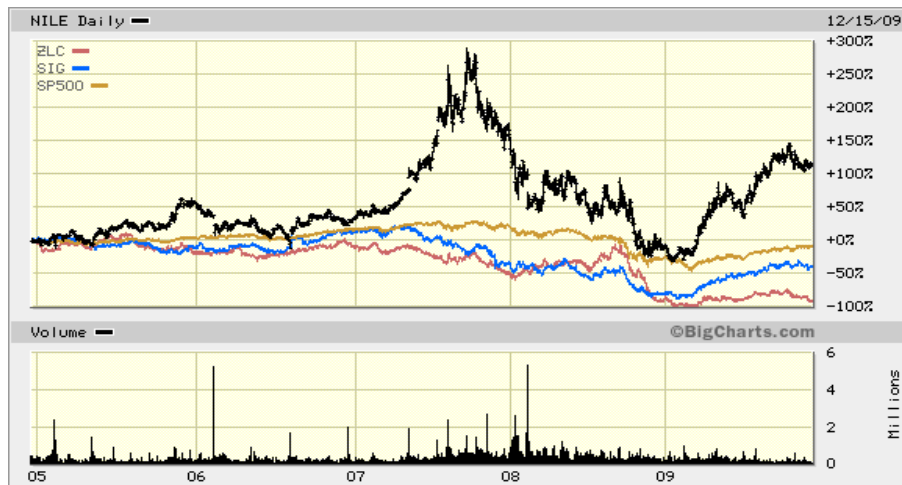


Blue Nile Inc. (NILE) 12/15/09

NILE operates as a global online dealer of diamonds and jewelry. Approximately 70% of 2008 revenues were generated through engagement and wedding bands. NILE operates as an exclusive online retailer for 11 of the world's largest diamond manufacturers. NILE was founded in 1999 and headquartered in Seattle, Washington.

Current Price	\$57.86
52 Week High	\$67.16
52 Week Low	\$18.34
One Yr Target	n/a
Market Cap (in billions)	\$0.84
P/E (Trailing)	80.14
P/E(1 Yr Forward)	51.66
P/E/G	3.67
ROA	15.09%
ROE	44.36%
EPS	\$0.72
Beta	1.14
Annualized Dividend	\$0.00
Dividend Yield	0.00%
Analyst Consensus	2.80
Debt to Equity	0.39



Annual EPS

2005	\$0.76	
2006	\$0.82	7.77%
2007	\$1.09	33.69%
2008	\$0.80	-26.59%
2009E	\$0.72	-10.05%

Annual Revenue (in millions)

2005	\$203.17	
2006	\$251.59	23.83%
2007	\$319.26	26.90%
2008	\$295.33	-7.50%

Annual Net Income (in millions)

2005	\$13.15	
2006	\$13.06	-0.68%
2007	\$17.46	33.69%
2008	\$11.63	-33.39%

Free Cash Flows (in millions)

2005	\$30.20	
2006	\$38.61	27.85%
2007	\$36.55	-5.34%
2008	-\$4.94	-113.52%

Required Rate of Return

11.42%

Dividend Growth Model

Present Value of 2014 Price	n/a
Holding Period Return (5 years)	n/a

Expected Annualized Return Model

Present Value of 2014 Price	\$52.52
Holding Period Return (5 years)	-1.90%

Residual Income Model

Intrinsic Stock Price	\$3.24
-----------------------	--------

Analysis

Positives

Great operating ratios such as ROA and ROE are a sign of good management

Negatives

Very high P/E and PEG ratios suggest stock price may be rather expensive

Financial Statements

Income Statement is good but Operating Expenses are growing a bit too fast

Balance Sheet is great, company historically carries very little Debt

Cash Flows are good as company retires a good amount of Stock each year

Industry Analysis

NILE is one of the few dealers in its direct industry, but faces competition from other competitors

NILE has some of the best financial ratios in its industry

Summary

NILE performance as a company is great and its recent stock price has reflected this. Its financial ratios are very good and so are its financial statements, a great point being that they carry almost no Debt. As an industry diamond prices have stabilized since 2008 yet other input metals such as gold and silver have appreciated dramatically, which should hurt NILE's margins. NILE markets itself as a high-end jewelry retailer yet they trail behind Tiffany's in sale of higher end purchases. NILE's place as sole high-end retailer of fine jewelry might face stiff competition soon as De Beers has launched its own online retailer. While NILE is a great company it seems that the market has caught onto this already and priced the stock rather expensively, more so than its expected growth rate can justify. Thus NILE earns only a **hold** rating.