terms. Party I, however, did not make any proposal to acquire Blue Nile.

On March 3, 16 and 30, 2016 and on April 7, 2016, the Strategic Committee held telephonic meetings. At these meetings, the Strategic Committee discussed, in consultation with management, the potential acquisition of Party D, including the valuation of Party D, the thesis of the transaction, the potential synergies with Party D, the ability to obtain the affirmative vote of the holders of a majority of the shares of Company Common Stock in order to



consummate such an acquisition and the benefits and risks of pursuing such an acquisition in light of Blue Nile's initiatives over the following six to twelve months. During the April 7, 2016 meeting, following discussion, the Strategic Committee decided it was in the best interest of stockholders to cease further discussions with Party D.

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On April 12, 2016, Party A attended an in-person meeting with Mr. Kanter and Mr. Binder in Seattle. During the course of this meeting, Party A continued previous discussions regarding the possibility of pursuing strategic transactions between the companies, and, in light of the Board of Directors' view that the previously proposed commercial partnership would not be in the best interest of Blue Nile's stockholders, Party A explored the possibility of Party A acquiring Blue Nile. On April 18, 2016, Party A delivered to the Board of Directors a letter, which expressed interest in the possibility of engaging in a take private transaction, strategic investment and/or strategic partnership, but did not provide any indicative terms for any of these proposed transactions.

On April 14, 2016, Party I and Blue Nile executed a confidentiality agreement, which did not include standstill provisions with respect to Blue Nile.

On April 20, 2016, the Strategic Committee held a telephonic meeting. At this meeting, Mr. Kanter updated the Strategic Committee regarding his recent conversations with Party I regarding their interest in exploring a potential acquisition of Blue Nile. The Strategic Committee also discussed the recent meeting between Mr. Kanter and Party A and the April 12, 2016 letter from Party A. The Strategic Committee then discussed the type of transaction or partnership that it believed might be in the best interest of Blue Nile's stockholders. After discussion, the Strategic Committee instructed management to continue to discuss the terms of a potential strategic transaction or partnership with Party A and Party I.

On May 2 and 3, 2016, the Board of Directors held regularly scheduled meetings. The May 3, 2016 meeting included executive sessions with only the independent directors in attendance. At these meetings, the Board of Directors discussed Blue Nile's ongoing strategy and the recent discussions with third parties regarding potential strategic alternatives. The Board of Directors also received a report from the Strategic Committee regarding these discussions and the Strategic Committee's views and recommendation to the Board of Directors that Blue Nile continue discussions with Party A and Party I. Following a discussion, the Board of Directors instructed management to continue the discussions regarding the terms of a potential transaction with Party A and Party I. The Board of Directors also received an update from management regarding Blue Nile's first quarter financial results.

On the morning of May 5, 2016, Blue Nile announced its first quarter 2016 financial results. Such announcement stated that net sales decreased 3.2% to \$103.1 million for the first quarter ended April 3, 2016 compared to \$106.5 million for the first quarter ended April 5, 2015; operating income for the quarter totaled \$1.2 million, representing an operating margin of 1.2% of net sales, compared to \$1.9 million in operating income and 1.8% operating margin for the first quarter 2015; net income totaled \$1.1 million, or \$0.09 per diluted share versus \$1.2 million, or \$0.10 per diluted share for the first quarter 2015; and adjusted EBITDA for the quarter totaled \$3.6 million compared to \$4.0 million for the first quarter 2015. The closing stock price of the Company Common Stock was \$25.23 per share on this date, a decline of 4.1% from the closing price of Common Stock of \$26.32 on the previous trading day.

On June 13, 2016, representatives of Party H contacted Mr. Kanter to express an interest in introducing Blue Nile to Bow Street LLC (Bow Street). On June 14, 2016, Mr. Kanter met with representatives of Party H and Bow Street in New York and had further telephonic meetings with Bow Street on June 21 and 22, 2016. During the course of these meetings, representatives of Bow Street indicated that they were interested in exploring a potential acquisition of Blue Nile and that they intended to submit a preliminary indication of interest to the Board of Directors.

On June 13, 2016, Mr. Kanter received an email introducing Mr. Kanter to the founder of Party J, a financial sponsor, expressing an interest in arranging an in-person meeting to discuss Blue Nile's business. Mr. Kanter attended an in-person meeting with the founder of Party J on June 15, 2016 in New York. On June 16, 2016, Party J and Blue Nile executed a confidentiality agreement, which did not include standstill provisions with respect to Blue Nile. Mr. Kanter held a further telephonic meeting with representatives of Party J on June 17, 2016. During the course of these

meetings, Party J expressed interest in entering into exclusive negotiations to

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pursue a possible acquisition of Blue Nile, but did not submit any indication of interest or provide any price range or other indicative terms of such a proposal.

On June 21, 2016, the Strategic Committee held a telephonic meeting. At this meeting, Mr. Kanter updated the Strategic Committee regarding current discussions with Party J and Bow Street, including a discussion of Party J's request for Blue Nile to enter into an exclusivity agreement. After deliberation, the Strategic Committee determined that Blue Nile should not enter into any exclusive relationship with any interested party at that time, instructed management to continue discussions with both Party J and Bow Street and instructed management to negotiate a confidentiality agreement with representatives of Bow Street and to provide Bow Street with preliminary due diligence materials. At this meeting, Mr. Kanter also informed the Strategic Committee that he had not received any communications from Party A since late April 2016. In addition, Mr. Kanter and Mr. Binder updated the Strategic Committee on Blue Nile's business and financial results.

Also on June 21, 2016, Mr. Kanter, after consulting with members of the Strategic Committee, contacted representatives of Bow Street to discuss process. During the course of this conversation, Mr. Kanter indicated that the Board of Directors would be unlikely to authorize continued discussions at an indicative price of less than \$35.00 per share and would be unlikely to be interested in any transaction at a price less than \$40.00 per share.

