

BLUEFLY INC
Form DEF 14A
April 14, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. ____)

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

Bluefly, Inc.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
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BLUEFLY, INC.
42 West 39th Street
New York, NY 10018

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Bluefly, Inc. (the “Company”), which will be held on May 19, 2011 at 9:00 a.m., local time, at the Company’s offices at 42 West 39th Street, 9th Floor, New York, New York. The formal Notice of Annual Meeting and Proxy Statement, fully describing the matters to be acted upon at the meeting, appears on the following page.

The matters scheduled to be considered at the meeting are the election of directors from among the nominees described in the Proxy Statement, an amendment to the amended and restated Bluefly, Inc. 2005 Stock Incentive Plan (the “Plan”) to modify the provisions related to awards granted to non-employee directors pursuant to the Plan and any other proposal that may properly come before the meeting.

The Board of Directors recommends a vote FOR the proposals being presented at the meeting as being in the best interest of the Company and its stockholders. We urge you to read the Proxy Statement and give it your careful attention before completing the enclosed proxy card.

Your vote is important regardless of the number of shares you own. Please be sure you are represented at the meeting, whether or not you plan to attend in person, by signing, dating and mailing the proxy card promptly. A postage-paid return envelope is enclosed for your convenience.

If you would like additional copies of the proxy material, or if you would like to ask questions about the proposals, you should contact our Investor Relations Department by telephone at (212) 944-8000.

Sincerely,

DAVID WASSONG
Interim Chairman of the Board

BLUEFLY, INC.
42 West 39th Street
New York, New York 10018

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 19, 2011

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Bluefly, Inc. (the "Company") will be held at 9:00 a.m., local time, on May 19, 2011 at the Company's offices at 42 West 39th Street, 9th Floor, New York, New York, for the following purposes:

1. To elect three Class 2 directors of the Company to the Board of Directors to hold office until the 2014 annual meeting of stockholders.
2. To approve an amendment to the Amended and Restated Bluefly, Inc. 2005 Stock Incentive Plan (the "Plan") to modify the provisions related to awards granted to non-employee directors pursuant to the Plan (the "Plan Amendment").
3. To transact such other business as may properly come before the meeting.

Only holders of record of the Company's Common Stock at the close of business on April 13, 2011 are entitled to notice of, and to vote at, the meeting and any adjournment thereof. Such stockholders may vote in person or by proxy.

WHETHER OR NOT YOU PLAN TO ATTEND IN PERSON, PLEASE FILL IN, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED ENVELOPE IN ORDER TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE MEETING. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

By Order of the Board of Directors,

DAVID WASSONG
Interim Chairman of the Board

April 19, 2011

BLUEFLY, INC.
42 West 39th Street
New York, New York 10018

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE MEETING

The enclosed materials are also available at <http://www.investor.bluefly.com>. The following items are available at the specified link:

1. The Proxy Statement being issued in connection with the 2011 Annual Meeting of Stockholders;
 2. The Company's Annual Report on Form 10-K for the year ended December 31, 2010; and
 3. The form of proxy card for use in connection with the 2011 Annual Meeting of Stockholders.
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BLUEFLY, INC.
42 West 39th Street
New York, New York 10018

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the board of directors (which we refer to in this Proxy Statement as the Board of Directors or the Board) of Bluefly, Inc., a Delaware corporation (which we refer to in this Proxy Statement as the Company, we, us or our), of proxies to be voted at the annual meeting of stockholders of the Company to be held at 9:00 a.m., local time, on May 19, 2011 at the Company's offices at 42 West 39th Street, 9th Floor, New York, New York 10018, and at any adjournment thereof. The purposes of the meeting are:

1. To elect three Class 2 directors of the Company to the Board of Directors to hold office until the 2014 annual meeting of stockholders.
2. To approve an amendment to the Amended and Restated Bluefly, Inc. 2005 Stock Incentive Plan (which we refer to in this Proxy Statement as the Plan) to modify the provisions related to awards granted to non-employee directors pursuant to the Plan (which we refer to in this Proxy Statement as the Plan Amendment).
3. To transact such other business as may properly come before the meeting.

