

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D/A

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities [amend]

Filing Date: **2008-07-24**
SEC Accession No. **0001011438-08-000403**

([HTML Version](#) on [secdatabase.com](#))

FILED BY

QUANTUM INDUSTRIAL PARTNERS LDC ET AL

CIK: **922382** | IRS No.: **000000000**
Type: **SC 13D/A**

Business Address
888 SEVENTH AVE
33RD FLOOR
NEW YORK NY 10106

SUBJECT COMPANY

BLUEFLY INC

CIK: **1030896** | IRS No.: **133612110** | State of Incorp.: **DE** | Fiscal Year End: **0403**
Type: **SC 13D/A** | Act: **34** | File No.: **005-52401** | Film No.: **08968792**
SIC: **5961** Catalog & mail-order houses

Mailing Address
42 WEST 39TH ST
NEW YORK NY 10018

Business Address
42 WEST 39TH ST
NEW YORK NY 10018
2129448000

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

SCHEDULE 13D
(Amendment No. 27)*

Under the Securities Exchange Act of 1934

BLUEFLY, INC.
(Name of Issuer)

Common Stock, par value \$0.01 per share
(Title of Class of Securities)

096227103
(CUSIP Number)

Stephen M. Vine, Esq.
Akin, Gump, Strauss, Hauer & Feld, L.L.P.
590 Madison Avenue
New York, New York 10022
(212) 872-1000
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

July 23, 2008
(Date of Event which Requires Filing
of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box [] .

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule §240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Continued on following page(s)

Page 1 of 46 Pages

Exhibit Index: Page 13

- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

Quantum Industrial Partners LDC

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

- a.
b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

Cayman Islands

Number of Shares	7	Sole Voting Power 5,403,631
Beneficially Owned By Each	8	Shared Voting Power 0
Reporting Person With	9	Sole Dispositive Power 5,403,631
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

5,403,631

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

39.1%

- 14** Type of Reporting Person (See Instructions)

OO, IV



- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

QIH Management Investor, L.P.

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

- a.
b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

Delaware

Number of Shares	7	Sole Voting Power 5,403,631
Beneficially Owned By Each Reporting Person With	8	Shared Voting Power 0
	9	Sole Dispositive Power 5,403,631
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

5,403,631

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

39.1%

- 14** Type of Reporting Person (See Instructions)

PN, IA



- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

QIH Management LLC

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

- a.
b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

Delaware

Number of Shares	7	Sole Voting Power 5,403,631
Beneficially Owned By Each	8	Shared Voting Power 0
Reporting Person With	9	Sole Dispositive Power 5,403,631
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

5,403,631

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

39.1%

- 14** Type of Reporting Person (See Instructions)

OO



- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

Soros Fund Management LLC

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

a.

b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

Delaware

Number of Shares	7	Sole Voting Power 5,403,631
Beneficially Owned By Each Reporting Person With	8	Shared Voting Power 0
	9	Sole Dispositive Power 5,403,631
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

5,403,631

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

39.1%

- 14** Type of Reporting Person (See Instructions)

OO, IA



- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

SFM Domestic Investments LLC

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

- a.
b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

Delaware

Number of Shares	7	Sole Voting Power 176,731
Beneficially Owned By Each	8	Shared Voting Power 0
Reporting Person With	9	Sole Dispositive Power 176,731
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

176,731

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

1.3%

- 14** Type of Reporting Person (See Instructions)

OO



- 1** Names of Reporting Persons
I.R.S. Identification Nos. of above persons (entities only)

George Soros (in the capacity described herein)

- 2** Check the Appropriate Box If a Member of a Group (See Instructions)

- a.
b.

- 3** SEC Use Only

- 4** Source of Funds (See Instructions)

Not applicable.