On June 22, 2016, Blue Nile received an initial non-binding written indication of interest from Bow Street, proposing to acquire Blue Nile at an indicative purchase price of \$35.00 per share in cash. The proposal indicated that it was subject to due diligence. The closing stock price of the Company Common Stock was \$26.48 per share on this date.

On June 22 and 23, 2016, representatives of Party J attended in-person meetings with members of management in Seattle to discuss Blue Nile's business.

On June 24, 2016, Mr. Kanter, after consulting with members of the Board of Directors, including lead independent director Ms. Meads and Mr. Potter, informed representatives of Party J that Blue Nile had received an indication of interest from another party and requested that Party J submit an indication of interest so that the Board of Directors could consider a formal proposal. Representatives of Party J informed Mr. Kanter that they were not interested in participating in a competitive process.

On June 24, 2016, Bow Street and Blue Nile executed a confidentiality agreement, which did not include standstill provisions with respect to Blue Nile. Shortly thereafter, Bow Street received access to preliminary due diligence materials regarding Blue Nile.

On June 25, 2016, Mr. Kanter emailed the Board of Directors to provide several updates as to the strategic process, including the recent meetings and discussions with Bow Street and Party J, as well as the June 22, 2016 indication of interest from Bow Street, among other matters.

Mr. Kanter, with authorization of the Board of Directors, authorized Party H to enter into discussions with Bow Street to discuss due diligence matters and the possibility of entering into commercial arrangements to facilitate a potential transaction between Blue Nile and Bow Street. To that end, on June 29, 2016, Blue Nile entered into a confidentiality agreement with Party H, which did not include a standstill provision with respect to Blue Nile.

During the months of June through August 2016, Bow Street conducted preliminary due diligence on Blue Nile. With the permission of Blue Nile, Bow Street continued to communicate with Party H throughout the process with respect to a potential transaction with Blue Nile, including due diligence matters and potential commercial arrangements. On July 21, 2016, representatives of Bow Street held an in-person due diligence session in Seattle, with members of

management and Party H attending. At these due diligence sessions,

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representatives of Bow Street indicated that they intended to introduce Blue Nile to additional equity partners as part of the process. On July 29, 2016, representatives of Bow Street and Blue Nile held a subsequent telephonic meeting, with representatives of BofA Merrill Lynch in attendance, to discuss process, during which Bow Street indicated again that they intended to engage potential equity partners to assist in financing a portion of the transaction. On August 1, 2016, Blue Nile provided Bow Street with access to an online data room containing certain limited preliminary information regarding Blue Nile.

During the months of July 2016 and August 2016, with the permission of Blue Nile, Bow Street contacted potential financial sponsors, including Bain Capital Private Equity, LP ( Bain Capital ) and Party K, a financial sponsor, to discuss the possibility of their providing a portion of the equity financing that Bow Street required to consummate a transaction with Blue Nile. Pursuant to the terms of Bow Street's confidentiality agreement with Blue Nile, Bow Street and Blue Nile provided due diligence materials to Bain Capital and Party K. On August 28 and 29, 2016, Party K attended in-person due diligence sessions with members of management, and on September 1, 2016 was provided access to the data room to evaluate participating in a potential acquisition of Blue Nile. On September 8, 2016, representatives of Bow Street contacted Mr. Kanter to inform him that Party K had declined to participate in a potential transaction, citing their difficulty in justifying a premium to Blue Nile's then current stock price.

On August 1 and 2, 2016, the Board of Directors held regularly scheduled meetings. The August 2, 2016 meeting included an executive session with only the independent directors in attendance. At these meetings, the Board of Directors discussed the terms of the proposal from Bow Street, including a discussion of the proposed offer price, as well as strategies and methods by which the Board of Directors may be able to extract a higher offer price from Bow Street. The Board of Directors also discussed Blue Nile's short- and long-term initiatives and the benefits and risks in pursuing Blue Nile's strategic plan on a stand-alone basis. After discussion, the Board of Directors authorized management to continue discussions with Bow Street regarding the terms of a potential transaction and instructed management to provide Bow Street and its potential equity partners with further due diligence materials. The Board of Directors also discussed Blue Nile's second quarter financial results, including a comparison to Blue Nile's forecast, budget and analyst expectations, as well as the industry and competitive landscape.

On the morning of August 8, 2016, Blue Nile announced its second quarter 2016 financial results. Such announcement stated that net sales increased to \$113.8 million for the second quarter ended July 3, 2016 compared to \$113.7 million for the second quarter ended July 5, 2015; operating income for the quarter totaled \$3.3 million, representing an operating margin of 2.9% of net sales, compared to \$3.4 million in operating income and 3.0% operating margin for the second quarter 2015; net income totaled \$2.1 million, or \$0.18 per diluted share versus \$2.3 million, or \$0.20 per diluted share for the second quarter 2015; and adjusted EBITDA for the quarter totaled \$5.6 million compared to \$5.7 million for the second quarter 2015. The closing stock price of the Company Common Stock was \$29.62 per share on this date, a decline of 1.4% from the closing price of Common Stock of \$30.04 on the previous trading day.

On August 24, 2016, representatives of BofA Merrill Lynch delivered to Blue Nile a disclosure letter regarding certain information concerning BofA Merrill Lynch's material relationships with Bow Street.

On August 25, 2016, Bain Capital received access to preliminary due diligence materials in the data room to evaluate participating in a potential acquisition of Blue Nile in partnership with Bow Street.

On August 26, 2016, representatives of Bow Street and Bain Capital (together, the Investor Group) held a telephonic due diligence session with management, which focused on Blue Nile's financial results and prospects. On August 29, 2016, representatives of the Investor Group and management held an in-person due diligence session, which included a discussion regarding Blue Nile's operational and strategic history and prospects. Throughout September 2016 and October 2016, the Investor Group continued to engage in its due diligence review of Blue Nile.