If proxy cards in the accompanying form are properly executed and returned by a stockholder of record, the shares of the Company's Common Stock, \$.01 par value per share (which we refer to in this Proxy Statement as the Common Stock), held by such stockholder will be voted as instructed on the proxy card. If no instructions are given, such shares will be voted (i) for the election as Class 2 directors of the nominees of the Board of Directors named below; (ii) for the approval of the Plan Amendment and (iii) in the discretion of the proxies named in the proxy card on any other proposals to properly come before the meeting or any adjournment thereof. Any proxy may be revoked by a stockholder of record prior to its exercise upon written notice to the Secretary of the Company, or by the vote of such stockholder cast in person at the meeting. The approximate date of mailing of this Proxy Statement and accompanying form of proxy card is April 19, 2011.

VOTING

Holders of record of Common Stock as of the close of business on April 13, 2011 (which we refer to in this Proxy Statement as the Record Date), the record date for the solicitation of proxies pursuant to this Proxy Statement, will be entitled to vote at the meeting or any adjournment thereof. Each share of Common Stock entitles the holder thereof to one vote on all matters to come before the stockholders at the meeting. The holders of our Common Stock are not entitled to cumulative voting.

Holders of a majority of the votes entitled to be cast at the meeting will constitute a quorum for the transaction of business. As of the Record Date, there were 24,609,692 shares of Common Stock outstanding, each entitled to one vote. The total number of votes entitled to be cast at the meeting is, therefore, 24,609,692 votes. Abstentions and so-called "broker non-votes" (instances in which brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy) are counted for purposes of determining the presence or absence of a quorum for the transaction of business.

The favorable vote of a plurality of the votes cast by holders of shares of Common Stock, present in person or represented by proxy at the meeting, is necessary to elect the Class 2 directors of the Company. Effective January 1, 2010, a broker is no longer permitted to vote on a stockholder's behalf with respect to the election of directors unless the stockholder has provided specific voting instructions to the broker. For your vote to be counted, you now will need to communicate your voting instructions to your broker, bank or other financial institution before the date of the meeting. Withheld votes and broker non-votes will not be counted as votes cast with respect to, and therefore will have no effect on, the election of the Class 2 directors.

The favorable vote of holders of a majority of the shares of Common Stock, present in person or represented by proxy at the meeting, and entitled to vote is required for the approval of the Plan Amendment. Abstentions and broker non-votes will have the same effect as a vote against the approval of the Plan Amendment.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Board of Directors currently consists of ten directors. Our amended and restated certificate of incorporation classifies the Board of Directors into three classes, each having a staggered term expiring at successive annual meetings. Three Class 2 directors are to be elected at the annual meeting to serve a three-year term expiring at the 2014 annual meeting of stockholders. The term of our Class 1 directors shall expire at the 2013 annual meeting of stockholders and the term of our Class 3 directors shall expire at the 2012 annual meeting of stockholders.

The Board of Directors has nominated the persons named in the table below for election as Class 2 directors. All such persons are presently directors of the Company, and each has consented to being named as a nominee for election as a Class 2 director and has agreed to serve if elected. Unless otherwise specified in the accompanying proxy, the shares voted pursuant to it will be voted for the persons named below as nominees for election as Class 2 directors. If, for any reason, at the time of the election, any of the nominees should be unable or unwilling to accept election, such proxy will be voted for the election, in such nominee's place, of a substitute nominee recommended by the Board of Directors to the extent that such substitute nominee exists. However, the Board of Directors has no reason to believe that any nominee will be unable or unwilling to serve as a director.

Also listed are the remaining seven directors whom will continue to serve their respective terms.