- 5** Check Box If Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

- 6** Citizenship or Place of Organization

United States

Number of Shares	7	Sole Voting Power 5,580,362
Beneficially Owned By Each Reporting Person With	8	Shared Voting Power 0
	9	Sole Dispositive Power 5,580,362
	10	Shared Dispositive Power 0

- 11** Aggregate Amount Beneficially Owned by Each Reporting Person

5,580,362

- 12** Check Box If the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

- 13** Percent of Class Represented By Amount in Row (11)

40.3%

- 14** Type of Reporting Person (See Instructions)

IA



This Amendment No. 27 supplementally amends the initial statement on Schedule 13D, dated August 6, 1999, and all amendments thereto (collectively, the "Initial Statement"), filed by the Reporting Persons (as defined herein). As previously disclosed in Amendment No. 25, dated March 26, 2008, and as described below, QIP (as defined herein) and SFM Domestic Investments (as defined herein) entered into an agreement with the Issuer and Maverick (as defined herein), whereby, subject to the terms and conditions therein, certain of the Reporting Persons will provide the Issuer with debt financing on a standby basis. This Amendment No. 27 is being filed by the Reporting Persons to report that the Issuer has drawn on the financing commitment and has issued to certain of the Reporting Persons promissory notes convertible into shares of common stock, par value \$0.01 per share, of the Issuer (the "Common Stock").

Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Initial Statement. The Initial Statement is supplementally amended as follows.

Item 2. Identity and Background.

This statement is filed on behalf of each of the following persons (collectively, the "Reporting Persons"):

- (i) Quantum Industrial Partners LDC ("QIP");
- (ii) QIH Management Investor, L.P. ("QIHMI");
- (iii) QIH Management LLC ("QIH Management");
- (iv) Soros Fund Management LLC ("SFM LLC");
- (v) SFM Domestic Investments LLC ("SFM Domestic Investments"); and
- (vi) Mr. George Soros ("Mr. Soros").

This Statement relates to the Shares and other securities convertible into Shares held for the accounts or benefit of QIP and SFM Domestic Investments. QIHMI is a minority shareholder of, and is vested with investment discretion with respect to portfolio assets held for the account of, QIP. The sole general partner of QIHMI is QIH Management. SFM LLC is the sole managing member of QIH Management. Mr. Soros is the Chairman of SFM LLC and the sole managing member of SFM Domestic Investments.

On December 27, 2002, George Soros appealed a decision of the 11e Chambre du Tribunal Correctionnel in Paris, France that fined him 2.2 million euros on December 20, 2002 based on a finding of insider trading with respect to trading in securities of Societe Generale in 1988. On March 24, 2005, the Paris Court of Appeal affirmed the decision of the 11e Chambre du Tribunal Correctionnel and on June 14, 2006 the Cour de Cassation upheld such decision, but ordered the Court of Appeal to determine whether the fine should be reduced. On December 13, 2006, George Soros appealed the decision to the European Court of Human Rights. On March 20, 2007, the Paris Court of Appeal reduced the fine imposed against George Soros from 2.2 million euros to 940,000 euros.

Item 3. Source and Amount of Funds or Other Consideration.

The information set forth in Item 6 hereof is hereby incorporated by reference into this Item 3.

Item 4. Purpose of Transaction.

The information set forth in Item 6 hereof is hereby incorporated by reference into this Item 4.

Except as otherwise described in Item 6 the Reporting Persons reserve the right to acquire, or cause to be acquired, additional securities of the Issuer, to dispose of, or cause to be disposed, such securities at any time or to formulate other purposes, plans or proposals regarding the Issuer or any of its securities, to the extent deemed advisable in light of general investment and trading policies of the Reporting Persons, market conditions or other factors.

Item 5. Interest in Securities of the Issuer.

According to the Issuer's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2008, the number of Shares outstanding was 13,276,998 as of May 1, 2008.

(a) (i) Each of QIP, QIHMI, QIH Management and SFM LLC may be deemed the beneficial owner of 5,403,631 Shares (approximately 39.1% of the total number of Shares outstanding assuming the exercise and conversion of all of the securities held for the account or benefit of QIP). This number consists of (A) 4,860,115 Shares, (B) 43,768 Shares issuable upon the exercise of warrants held for the account of QIP, (C) 4,000 Shares issuable in the aggregate upon the exercise of options held for the benefit of QIP by an employee of SFM LLC and an advisor to QIP who serve on the Issuer's board of directors, and (D) 495,748 Shares issuable in the aggregate upon the conversion of the promissory note described in Item 6 below held for the account of QIP.

(ii) SFM Domestic Investments may be deemed the beneficial owner of 176,731 Shares (approximately 1.3% of the total number of Shares outstanding assuming the exercise and conversion of all the securities held for its account). This number consists of (A) 159,074 Shares, (B) 1,432 Shares issuable upon the exercise of warrants held for the account of SFM Domestic Investments, and (C) 16,225 Shares issuable upon conversion of the promissory note described in Item 6 below held for the account of SFM Domestic Investments.