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On September 13, 2016, after consulting with members of the Board of Directors, including lead independent director Ms. Meads and Mr. Potter, Mr. Kanter had a telephonic meeting with the Investor Group regarding the due diligence process and to discuss the potential transaction process timeline. In the course of this discussion, Mr. Kanter noted that the prior June 22, 2016 offer of \$35.00 per share in cash would not be of interest to the Board of Directors and that without an offer of at least \$40.00 per share, it was unlikely that the Board of Directors would be willing to continue discussions with the Investor Group or continue to provide them access to due diligence materials, and that the offer price would likely have to be above \$45.00 to ultimately be of interest to the Board of Directors.

On September 16, 2016, Blue Nile received a non-binding written indication of interest from the Investor Group, proposing an acquisition price of \$40.00 per share in cash. The proposal indicated that it was subject to finalizing legal and accounting due diligence. Further, the proposal described the Investor Group's expectation that the parties would proceed on an exclusive basis during this process, and a proposed exclusivity agreement was provided to Blue Nile. The closing stock price of the Company Common Stock was \$35.99 per share on this date. On September 16, 2016, Mr. Kanter contacted each individual member of the Board of Directors to discuss this indication of interest from the Investor Group.

On September 17, 2016, the Board of Directors held a telephonic meeting. At this meeting, Mr. Kanter updated the Board of Directors on recent developments in the discussions with the Investor group, including the due diligence process and a potential transaction timeline. The Board of Directors then discussed the terms of the proposal from the Investor Group, including a discussion of the proposed offer price, as well as various strategies and methods by which the Board of Directors might seek to maximize stockholder value. The Board of Directors also discussed the possibility of entering into negotiations on an exclusive basis to extract additional value, and ultimately decided to not enter into any exclusive arrangements with potential acquirers at this time. The Board of Directors also discussed Blue Nile's short- and long-term initiatives and the potential opportunities and risks in pursuing Blue Nile's strategic plan on a stand-alone basis. During the course of this meeting, Mr. Kanter confirmed that he and other members of management had not engaged in any conversations with the Investor Group or any other party about potential post-transaction employment arrangements. The Board of Directors also discussed the valuation of Blue Nile, including the price ranges at which it would be willing to continue discussions with the Investor Group, and viewed Mr. Kanter as being in the best position to continue price negotiations based on his rapport with representatives of the Investor Group. The Board of Directors then instructed Mr. Kanter to convey the Board of Directors' response to the Investor Group's latest proposal.

On September 17, 2016, Mr. Kanter contacted representatives of the Investor Group and, as instructed by the Board of Directors, conveyed that the price of \$40.00 per share would only be considered as the beginning of price negotiations and that a price in excess of \$45.00 per share would be preferable to the Board of Directors.

On September 19, 2016, the Investor Group distributed to Blue Nile, through representatives of BofA Merrill Lynch, a presentation further explaining their offer and their valuation as set forth in the September 16, 2016 indication of interest. Later on September 19, 2016, representatives of the Investor Group and representatives of BofA Merrill Lynch discussed the valuation presentation and various process related matters.

On September 20 and 21, 2016, representatives of the Investor Group and management held in-person meetings, with Party H attending, where they discussed various matters, including Blue Nile's business prospects.

On September 23, 2016, the Board of Directors held a telephonic meeting, with representatives of Wilson Sonsini Goodrich and Rosati (WSGR), Blue Nile's outside legal advisors, and representatives of BofA Merrill Lynch in attendance. At this meeting, the Board of Directors discussed, after consultation with management and representatives of BofA Merrill Lynch, the terms of the proposal from the Investor Group, including a discussion of the proposed



offer price, as well as various strategies and methods by which the Board of Directors might seek to maximize stockholder value. In the course of this discussion, representatives of BofA Merrill Lynch informed

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the Board of Directors of their prior conversation with the Investor Group regarding the Investor Group's valuation presentation. The Board of Directors also discussed, after consultation with management and representatives of BofA Merrill Lynch, Blue Nile's short- and long-term initiatives and the potential opportunities and risks in pursuing Blue Nile's strategic plan on a stand-alone basis. After deliberation, the Board of Directors authorized management and representatives of BofA Merrill Lynch to continue negotiating the terms of a potential transaction with the Investor Group and to continue the due diligence process with the Investor Group, but instructed Mr. Kanter to indicate that the Board of Directors preferred a higher price. Following this meeting, Mr. Kanter contacted representatives of the Investor Group to convey the Board of Directors' position.

On September 26, 2016, representatives of BofA Merrill Lynch delivered to the Board of Directors a supplemental disclosure letter regarding certain information concerning BofA Merrill Lynch's material relationships with the Investor Group.

On September 27, 2016, the Board of Directors held a telephonic meeting, with representatives of WSGR and representatives of BofA Merrill Lynch in attendance. This meeting included an executive session with only the independent directors in attendance. At this meeting, representatives of BofA Merrill Lynch presented a public market and historical stock performance overview. WSGR then reviewed with the Board of Directors its fiduciary duties, including the legal framework in which the Board of Directors should consider any proposal that may be received from a potential acquirer in light of deal execution risks and Blue Nile's stand-alone operations and prospects. During the course of this meeting, Mr. Kanter confirmed that he and other members of management had not engaged in any conversations with the Investor Group or any other party about potential post-transaction employment arrangements. The Board of Directors then discussed various strategies and methods by which the Board of Directors might seek to maximize stockholder value, including the parameters of the market check process. Among the topics discussed were the desire to move quickly to a negotiated agreement, the ability of other parties to conduct due diligence on a competitive timeline, and the likely level of interest by other parties in light of the outreach in the summer of 2015 that resulted in no indications of interest. Mr. Binder, Blue Nile's Chief Financial Officer, then led the Board of Directors in a discussion of the Management Projections (as defined and described further below under the heading *Management Projections*) and the Upside Case (as defined and described below under the heading *Management Projections Sensitivity Cases*) for long-term planning and valuation purposes. Following this discussion, the Board of Directors determined that the Management Projections were the best currently available estimates and good faith judgments of management and the Board of Directors as to the future financial performance of Blue Nile, and instructed representatives BofA Merrill Lynch to use the Management Projections for the purpose of performing its preliminary financial analysis. The Board of Directors also instructed management to create a comparably plausible downside sensitivity case (as compared to the Upside Case) for long-term planning and valuation purposes (described below under the heading *Management Projections Sensitivity Cases* as the *Downside Case*) in order to provide the Board of Directors with a balanced view of the illustrative Sensitivity Cases. The Board of Directors instructed representatives of BofA Merrill Lynch to include, solely for illustrative purposes, an appendix to its preliminary financial analysis with the sensitivity cases consisting of both the Downside Case and the Upside Case.

