

# **BLUE NILE, INC.**

## **CHARTER OF THE COMPENSATION COMMITTEE**

### **PURPOSE AND POLICY**

The primary purpose of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Blue Nile, Inc. (the “Company”) shall be to act on behalf of the Board in fulfilling the Board’s responsibilities to oversee the Company’s compensation policies, plans and programs, and to review and determine the compensation to be paid to the Company’s executive officers and directors. The term “compensation” shall include salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements, retirement benefits and other related benefits and benefit plans.

The policy of the Committee shall be as follows:

- *Compensation Structure.* The Committee shall seek to maintain an overall compensation structure designed to attract, retain and motivate management and other employees by providing appropriate levels of risk and reward, assessed on a relative basis at all levels within the Company and in proportion to individual contribution and performance; and
- *Long-Term Focus.* The Committee shall seek to establish appropriate incentives for management and employees at all levels to further the Company’s long-term strategic plan and long-term value as a going concern and to avoid undue emphasis on short-term market value.

### **COMPOSITION**

The Committee shall consist of at least two (2) members of the Board. No Committee member shall be an employee of the Company and each member shall be free from any relationship that would interfere with the exercise of his or her independent judgment, as determined by the Board, in accordance with the applicable independence requirements of The Nasdaq Stock Market (“Nasdaq”) and the rules and regulations of the Securities and Exchange Commission (“SEC”), including any exceptions permitted by such requirements. The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board. The Committee’s Chairperson shall be designated by the Board or, if it does not do so, the Committee members shall elect a Chairperson by vote of a majority of the full Committee.

### **OPERATING PRINCIPLES AND PROCESSES**

In fulfilling its functions and responsibilities, the Committee should give due consideration to the following operating principles and processes:

- *Communication* – Regular and meaningful contact with the Chairman of the Board, other committee chairpersons, members of senior management and independent professional advisors to the Board and its various committees, as applicable, shall be encouraged as a means of strengthening the Committee’s knowledge of relevant current and prospective issues with compensation policies, plans and programs.
- *Committee Education/Orientation* – Developing with management and participating in a process for systematic review of important compensation issues and trends that could potentially impact the Company shall be encouraged to enhance the effectiveness of the Committee.
- *Information Needs* – The Committee members shall communicate to the Chief Executive Officer or his or her designees the Committee’s expectations, and the nature, timing, and extent of any specific information or other supporting materials requested by the Committee for its meetings and deliberations.
- *Meeting Agendas* – Committee meeting agendas shall be the responsibility of the Committee chairperson with input from the Committee members and other members of the Board as well as, to the extent deemed appropriate by the chairperson, from members of senior management and outside advisors.

## **MEETINGS**

The Committee will hold at least two (2) regular meetings per year and additional meetings as the Committee deems appropriate. Meetings may be called by the Chairperson of the Committee or the Chairman of the Board. Notwithstanding anything to the contrary set forth herein, the Chief Executive Officer may not be present for any portion of any meeting of the Committee at which the compensation of the Chief Executive Officer is deliberated or voted upon.

## **MINUTES AND REPORTS**

Minutes of each meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. The Chairperson of the Committee will report to the Board from time to time, or whenever so requested by the Board. In addition, the Chairperson of the Committee or his or her delegate shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

## **AUTHORITY**

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder. The Committee shall have the authority to obtain, at the expense of the Company, advice and assistance from internal or external legal, accounting or other advisors and consultants as it deems necessary or appropriate in the performance of its duties. The Company shall make available to the committee all funding necessary for the Committee to carry out its duties, including, without limitation, the payment of such expenses.

Except as limited by applicable laws, rules and regulations, the Committee shall have authority to require that any of the Company's personnel, counsel, auditors or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants. In addition, the Committee shall have sole authority to retain and terminate any compensation consultant to assist in the evaluation of director, chief executive officer or senior executive compensation, including sole authority to approve such consultant's reasonable fees and other retention terms, all at the Company's expense.