(iii) Mr. Soros may be deemed to be the beneficial owner of 5,580,362 Shares (approximately 40.3% of the total number of Shares outstanding assuming the exercise and conversion of all of the securities held for the accounts or benefit of QIP and SFM Domestic Investments). This number consists of (A) 5,403,631 Shares which may be deemed to be beneficially owned by QIP as described above, and (B) 176,731 Shares which may be deemed to be beneficially owned by SFM Domestic Investments as described above. Mr. Soros disclaims beneficial ownership of any securities not held directly for his account.

(b) (i) Each of QIP, QIHMI, QIH Management and SFM LLC may be deemed to have the sole power to direct the voting and disposition of the 5,403,631 Shares which may be deemed to be beneficially owned by QIP as described above.

(ii) SFM Domestic Investments may be deemed to have the sole power to direct the voting and disposition of the 176,731 Shares which may be deemed to be beneficially owned by SFM Domestic Investments as described above.

(iii) Mr. Soros (as a result of his position with SFM LLC and in his capacity as the sole managing member of SFM Domestic Investments) may be deemed to have the sole power to direct



the voting and disposition of the 5,580,362 Shares which may be deemed to be beneficially owned by QIP and SFM Domestic Investments as described above.

(c) Except as described herein, there have been no transactions effected with respect to the Shares in the past 60 days by any of the Reporting Persons.

(d) (i) The shareholders of QIP, including Quantum Industrial Holdings Ltd., a British Virgin Islands international business company, have the right to participate in the receipt of dividends from, or proceeds from the sale of, the securities held for the account of QIP in accordance with their ownership interests in QIP.

(ii) Certain members of SFM Domestic Investments have the right to participate in the receipt of dividends from, or proceeds from the sale of, the securities held for the account of SFM Domestic Investments.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

On March 26, 2008, the Issuer entered into a Standby Commitment Agreement (the “Standby Commitment”) with QIP, SFM Domestic Investments, Maverick Fund USA, Ltd. (“Maverick USA”), Maverick Fund, L.D.C. (“Maverick LDC”) and Maverick Fund II, Ltd. (“Maverick II”, and together with Maverick USA and Maverick LDC, “Maverick”) (a copy of which is attached as an exhibit to Amendment No. 26 and incorporated herein by reference in response to this Item 6) pursuant to which QIP, SFM Domestic Investments and Maverick agreed, on a several and not joint basis, to provide the Issuer with debt financing of up to an aggregate of \$3 million (the “Commitment Amount”) on a standby basis which, subject to certain conditions, the Issuer may draw upon at any time prior to March 26, 2009.

On July 23, 2008, the Issuer borrowed the full Commitment Amount pursuant to the Note Purchase Agreement dated July 23, 2008 (a copy of which is attached as Exhibit TTTT and is incorporated herein by reference in response to this Item 6) and issued to each of QIP and SFM Domestic Investments convertible promissory notes (the “Notes”) (copies of which are attached as Exhibits UUUU and VVVV and are incorporated herein by reference in response to this Item 6). The Notes are convertible at the option of the holders, into either (i) Shares at a conversion price of \$3.65 or (ii) equity securities sold by the Issuer in subsequent rounds of financing for cash at a conversion price based upon the lowest price per share paid by any investor in such subsequent round of financing.

The foregoing descriptions of the Standby Commitment, the Note Purchase Agreement, and the Notes, do not purport to be complete and are qualified in their entirety by the terms of each such document which are incorporated herein by reference.

Except as set forth herein, the Reporting Persons do not have any contracts, arrangements, understandings or relationships with respect to any securities of the Issuer.

Item 7. Material to be filed as exhibits.

The information set forth in the Exhibit Index is incorporated herein by reference.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Date: July 24, 2008

QUANTUM INDUSTRIAL PARTNERS LDC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

QIH MANAGEMENT INVESTOR, L.P.