On September 29, 2016, the Board of Directors held a telephonic meeting, with representatives of WSGR and representatives of BofA Merrill Lynch attending. This meeting included an executive session with only the independent directors and WSGR in attendance. Representatives of BofA Merrill Lynch reviewed with the Board of Directors its preliminary financial analysis of the Investor Group's revised proposal to acquire Blue Nile at a price of \$40.00 per share in cash. The Board of Directors then continued its discussion regarding various strategies and methods by which the Board of Directors might seek to maximize stockholder value, including the parameters of the market check process. The Board of Directors also discussed deal execution risks and Blue Nile's stand-alone operations and prospects and considered whether it was the appropriate time to continue discussions regarding a potential sale of Blue Nile. At this meeting the Board of Directors also discussed the September 26, 2016 disclosure

letter from BofA Merrill Lynch, both with representatives of BofA Merrill Lynch and without representatives of BofA Merrill Lynch in attendance during such discussion.

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Also on September 29, 2016, Blue Nile and BofA Merrill Lynch executed an indemnification agreement for the benefit of BofA Merrill Lynch.

On October 7, 2016, representatives of the Investor Group sent a preliminary accounting and legal due diligence request list to representatives of Blue Nile.

On October 13, 2016, representatives of BofA Merrill Lynch contacted the Investor Group to request the submission by the Investor Group of an updated proposal, as instructed by the Board of Directors. As of October 14, Mr. Kanter was no longer involved in any direct negotiations with the Investor Group and all negotiations and conversations regarding price and other key deal terms were between representatives of BofA Merrill Lynch, acting at the direction of the Board of Directors, and the Investor Group.

On October 14, 2016, Blue Nile received a revised non-binding written indication of interest from the Investor Group, proposing an acquisition price of \$38.50 per share in cash. The indication of interest indicated that the decrease in the proposed acquisition price from the September 16, 2016 offer of \$40.00 per share reflected the weak financial trajectory of Blue Nile, including continued year-on-year revenue declines over the past four quarters through the third fiscal quarter of 2016. The closing stock price of the Company Common Stock was \$35.43 per share on this date. Further, the proposal described the Investor Group's expectation that the parties would proceed on an exclusive basis during this process, and a proposed exclusivity agreement was provided to Blue Nile.

On October 14, 2016, the Board of Directors held a telephonic meeting to review the revised indication of interest from the Investor Group, with representatives of WSGR and representatives of BofA Merrill Lynch in attendance. This meeting included an executive session with only the independent directors in attendance. At this meeting, Mr. Binder updated the Board of Directors on Blue Nile's third quarter 2016 financial results. In addition, at this meeting, representatives of BofA Merrill Lynch reviewed with the Board of Directors its preliminary financial analysis, which had been updated to reflect the current market and the latest proposal from the Investor Group, relating to Blue Nile. The Board of Directors discussed negotiation strategies in the ongoing discussions with the Investor Group and the strategies and methods by which the Board of Directors might seek to maximize stockholder value. These discussions included the possibility of contacting additional parties to gauge their interest in pursuing a potential acquisition of Blue Nile, which, after discussion, the Board of Directors decided not to do at this time. These discussions also included the possibility of agreeing to negotiate on an exclusive basis to extract additional value, which, after discussion, the Board of Directors decided not to do at this time. In addition, following discussion, the Board of Directors authorized lead independent director, Ms. Meads, to formally execute an engagement letter with BofA Merrill Lynch.

On October 16, 2016, representatives of BofA Merrill Lynch had discussions with members of the Board of Directors, including lead independent director Ms. Meads, to discuss process and the Investor Group's latest proposal. On October 16, 2016, representatives of BofA Merrill Lynch, at the instruction of the Board of Directors, contacted the Investor Group to discuss the terms of their latest proposal. During this call, representatives of BofA Merrill Lynch conveyed the Board of Directors' response to the Investor Group's latest proposal. Later on October 16, 2016, representatives of BofA Merrill Lynch received an oral confirmation of a revised indication of interest from the Investor Group, proposing an acquisition price of \$39.50 per share in cash. The closing stock price of the Company Common Stock was \$35.43 per share on October 14, 2016, the last trading day before this date.

On October 17, 2016, Blue Nile formally engaged BofA Merrill Lynch by executing an engagement letter.