The Committee may form and delegate authority to subcommittees as appropriate, including, but not limited to, a subcommittee composed of one or more members of the Board to grant stock awards under the Company's equity incentive plans to persons who are not (a) "Covered Employees" under Section 162(m) of the Internal Revenue Code of 1986, as amended from time to time (the "Code"); (b) individuals with respect to whom the Company wishes to comply with Section 162(m) of the Code or (c) then subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

## **RESPONSIBILITIES**

The operation of the Committee will be subject to the provisions of the Bylaws of the Company and Delaware General Corporation Law, each as in effect from time to time. The Committee shall oversee the Company's compensation strategy and policies as set forth below. The Committee's functions and procedures should remain flexible to address changing circumstances most effectively. To implement the Committee's purpose and policy, the Committee shall, to the extent the Committee deems necessary or appropriate, be charged with the following functions and processes with the understanding, however, that the Committee may supplement or (except as otherwise required by applicable laws or rules) deviate from these activities as appropriate under the circumstances:

**1. Overall Compensation Strategy.** The Committee shall review, modify (as needed) and approve the overall compensation strategy and policies for the Company, including:

- reviewing and approving corporate performance goals and objectives relevant to the compensation of the Company's executive officers and other senior management;
- evaluating and recommending to the Board the compensation plans and programs advisable for the Company, as well as modification or termination of existing plans and programs;
- establishing policies with respect to equity compensation arrangements with the objective of appropriately balancing the perceived value of equity compensation and the dilutive and other costs of that compensation to the Company;
- reviewing regional and industry-wide compensation practices and trends to assess the propriety, adequacy and competitiveness of the Company's executive compensation programs among comparable companies in the Company's industry;

- reviewing and approving the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements for the Company's executive officers and other senior management;
- reviewing and approving any compensation arrangement for any executive officer involving any subsidiary, special purpose or similar entity, taking into account the potential for conflicts of interest in such arrangements and whether the arrangement has the potential to benefit the Company; and
- evaluating the efficacy of the Company's compensation policy and strategy in achieving expected benefits to the Company and otherwise furthering the Committee's policies.

2. *Compensation of Chief Executive Officer.* The Committee, meeting in executive session, shall determine, in its sole discretion, the compensation and other terms of employment of the Company's Chief Executive Officer and shall evaluate the Chief Executive Officer's performance in light of relevant corporate performance goals and objectives, taking into account, among other things, the policies of the Committee and the Chief Executive Officer's performance in:

- fostering a corporate culture that promotes the highest levels of integrity and the highest ethical standards;
- developing and executing the Company's long-term strategic plan and conducting the business of the Company in a manner appropriate to enhance long-term stockholder value; and
- achieving the Chief Executive Officer's individual performance goals and objectives.

In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee shall seek to achieve an appropriate level of risk and reward, taking into consideration the Company's performance and relative stockholder return, the potential benefits and costs to the Company, the value of similar incentives given to chief executive officers of comparable companies, incentives provided to the Chief Executive Officer in past years, and such other criteria as the Committee deems advisable. Notwithstanding anything to the contrary set forth herein, the Chief Executive Officer may not be present for any portion of any meeting of the Committee at which the compensation of the Chief Executive Officer is deliberated or voted upon.

3. *Compensation of Other Officers.* The Committee shall review and approve the individual and corporate performance goals and objectives of the Company's other executive officers (as that term is defined in Section 16 of the Exchange Act and Rule 16a-1 thereunder) that are periodically established. The Committee shall determine the compensation and other terms of employment of these officers, taking into consideration the officer's success in achieving his or her individual performance goals and objectives and the corporate performance goals and objectives deemed relevant to the officer as established by the Committee. The Chief Executive Officer may be present during these deliberations, but may not vote.

4. *Compensation of Directors.* The Committee shall recommend to the Board the type and amount of compensation to be paid or awarded to Board members, including consulting, retainer, Board meeting, committee and committee chair fees and stock option grants or awards.

5. *Administration of Benefit Plans.* The Committee shall recommend to the Board the adoption, amendment and termination of the Company's stock option plans, stock appreciation rights plans, pension and profit sharing plans, incentive plans, stock bonus plans, stock purchase plans, bonus plans, deferred compensation plans and similar programs. The Committee shall have full power and authority to administer and delegate the administration of these plans to the extent permissible pursuant to applicable laws and regulations, establish guidelines, interpret plan documents, select participants, approve grants and awards, and exercise such other power and authority as may be permitted or required under such plans.

6. *Insurance Coverage.* The Committee shall review and establish appropriate insurance coverage for the Company's directors and executive officers.

7. *Proxy Statement Report.* At such time as the Company becomes subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act (the "Reporting Date"), the Committee shall prepare any report required by the applicable SEC rules and regulations to be included in the Company's annual proxy statement.