Pursuant to the Amended and Restated Voting Agreement (which we refer to in this Proxy Statement as the Voting Agreement) entered into by and among us, Rho Ventures VI, L.P. (which we refer to in this Proxy Statement as Rho), Quantum Industrial Partners LDC (which we refer to in this Proxy Statement as QIP), SFM Domestic Investments LLC (which we refer to in this Proxy Statement as SFM and, together with QIP, as the Soros Parties), Maverick Fund USA, Ltd. (which we refer to in this Proxy Statement as Maverick USA), Maverick Fund, L.D.C. (which we refer to in this Proxy Statement as Maverick Fund), and Maverick Fund II, Ltd. (which we refer to in this Proxy Statement as Maverick Fund II and, together with Maverick USA and Maverick Fund, as the Maverick Parties) and certain funds affiliated with Prentice Capital Management, L.P. (which we refer to in this Proxy Statement as Prentice), Rho and the Soros Parties each have the right to nominate an additional director to the Board but have not yet done so. If Rho and/or the Soros Parties nominate a second director to the Board pursuant to the Voting Agreement, such director would be appointed to serve as a Class 2 director of the Company.

NOMINEES FOR CLASS 2 DIRECTOR

Name of Director	Age	Director of the Company Since
Melissa Payner-Gregor	52	2003 to present
Andrew Russell	39	2011 to present
Denise Seegal	57	2010 to present

CONTINUING DIRECTORS

Name of Director	Age	Director of the Company Since
Mario Ciampi	50	2008 to present

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Michael Helfand	51	2009 to present
David Janke	37	2009 to present
Habib Kairouz	45	2009 to present
Martin Miller	81	1991 to present
Anthony Plesner	52	2008 to present
David Wassong	40	2001 to present

Nominees for Class 2 Directors with term expiring at the 2014 annual meeting of stockholders

Melissa Payner-Gregor was appointed as the Company's President in September 2003 and became Chief Executive Officer in August 2004. From December 2000 to March 2003, Ms. Payner served as CEO and President of Spiegel Catalog. She was also a board member of The Spiegel Group, Inc. (which we refer to in this Proxy Statement as Spiegel) from December 2000 to March 2003. From 1997 to 2000, Ms. Payner was the Senior Vice President of Merchandising and Advertising of Spiegel. From 1995 to 1997, Ms. Payner was President and a board member of Chico FAS, Inc. Ms. Payner has also held senior executive positions with Guess?, Inc., Pastille (a Division of Neiman Marcus) and Henri Bendel. Since August 2009, she also has been serving as a board member of Destination Maternity Corporation. Ms. Payner-Gregor's key role in leading our company and developing its strategy, and her extensive experience as both a retail executive and a merchant, led the Nominating and Corporate Governance Committee (which we refer to in this Proxy Statement as the Nominating Committee) to conclude that she should continue to serve as a director of the Company as of the date of this Proxy Statement.

Andrew Russell was appointed to the Board in April 2011 upon the recommendation of the Nominating Committee. Mr. Russell was recommended to the Nominating Committee by David Wassong, a member of the Board. Since 2003, Mr. Russell has served as partner of Pilot Group LLC, a principal investment firm specializing in late stage and turnaround investments in privately owned companies, overseeing all digital media investments. From 1999 to 2003, Mr. Russell was partner of East River Ventures LP, a venture capital firm specializing in investments in early stage companies within the information technology, business services and healthcare sectors. Before joining East River Ventures LP, Mr. Russell began his professional career as an associate with Chemical Securities where he coordinated debt financing for transactions in syndicated bank loan and high yield debt markets. Mr. Russell also currently serves as a board member of a number of private companies. Mr. Russell's many years of investment experience in digital companies and board experience in a number of private companies led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

Denise Seegal was appointed to the Board in November 2010 upon the recommendation of the Nominating Committee. Ms. Seegal was recommended to the Nominating Committee by Russell Reynolds Associates, a paid third-party search firm. In March 2011, Ms. Seegal was appointed Chief Executive Officer of Amsale Design Group, a luxury bridal company. Ms. Seegal is also a global consultant for Financo, an investment banking firm, and operates Denise Seegal Associates, a consulting firm specializing in development, growth and expansion strategies for global lifestyle brands since 2008. Prior to this, Ms. Seegal served as President and CEO of VF Sportswear Coalition, VF Corp. from 2004 to 2008. Previously, Ms. Seegal's prior leadership roles included: President and CEO of Sweetface Fashion Company, President of Liz Claiborne, Inc., President of CK Calvin Klein, the founding President of DKNY, and Executive Vice President of Ralph Lauren Womenswear. She currently serves as a board member of Parsons The New School for Design, The Fashion Group International, LIM College and Head of the Charles Regatta. Ms. Seegal's many years of experience as a seasoned retail executive led the Nominating Committee to conclude that she should continue to serve as a director of the Company as of the date of this Proxy Statement.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO ELECT THE THREE CLASS 2 DIRECTORS THAT HAVE BEEN NOMINATED TO THE BOARD OF DIRECTORS.