On October 17, 2016, the Board of Directors held a telephonic meeting to review the revised indication of interest from the Investor Group, with representatives of WSGR and representatives of BofA Merrill Lynch attending. This

meeting included an executive session with only the independent directors in attendance. At this meeting, representatives of BofA Merrill Lynch reviewed with the Board of Directors its preliminary financial

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analysis, which had been updated to reflect the current market and the latest proposal from the Investor Group relating to Blue Nile. The Board of Directors discussed negotiation strategies in the ongoing discussions with the Investor Group and the strategies and methods by which the Board of Directors might seek to maximize stockholder value, including the parameters of the market check process. This discussion included deliberation about whether the Board of Directors may be able to extract a higher offer price from the Investor Group by agreeing to negotiate with the Investor Group on an exclusive basis. In light of the Investor Group's recent reduction in its proposed price, the Board of Directors decided to conduct a targeted market check to determine if any other possible bidders for Blue Nile might have interest in Blue Nile at the price above the Investor Group's latest proposal. As part of this discussion regarding the market check process, the Board of Directors evaluated each possible acquirer, including Party E, Party G and Party L, an e-commerce company. Following this discussion and taking into account its discussions with representatives of BofA Merrill Lynch, and in light of the prior outreach in the summer of 2015 to a total of thirteen strategic buyers and one financial sponsor, none of which submitted any indication of interest, the Board of Directors instructed representatives of BofA Merrill Lynch to conduct a targeted outreach to the three strategic buyers that, in the view of the Board of Directors, were most likely to be interested in a potential transaction. The Board of Directors also determined that it would not agree to negotiate with the Investor Group on an exclusive basis at this time so that it could continue its outreach to these potential buyers as part of its targeted market check pre-signing to confirm that the Investor Group's offer continued to be higher than Blue Nile could reasonably expect from other potential buyers.

Commencing on October 17, 2016, as instructed by the Board of Directors, representatives of BofA Merrill Lynch contacted representatives of Party E, Party G and Party L. At this time, as instructed by the Board of Directors, representatives of BofA Merrill Lynch also contacted the Investor Group and conveyed the Board of Directors continuing position that the Board of Directors preferred a higher per share price than what was included in the Investor Group's latest proposal.

On October 17, 2016, representatives of Party E contacted representatives of BofA Merrill Lynch, and indicated that Party E was not interested in an acquisition of Blue Nile, citing, among other reasons, that Party E was unable to justify the EBITDA multiples implied by a transaction in the price range being considered.

On October 17, 2016, representatives of BofA Merrill Lynch received oral confirmation of a further revised indication of interest from the Investor Group, proposing an acquisition price of \$40.25 per share in cash. The closing stock price of the Company Common Stock was \$35.16 per share on this date.

Later on October 18, 2016, the Board of Directors held a telephonic meeting to review the revised indication of interest from the Investor Group, with representatives of WSGR and representatives of BofA Merrill Lynch attending. Representatives of BofA Merrill Lynch provided an update to the Board of Directors regarding the most recent proposals received from the Investor group. This meeting included an executive session with only the independent directors in attendance. After discussion, the Board of Directors concluded that there did not appear to be any other parties with a likely interest in acquiring Blue Nile that had not already been contacted. The Board of Directors then discussed strategies to achieve the highest price obtainable in the ongoing negotiations with the Investor Group, including the possibility of agreeing to exclusive negotiations, and determined to convey to the Investor Group that the Board of Directors would carefully consider a transaction if the Investor Group raised their price to at or above \$40.50 per share in cash.

Later on the evening of October 18, 2016, representatives of BofA Merrill Lynch and the Investor Group discussed the proposed acquisition price, in accordance with the Board of Directors' instructions. Representatives of the Investor Group indicated orally that, pending internal approvals, their final proposal would be to acquire Blue Nile for \$40.75 per share in cash and that, assuming the receipt of such internal approvals, a final indication of interest would follow the next day.

On October 19, 2016, representatives of BofA Merrill Lynch received confirmation from the Investor Group of a final proposed acquisition price of \$40.75 per share in cash, and substantially communicated the receipt of the Investor Group's final proposal to the Board of Directors. The closing stock price of the Company Common Stock was \$35.46 per share on this date.

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On October 19, 2016, representatives of the Investor Group sent additional due diligence request lists to representatives of Blue Nile. On October 19, 2016, representatives of the Investor Group, Blue Nile, WSGR and Kirkland & Ellis LLP ( Kirkland ), outside counsel to the Investor Group, and representatives of BofA Merrill Lynch held a due diligence process call, after which Blue Nile began to populate the online data room with additional information regarding Blue Nile in response to these requests.

On October 20, 2016, representatives of Party G contacted representatives of BofA Merrill Lynch, and indicated that Party G was not interested in exploring a possible acquisition of Blue Nile, citing, among other reasons, that such a transaction was not a strategic focus of Party G.

On October 20, 2016, representatives of Party L contacted representatives of BofA Merrill Lynch, and indicated that Party L was not interested in exploring a possible acquisition of Blue Nile, citing, among other reasons, concerns over Blue Nile's growth profile.

On October 24, 2016, Kirkland delivered an initial draft of the Merger Agreement to WSGR, which included a proposed go-shop period of 30 days. Over the next several days, WSGR, in consultation with the Board of Directors, exchanged drafts and negotiated the terms of the Merger Agreement with Kirkland, with a significant focus on the terms of the agreement relating to closing certainty (including certainty of the Investor Group's financing), the length of the go-shop period and provisions relating to Blue Nile's ability to entertain and accept superior acquisition proposals that it might receive during the pendency of the transaction (including the termination fees and expense reimbursements that could become payable by Blue Nile in certain circumstances). In addition, over the next several days, the parties had several discussions regarding the confirmatory due diligence of the Investor Group.

On October 29, 2016, representatives of BofA Merrill Lynch and representatives of the Investor Group held a telephonic meeting to discuss the progress of the Investor Group's due diligence review and to discuss process and a potential transaction timeline. Following this call, representatives of BofA Merrill Lynch held a telephonic meeting with lead independent director, Ms. Meads, and provided an update on these recent discussions with the Investor Group.