Continuing Class 1 Directors with term expiring at the 2013 annual meeting of stockholders

Mario Ciampi has served as a director of the Company since August 2008. Mr. Ciampi is an employee of Prentice, a private investment advisor, and has been employed or engaged by Prentice since 2007. Mr. Ciampi initially joined Prentice as a retail and consumer products consultant working on business improvements, management oversight, and due diligence for the firm's special situation investments. Prior to joining Prentice, he had a 10-year career with The

Children's Place organization; during that period, he held various positions: Vice President – Store Development, Sr. Vice President – Operations, and President of Disney Store – North America. Previously, Mr. Ciampi was the Founder and Partner of DJM Asset Management, a consulting company focused on retail real estate repositioning, financial turn-arounds, and strategic growth initiatives. He is a director of Kid Brands, Inc., a publicly-traded designer and distributor of branded infant and juvenile consumer products, and he has also been recently appointed as a director of dELiA*s, Inc., a publicly-traded direct marketing and retail company. Mr. Ciampi, who has been designated as a nominee to the Board by Prentice pursuant to the Voting Agreement, has a unique combination of both operational and investment experience in the retail industry that led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

Michael Helfand has served as a director of the Company since February 2009. Since 2009, Mr. Helfand has served as Senior Vice President Finance and Chief Accounting Officer of Fuel Systems Solutions, Inc., a publicly-traded holding company of alternative fuel components and systems for transportation and industrial applications. From 2007 to 2008, Mr. Helfand has served as the Interim Chief Financial Officer of Rothschild North America, Inc., a global investment bank. From 2006 to 2007, Mr. Helfand was the Executive Vice President of Finance at WRC Media, Inc., a publishing company. From 2003 to 2008, Mr. Helfand was also a

finance and accounting consultant for Resources Connection, Inc., a project-based professional services firm, serving clients in matters related to SEC registration material preparation, Sarbanes-Oxley engagements and financial review and systems development. Mr. Helfand's many years of experience as a senior financial executive led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

David Janke has served as a director of the Company since August 2009. Since 2007, Mr. Janke has served as Managing Partner and Co-Founder of BlackSwan Partners, LP, an investment firm focused on private equity and real estate opportunities since 2006. From 2003 to 2006, Mr. Janke was a Vice President at Starwood Capital Group, a global real estate private equity fund. From 2000 to 2001, Mr. Janke was Director of Finance and Strategic Planning for Tyco International. From 1998 to 2000, Mr. Janke was an investment professional at Soros Fund Management LLC (which we refer to in this Proxy Statement as Soros) focusing on private equity investments. From 1996 to 1998, he was an investment banker with Alex, Brown & Sons in the Restructuring Group. Mr. Janke holds a Masters in Business Administration from Harvard Business School and is a graduate of Middlebury College. He is also a director of SonomaWest Holdings, Inc., a publicly-traded real estate management company and Ali Wing, Inc. d/b/a giggle. Mr. Janke, who has been designated as a nominee to the Board by Maverick pursuant to the Voting Agreement, has extensive experience in both the capital markets and in strategic planning, which led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

Martin Miller has served as a director of the Company since July 1991. Since July 1999, Mr. Miller has served as the President of The Terbell Group, Inc., a consulting company. From October 1997 to April 2003, Mr. Miller was a partner in the Belvedere Fund, L.P., a fund of hedge funds. Mr. Miller's many years of experience in the apparel retailing business in general, and as a director of our Company in particular, led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