On November 1 and November 2, 2016, the Board of Directors held regularly scheduled meetings, during which the Board of Directors considered the terms of the proposed transaction, with members of management and representatives of WSGR and representatives of BofA Merrill Lynch attending the November 2, 2016 meeting. The November 2, 2016 meeting included an executive session with only the independent directors in attendance. At this meeting, WSGR reviewed the key terms of the latest draft Merger Agreement, including with respect to closing conditions, the definition of material adverse effect, financing matters, the length of the go-shop period, which would allow for a post-signing market check in addition to the pre-signing process Blue Nile had undergone since 2015, alternative acquisition proposals, termination, termination fees, expense reimbursement and remedies, which had not yet been finalized. WSGR also reviewed with the Board of Directors a proposed amendment to Blue Nile's bylaws adopting a forum selection clause. After this review, the Board of Directors provided feedback and direction on the remaining unresolved issues in the latest draft Merger Agreement and instructed WSGR to seek to finalize these issues in accordance with its guidance. Later on November 2, 2016, WSGR delivered a revised draft of the Merger Agreement to Kirkland, including, among other provisions, a 45-day go-shop period.

On November 3, 2016, Kirkland delivered a revised draft of the Merger Agreement to WSGR. On November 4, 2016, representatives of BofA Merrill Lynch delivered to the Board of Directors a supplemental disclosure letter regarding certain information concerning BofA Merrill Lynch's material relationships with the Investor Group.



On November 4, 2016, the Board of Directors held a telephonic meeting to consider the terms of the proposed transaction, with members of management and representatives of WSGR and representatives of BofA

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Merrill Lynch attending. This meeting included an executive session with only the independent directors in attendance. At this meeting, WSGR reviewed the key terms of the latest draft Merger Agreement, including with respect to closing conditions, the definition of material adverse effect, financing matters, the length of the go-shop period, alternative acquisition proposals, termination, termination fees, expense reimbursement and remedies, which had not yet been finalized. Following this presentation, the Board of Directors discussed the various terms of the Merger Agreement, including the length of the go-shop period. Representatives of BofA Merrill Lynch then reviewed its revised financial analysis of the consideration to be received by Blue Nile stockholders pursuant to the Merger Agreement. After these presentations, the Board of Directors provided feedback and direction on the remaining unresolved issues in the Merger Agreement and instructed WSGR to seek to finalize these issues in accordance with its guidance. At this meeting the Board of Directors also discussed the November 3, 2016 disclosure letter from BofA Merrill Lynch. On November 5, 2016, WSGR delivered a revised draft of the Merger Agreement to Kirkland.

On November 5, 2016, representatives of the Investor Group contacted representatives of BofA Merrill Lynch to discuss the proposed transaction. The Investor Group indicated that Blue Nile's business fundamentals continued to weaken in their view and that the debt financing market was weaker than they expected, which increased their cost of financing and lowered their expected returns. The Investor Group then explored the possibility of re-opening discussions regarding price and timing and communicated that it would be challenging for them to proceed above a price of \$38.00 per share. Representatives of BofA Merrill Lynch stated that they would need to report any revised offer to the Board of Directors but that, based on their discussions with the Board of Directors, they did not expect the Board of Directors to be interested in a transaction below the previous proposed acquisition price. Following this call, representatives of BofA Merrill Lynch held a telephonic meeting with lead independent director, Ms. Meads, and provided an update on these recent discussions with the Investor Group.

On the morning of November 6, 2016, representatives of the Investor Group contacted representatives of BofA Merrill Lynch to orally affirm the prior offer price of \$40.75 per share. The representatives of the Investor Group noted, however, that they had limited flexibility on the remaining issues in the Merger Agreement at that price. Kirkland and WSGR negotiated to resolve the remaining open issues in the Merger Agreement.

Later on the morning of November 6, 2016, the Board of Directors held a telephonic meeting to consider the terms of the proposed transaction, with members of management and representatives of WSGR and representatives of BofA Merrill Lynch attending. At this meeting, representatives of BofA Merrill Lynch updated the Board of Directors on its conversations with the Investor Group from the prior evening. WSGR then reviewed the key terms of the latest draft Merger Agreement, including with respect to closing conditions, the definition of material adverse effect, financing matters, the length of the go-shop period, alternative acquisition proposals, termination, termination fees, expense reimbursement and remedies, which had not yet been finalized. After these presentations, the Board of Directors provided feedback and direction on the remaining unresolved issues in the Merger Agreement and instructed WSGR to seek to finalize these issues in accordance with its guidance. The Board of Directors decided to reconvene later in the morning to further consider the terms of the proposed transaction.

Later on the morning of November 6, 2016, the Board of Directors held a subsequent telephonic meeting to further consider the terms of the proposed transaction, with members of management and representatives of WSGR and representatives of BofA Merrill Lynch attending. At this meeting, representatives of BofA Merrill Lynch reviewed their latest disclosure letter from November 3, 2016 and led the Board of Directors through a review of the fees paid to BofA Merrill Lynch by the Investor Group. Representatives of BofA Merrill Lynch then reviewed its financial analysis of the Per Share Price and delivered to the Board of Directors an oral opinion, which was confirmed by the subsequent delivery of a written opinion dated November 6, 2016, to the effect that, as of that date and based upon and subject to various assumptions and limitations described in its opinion, the Per Share Price to be received in the Merger by holders of Company Common Stock (other than Owned Company Shares and Dissenting Company

Shares), was fair, from a financial point of view, to such holders. For more

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information about BofA Merrill Lynch's opinion, see the section of this proxy statement below captioned *Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated*. At this meeting the Board of Directors also discussed the November 3, 2016 disclosure letter from BofA Merrill Lynch. After discussing potential reasons for and against the proposed transaction (see below under the heading *Recommendation of the Board of Directors and Reasons for the Merger*), the Board of Directors unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein, (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations under the Merger Agreement, and the consummation of the Merger upon the terms and conditions set forth therein, and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the DGCL. In addition, after discussion, the Board of Directors also unanimously determined that the proposed amendment to Blue Nile's bylaws adopting a forum selection clause was advisable and in the best interests of Blue Nile and its stockholders, finding that it would mitigate the expense associated with defending cases in multiple forums, the difficulties in managing litigation brought by multiple plaintiffs' firms concerning the same set of facts, the ability of plaintiffs to shop between favorable forums and the risks associated with multiple inconsistent outcomes. Accordingly, the Board of Directors approved the resolution to amend the bylaws to include a forum selection clause.