Continuing Class 3 Directors with term expiring at the 2012 annual meeting of stockholders

Habib Kairouz has served as a director of the Company since December 2009. Mr. Kairouz is a Managing Partner of Rho Capital Partners, Inc., an investment and venture capital management company, which he joined in 1993. Prior to joining Rho Capital Partners, Inc., Mr. Kairouz worked for five years in investment banking and leverage buyouts with Reich & Co. and Jesup & Lamont. Mr. Kairouz holds a Bachelor of Science degree in engineering from Cornell University and a Master of Business Administration in Finance from Columbia University. Mr. Kairouz also serves on the board of directors of publicly-held Intralinks Holdings, Inc. in addition to a number of private companies. Mr. Kairouz has been designated as a nominee to the Board by Rho pursuant to the Voting Agreement. His extensive experience as a venture capital investor and his involvement with many successful internet and technology companies led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

Anthony Plesner has served as a director of the Company since February 2008. Mr. Plesner has served as Chief Financial Officer and Chief Administrative Officer of Intralinks Holdings, Inc., a publicly-traded company that provides online workspaces for secure document exchange, since April 2005. From August 2004 to March 2005 he worked as an independent consultant through Snap Solutions. From January 2003 to July 2004 he served as Chief Financial Officer and Chief Operating Officer of The NewsMarket, an online video archive and delivery platform. From January 2000 to December 2002 he served as President and Chief Operating Officer of 24/7 Real Media, Inc., a NASDAQ-listed provider of interactive marketing and technology services. Prior to that, he served as Senior Vice President of Finance and Business Development at Medscape, Inc. Mr. Plesner holds a Bachelor of Arts in Economics from the University of Manchester in England, and a Master of Business Administration from the University of Pittsburgh. Mr. Plesner's experience as senior financial officer at several successful internet and

technology companies led the Nominating Committee to conclude that he should continue to serve as a director of the Company and as Chairman of the Audit Committee as of the date of this Proxy Statement.

David Wassong has served as a director since February 2001 and became Interim Chairman of the Board of Directors in February 2007. Mr. Wassong is currently a Managing Director at Soros and previously was a partner of Soros Private Equity which he joined in June 1998. Prior to joining Soros Private Equity, from July 1997 to June 1998, Mr. Wassong was Vice President, and previously Associate, at Lauder Gaspar Ventures, LLC, a media, entertainment and telecommunications-focused venture capital fund. Mr. Wassong has been designated as a nominee to the Board by Soros pursuant to the Voting Agreement. His many years of experience as a private equity investor, as well as his long term involvement with our Company, led the Nominating Committee to conclude that he should continue to serve as a director of the Company as of the date of this Proxy Statement.

CORPORATE GOVERNANCE

The Board reviewed the independence of each of our directors on the basis of the standards adopted by NASDAQ. During this review, the Board considered transactions and relationships between the Company, on the one hand, and each director, members of his or her immediate family, and other entities with which he or she is affiliated, on the other hand. The purpose of this review was to determine which of such transactions or relationships were inconsistent with a determination that the director is independent under applicable NASDAQ rules. As a result of this review, the Board affirmatively determined that each of our directors other than Ms. Payner is an “independent director” within the meaning of applicable NASDAQ rules.

During the fiscal year ended December 31, 2010, the Board met six times and acted by unanimous written consent three times. Each of the directors participated in 75% or more of the aggregate number of meetings and/or written consents of the Board and committee(s) on which he or she served during the 2010 fiscal year, except for Mr. Russell who was recently appointed to the Board. The Company does not have a policy with regard to the attendance by directors at our annual meeting of stockholders. Ms. Payner and Mr. Wassong attended last year’s annual meeting of stockholders.

The Board has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee is comprised of Anthony Plesner, Michael Helfand and Martin Miller. Mr. Plesner acts as Chairman of the Audit Committee. The Audit Committee is responsible for the appointment of the Company’s independent registered public accountants, examining the results of audits, reviewing internal accounting controls and reviewing related party transactions. The duties of the Audit Committee are fully set forth in the charter adopted by that committee, a copy of which is available on our website at www.bluefly.com. The Board has determined that Mr. Plesner is an “audit committee financial expert,” as defined by Item 407(d)(5) of Regulation S-K of the Exchange Act, and that each member of the Audit Committee is “independent,” as required by the Exchange Act and applicable NASDAQ rules. The Audit Committee met four times and did not act by unanimous written consent during fiscal 2010.

The Board has established a Compensation Committee. The Compensation Committee has four members, consisting of Mario Ciampi, David Janke, Habib Kairouz and David Wassong, and met five times and acted by unanimous written consent two times in fiscal 2010. The Compensation Committee is comprised solely of non-employee directors, all of whom the Board has determined are “independent” in accordance with applicable NASDAQ rules. The Compensation Committee does not have a written charter.

The Compensation Committee’s responsibilities include, among other duties, the responsibility to:

- establish the base salary, incentive compensation and any other compensation for the officers of the Company;
- monitor the Company’s management incentive and stock based compensation, retirement and welfare plans and discharge the duties imposed on the Compensation Committee by the terms of those plans; and
- perform other functions or duties deemed appropriate by the Board.

The agenda for meetings of the Compensation Committee is determined by its Chairman. The Compensation Committee reports directly to the Board. The Compensation Committee has the authority to engage and from time to time has engaged independent consultants to advise on particular aspects of compensation. The Compensation Committee has authority to retain, terminate and approve fees for advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. The Compensation Committee reviews the total fees paid to outside consultants by the Company to ensure that the consultant maintains its objectivity and independence when

rendering advice to the Compensation Committee. In determining the compensation levels of the Company's executive officers, the Compensation Committee considers proposals from the Company's Chief Executive Officer with respect to the appropriate levels of bonus and equity compensation for the Company's executive officers (other than the Chief Executive Officer).

The Board has also established a Nominating Committee, consisting of David Wassong and Anthony Plesner. The purposes of the Nominating Committee are to assist the Board by identifying individuals qualified to become directors, setting criteria for, and evaluating, director candidates, and recommending to the Board the director nominees for election at the annual meetings of stockholders or for appointments to fill vacancies; recommend to the Board nominees for each committee of the Board; advise the Board about the appropriate composition of the Board and its committees; advise the Board about and recommend to the Board appropriate corporate governance practices and assist the Board in implementing those practices; lead the Board in its annual review of the performance of the Board and its committees; and perform such other functions as the Board may assign to it from time to time. The Nominating Committee utilized the services of Russell Reynolds Associates, a paid third-party search firm, to identify Denise Seegal as a suitable director candidate. The duties of the Nominating Committee are fully set forth in the charter adopted by that

committee, a copy of which is available on our website at www.bluefly.com. The Nominating Committee met two times and did not act by unanimous written consent during fiscal 2010.

The Nominating Committee will consider many factors when evaluating candidates for the nomination to the Board, with the goal of fostering a Board comprised of directors with a variety of experience and backgrounds. While the Nominating Committee does not have a formal policy with respect to diversity, the Board and the Nominating Committee believe that it is essential that Board members represent diverse backgrounds and experience. Important factors that will be considered as part of the Nominating Committee's evaluation include (without limitation) skill, specialized expertise, experience, business acumen and an understanding of strategy and policy-setting. Depending upon the Company's then-current needs, certain factors may be weighed more or less heavily. In considering candidates for the Board, the Nominating Committee will consider the entirety of each candidate's credentials and does not have any specific minimum qualifications that must be met. However, the Nominating Committee does believe that all members of the Board should have the highest character and integrity and sufficient time to devote to Company matters.

The Nominating Committee will consider persons recommended by stockholders as candidates for nomination as a director. In evaluating such nominations, the Nominating Committee will use the same selection criteria the Nominating Committee uses to evaluate other potential nominees. Recommendations should be submitted to the Secretary of the Company. Each recommendation should include a personal biography of the suggested candidate, an indication of the background or experience that qualifies such person for consideration, and a statement that such person has agreed to serve if nominated and elected. Stockholders who wish to nominate a person for election to the Board themselves, rather than recommending a candidate to the Nominating Committee for potential nomination by the Board, must comply with applicable law.