Later in the day on November 6, 2016, the Board of Directors held another telephonic meeting, with members of management and representatives of WSGR and representatives of BofA Merrill Lynch attending. Representatives of WSGR described the final draft of the Merger Agreement, which included certain revisions to the interim operating covenants. The Board of Directors then confirmed its approval of the final draft of the Merger Agreement and the proposed transaction.

On November 6, 2016, Parent, Merger Sub and the Investor Group also approved the Merger Agreement and the transactions contemplated thereby, including the Merger.

On the evening of November 6, 2016, Blue Nile, Parent and Merger Sub executed the Merger Agreement. Following the execution of the Merger Agreement, on the morning of November 7, 2016, Blue Nile issued a press release announcing the transaction.

On the morning of November 7, 2016, following the issuance of the press release announcing the transaction and at the instruction of the Board of Directors, representatives of BofA Merrill Lynch commenced the go-shop process in accordance with the go-shop provisions in the Merger Agreement.

Also on the morning of November 7, 2016, Blue Nile announced its third quarter 2016 financial results. Such announcement stated that net sales decreased to \$105.1 million for the third quarter ended October 2, 2016 compared to \$109.9 million for the third quarter ended October 4, 2015; operating income for the quarter totaled \$1.8 million, representing an operating margin of 1.7% of net sales, compared to \$3.0 million in operating income and 2.8% operating margin for the third quarter 2015; net income totaled \$1.3 million, or \$0.11 per diluted share versus \$2.0 million, or \$0.17 per diluted share for the third quarter 2015; and adjusted EBITDA for the quarter totaled \$4.2 million compared to \$5.3 million for the third quarter 2015.

After the public announcement of the transaction, Bow Street contacted the potential equity partners who had declined to participate in the Investor Group, including Party K, and informed them that, for the avoidance of doubt and notwithstanding any prior arrangements or understandings between them and Bow Street, they were free to participate in the go-shop process and submit an alternative proposal to acquire Blue Nile.



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**Recommendation of the Board of Directors and Reasons for the Merger**

***Recommendation of the Board of Directors***

The Board of Directors has unanimously (1) determined that it is in the best interests of Blue Nile and Blue Nile's stockholders, and declared it advisable, to enter into the Merger Agreement and consummate the Merger upon the terms and subject to the conditions set forth therein; (2) approved the execution and delivery of the Merger Agreement by Blue Nile, the performance by Blue Nile of its covenants and other obligations thereunder, and the consummation of the Merger upon the terms and conditions set forth therein; and (3) recommended that Blue Nile's stockholders adopt the Merger Agreement in accordance with the DGCL.

The Board of Directors unanimously recommends that you vote (1) **FOR** the adoption of the Merger Agreement; (2) **FOR** the proposal to post-pone or adjourn the Company Stockholder Meeting if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the Merger Agreement at the time of the Company Stockholder Meeting; and (3) **FOR** the proposal to approve, by non-binding, advisory vote, certain compensation that will or may become payable by Blue Nile to its named executive officers in connection with the Merger.

***Reasons for the Merger***

In evaluating the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, the Board of Directors consulted with management, its financial advisors and outside legal counsel. In recommending that stockholders vote in favor of the adoption of the Merger Agreement, the Board of Directors considered a number of factors, including the following (which factors are not necessarily presented in order of relative importance):

the fact that the all-cash Per Share Price would provide certainty of value and liquidity to stockholders, while eliminating the effect of long-term business and execution risk to stockholders;

the relationship of the Per Share Price to the trading price of the Company Common Stock, including:

that the Per Share Price constituted a premium of approximately 33.9% from the closing stock price per share of Company Common Stock of \$30.44 on November 4, 2016, the last trading day prior to the execution of the Merger Agreement;

that the Per Share Price constituted a premium of approximately 16.8% and 19.1% from the average price per share of Company Common Stock in the one-month period and three-month period, respectively, up to and including November 4, 2016, the last trading day prior to the execution of the Merger Agreement; and

that the Per Share Price constituted a premium of approximately 53.9% from the closing stock price per share of Company Common Stock on June 22, 2016, the day Bow Street submitted its first non-binding indication of interest with respect to a potential strategic transaction;

the recent and historical market prices of the Company Common Stock;

the multiples to adjusted EBITDA, cash earnings per share and free cash flow implied by the Per Share Price;

the financial terms of selected precedent transactions of comparable size to the Merger;

its belief, based on discussions and negotiations with the Investor Group, that the Per Share Price was the highest price the Investor Group would be willing to pay and the highest price reasonably obtainable, each as of the date of the Merger Agreement;

the Board of Directors' understanding of Blue Nile's business and operations, and its current and historical results of operations, financial prospects and condition;

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the Board of Directors' evaluation of Blue Nile's strategy, direction, prospects and stand-alone value;

the Board of Directors' evaluation of Blue Nile's historical financial performance as well as its projected stand-alone financial performance embodied in the Management Projections;

the perceived risk of continuing as an independent public company or pursuing other alternatives, including (1) the continuation of Blue Nile's business plan as an independent enterprise; (2) modifications to Blue Nile's strategy; and (3) potential expansion opportunities into new business lines through acquisitions and combinations of Blue Nile with other businesses;

the competitive landscape and the dynamics of the market for Blue Nile's products, and the assessment that other alternatives were not reasonably likely to create greater value for stockholders than the Merger, taking into account execution risk as well as business, competitive, industry and market risk;

the review of Blue Nile's strategic and financial alternatives, including:

that Blue Nile's financial advisors had previously contacted a total of thirteen strategic buyers and one financial sponsor beginning in the summer of 2015, and each either declined to proceed with an evaluation of a potential strategic transaction, or declined to submit a transaction proposal for Blue Nile;

that Blue Nile's financial advisors had recently contacted a total of three strategic buyers in an effort to obtain the best value reasonably available to stockholders and each either declined to proceed with an evaluation of a potential strategic transaction, or declined to submit a transaction proposal for Blue Nile; and

its belief that it was unlikely that another party would be willing or able to pay more than the Per Share Price in cash.