Communication by stockholders may be made to any or all of the members of the Board by writing directly to them c/o Bluefly, Inc., 42 West 39th Street, New York, New York 10018. All such communications will be relayed to the appropriate members of the Board.

We have adopted a Code of Ethics applicable to all directors, officers and employees which meets the requirements of a "code of ethics" as defined in Item 406 of Regulation S-K, and we maintain procedures for the confidential, anonymous submission by employees of complaints regarding our accounting, internal accounting controls, auditing matters and other issues. A copy of our code of ethics is available on our website at www.bluefly.com. Any amendment to or waiver of a provision of the code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions and relates to elements of the code specified in the rules of the SEC will be posted on our website.

Management is responsible for the day-to-day management of risks the Company faces, while the Board of Directors, as a whole and through its committees, has the ultimate responsibility for the oversight of risk management. Senior officers attend meetings of the Board of Directors, provide presentations on operations including significant risks, and are available to address any questions or concerns raised by the Board of Directors. Additionally, our three Board committees assist the Board of Directors in fulfilling its oversight responsibilities in certain areas of risk. Pursuant to its charter, the Audit Committee coordinates the Board of Directors' oversight of the Company's internal control over financial reporting, disclosure controls and procedures and code of conduct. Management regularly reports to the Audit Committee on these areas. The Compensation Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The Nominating and Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure, succession planning for our directors and corporate governance. When any of the Committees receives a report related to material risk oversight, the Chairman of the relevant committee reports on the discussion to the full

Board of Directors.

As noted above, our Board is currently comprised of nine independent non-employee directors and one employee director who is the Company's Chief Executive Officer. The Company divides the leadership role between an independent Chairman of the Board and the Chief Executive Officer. Mr. Wassong has served as interim Chairman of the Board since February 2007. We believe that the number of independent, experienced directors that make up our Board, along with the oversight of our Chairman, benefits the Company and its stockholders.

We recognize that different board leadership structures may be appropriate for companies in different situations and believe that no one structure is suitable for all companies. We believe our current Board leadership structure is optimal for us because it demonstrates to our employees, suppliers, customers and other stakeholders that the Company is under strong leadership, with the Chairman maintaining an effective working relationship with management and other Board members and the Chief Executive Officer. We believe that the Company, like many U.S. companies, has been well-served by this leadership structure.

The Chairman has the responsibility to: (1) coordinate with the Chief Executive Officer in establishing the agenda for the annual meeting of stockholders as well as the agenda for Board meetings; (2) provide management with direction and input regarding Board priorities, mandates and suggestions; and (3) perform such other functions as the directors may designate from time to time.

Our Chief Executive Officer has authority regarding day to day operations of the Company, oversight over all other officers of the Company and responsibility for executing strategies approved by the Board. The Chief Executive Officer reports to the Chairman and to the Board.

Our Board conducts an annual evaluation in order to determine whether it and its committees are functioning effectively. As part of this annual self-evaluation, the Board evaluates whether the current leadership structure continues to be optimal for the Company and its stockholders.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee met and held discussions with management and WeiserMazars LLP. The Audit Committee reviewed and discussed the audited financial statements for fiscal 2010 with management and has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 114, "The Auditor's Communication With Those Charged With Governance."

The Company's independent registered public accounting firm also provided to the Audit Committee certain written communications and the letter required by PCAOB Rule 3526, "Communications with Audit Committees Concerning Independence." The Audit Committee also discussed with the independent registered public accounting firm their independence from the Company.

Based on the Audit Committee's review and discussions described above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for fiscal 2010 be included in the Company's Annual Report on Form 10-K for fiscal 2010 filed with the SEC.

AUDIT COMMITTEE

ANTHONY PLESNER
MICHAEL HELFAND
MARTIN MILLER

SHARE OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information with respect to the beneficial ownership of the Common Stock of the Company as of the Record Date for (i) each person who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers, (as defined under the caption "Executive Compensation" below) and (iv) all directors and Named Executive Officers as a group.