the financial analyses and opinion of BofA Merrill Lynch, dated November 6, 2016, to the Board of Directors as to the fairness, from a financial point of view and as of the date of the opinion, of the Per Share Price to be received in the Merger by holders of Company Common Stock (other than Owned Company Shares and Dissenting Company Shares), as more fully described below in the section of this proxy statement captioned *Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated*

the terms of the Merger Agreement and the related agreements, including:



that the financing contemplated by the Equity Commitment Letter and the Debt Commitment Letter provided in favor of Parent, together with Blue Nile's cash on hand, were sufficient to fund the aggregate purchase price and the other payments contemplated by, and subject to the terms and conditions of, the Merger Agreement, and that Blue Nile is a named third party beneficiary of the Equity Commitment Letter;

Blue Nile's ability during a go-shop period to actively solicit alternative proposals, and Blue Nile's ability, under certain other circumstances after the go-shop period, to furnish information to and conduct negotiations with an Excluded Party regarding alternative acquisition proposals;

Blue Nile's ability to terminate the Merger Agreement in order to accept a Superior Proposal, subject to Parent's right to match such Superior Proposal and subject to paying Parent (x) a termination fee of \$7.4 million, with respect to Blue Nile entering into an alternative acquisition agreement with an Excluded Party on or prior to the Cut-Off Date or (y) a termination fee of \$17.4 million if payable otherwise;

Blue Nile's entitlement to specific performance to cause the equity financing to be funded if the Marketing Period has ended, all conditions in the Merger Agreement have been satisfied, the debt financing has been or will be funded at the Closing and Blue Nile has confirmed in writing that if specific performance is granted and the equity financing is funded, then the Closing will occur;

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Blue Nile's entitlement to specific performance to prevent breaches of the Merger Agreement;

Blue Nile's entitlement to a reverse termination fee from Parent of \$32.2 million if (i) the Closing does not occur within five business days of the first date Parent is required to close; (ii) all mutual, Merger Sub and Parent closing conditions are satisfied at the Closing; (iii) Blue Nile has irrevocably notified Parent in writing that it is ready, willing and able to close and that all of Blue Nile's closing conditions are satisfied or waived; (iv) Blue Nile has given Parent written notice five business days prior to termination stating Blue Nile's intent to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger; and (v) Parent and Merger Sub fail to close on the later of five business days of the notice and the date Parent is otherwise required to close;

that Bain Capital Fund XI provided a Limited Guaranty in favor of Blue Nile that guarantees the payment of the Parent Termination Fee that may become payable by Parent under the Merger Agreement;

that the Merger is subject to the approval of the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote;

the Board of Directors view that the Merger Agreement was the product of arm's-length negotiation and contained customary terms and conditions; and

the Board of Directors view that the terms of the Merger Agreement would be unlikely to deter interested third parties from making a Superior Proposal, including the Merger Agreement's terms and conditions as they relate to changes in the recommendation of the Board of Directors and the belief that the termination fee potentially payable to Parent is reasonable in light of the circumstances, and not preclusive of other offers (see the section of this proxy statement captioned *The Merger Agreement Other Covenants Under the Merger Agreement Acquisition Proposals; Change in the Recommendation of Blue Nile's Board of Directors* ).

The Board of Directors also considered a number of uncertainties and risks concerning the Merger, including the following (which factors are not necessarily presented in order of relative importance):

the fact that the announcement and pendency of the Merger, or the failure to complete the Merger, could cause substantial harm to Blue Nile's relationships with its employees (including making it more difficult to attract and retain key personnel and the possible loss of key management, technical, sales and other personnel), vendors, customers and commercial partners and may divert management and employees attention away from Blue Nile's day-to-day business operations;

the fact that stockholders will not participate in any future earnings or growth of Blue Nile and will not benefit from any appreciation in value of Blue Nile, including any appreciation in value that could be realized as a result of improvements to our operations or future strategic or other transactions by Blue Nile;

the requirement that Blue Nile pay Parent (x) a termination fee of \$7.4 million, with respect to Blue Nile entering into an alternative acquisition agreement with an Excluded Party on or prior to the Cut-Off Date or (y) a termination fee of \$17.4 million in certain other circumstances, including if the Board of Directors terminates the Merger Agreement to accept a Superior Proposal after the Cut-Off Date;

the requirement that Blue Nile pay Parent for its out-of-pocket expenses (including fees and expenses of the Financing Sources, counsel, accountants, investment banks, advisors and consultants of Parent and Merger Sub) up to an aggregate of \$5.0 million, if the Merger Agreement is terminated due to the failure to consummate the Closing by 5:00 p.m., Eastern time, on May 6, 2017 or the failure of Blue Nile's stockholders to adopt the Merger Agreement at the Company Stockholder Meeting;

the restrictions on the conduct of Blue Nile's business prior to the consummation of the Merger, including the requirement that Blue Nile conduct its business in the ordinary course, subject to specific

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limitations, which may delay or prevent Blue Nile from undertaking business opportunities that may arise before the completion of the Merger and that, absent the Merger Agreement, Blue Nile might have pursued;

the fact that an all cash transaction would be taxable to Blue Nile's stockholders that are U.S. persons for U.S. federal income tax purposes;

the fact that under the terms of the Merger Agreement