By: QIH Management LLC,
its General Partner

By: Soros Fund Management LLC,
its Managing Member

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Assistant General Counsel

QIH MANAGEMENT LLC

By: Soros Fund Management LLC,
its Managing Member

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Assistant General Counsel

SOROS FUND MANAGEMENT LLC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Assistant General Counsel

SFM DOMESTIC INVESTMENTS LLC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

GEORGE SOROS

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

EXHIBIT INDEX

	<u>Page No.</u>
TTTT. Note Purchase Agreement, dated as of July 23, 2008, by and among Bluefly, Inc., Quantum Industrial Partners LDC, SFM Domestic Investments LLC, Maverick Fund USA, Ltd., Maverick Fund, L.D.C. and Maverick Fund II, Ltd.	14
UUUU. Convertible Promissory Note, dated July 23, 2008, issued to Quantum Industrial Partners LDC.	29
VVVV. Convertible Promissory Note, dated July 23, 2008, issued to SFM Domestic Investments LLC.	38

EXHIBIT TTTT**NOTE PURCHASE AGREEMENT**

This **NOTE PURCHASE AGREEMENT**, dated as of July 23, 2008 (this "Agreement"), is entered into by and between BLUEFLY, INC., a Delaware corporation (the "Company"), and the investors listed on Schedule 1 hereto (each, an "Investor" and, collectively, the "Investors").

RECITALS

WHEREAS, the Investors desire to purchase from the Company, and the Company desires to issue and sell to the Investors, convertible promissory notes in the aggregate principal amount of three million dollars (\$3,000,000.00), in the form attached hereto as Exhibit A (the "Notes"), on the terms, and subject to the conditions, contained herein.

AGREEMENT

NOW, THEREFORE, in consideration for the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I**PURCHASE AND SALE OF NOTES; STOCKHOLDER APPROVAL**

SECTION 1.1 Notes. Subject to the terms and conditions hereof, the Company hereby issues and sells to the Investors, and each Investor hereby purchases from the Company, a Note in the aggregate principal amount set forth opposite such Investor's name in Schedule 1.

SECTION 1.2 Purchase Price. The aggregate purchase price for the Notes to be purchased by each Investor is the amount set forth opposite such Investor's name in Schedule 1.

SECTION 1.3 Stockholder Approval. The Company represents and warrants that it has obtained Stockholder Approval at the 2008 Annual Meeting of Stockholders. "Stockholder Approval" means such approval of the stockholders of the Company as may be necessary under the rules of the Nasdaq Capital Market or any other national securities exchange or quotation system upon which the Common Stock may be listed from time to time, in order to permit the exercise in full of the conversion rights set forth in Section 5 of the Notes (without giving effect to any limitation in such Section 5 relating to any such rules).

SECTION 1.4 Use of Proceeds. The Company shall use the proceeds from the issuance of the Notes solely for working capital and general corporate purposes.

SECTION 1.5 Registration Rights. The Investors shall be entitled to registration rights in respect of the shares of Common Stock or Subsequent Round Securities (as defined in the Notes) issuable upon conversion of Notes consistent with the registration rights granted pursuant to the Stock Purchase Agreement, dated as of June 5, 2006 (the “2006 Agreement”), by and among the Company and the other parties thereto, applied mutatis mutandis; provided, however, that the 120-day filing deadline with respect to the Company’s obligation to prepare and file a registration statement covering such shares shall commence on the first day following the Company’s receipt of written notice from the Investors requesting the registration of such shares and the 180 day Required Effectiveness Deadline shall also commence on the first day following the Company’s receipt of such written notice; and provided, further, however, that if, despite the Company having used all commercially reasonable efforts, the Required Effectiveness Deadline (as defined in the 2006 Agreement) is not satisfied by reason of the failure of the applicable Registration Statement (as defined in the 2006 Agreement) to be declared effective prior to such Required Effectiveness Deadline, the penalties set forth in Section 6.1(h) of the 2006 Agreement shall be deemed not to be triggered by clause (ii) of such Section 6.1(h) in respect of such shares.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Investors as follows:

SECTION 2.1 Organization, etc. The Company has been duly formed, and is validly existing as a corporation in good standing under the laws of the State of Delaware, and is qualified to do business as a foreign corporation in each jurisdiction in which the failure to be so qualified could reasonably be expected to have a material adverse effect on the assets, liabilities, condition (financial or other), business or results of operations of the Company (a “Material Adverse Effect”). The Company has the requisite corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted. The Company has the requisite corporate power and authority to enter into, execute, deliver and perform all of its duties and obligations under this Agreement and to consummate the transactions contemplated hereby.

SECTION 2.2 Authorization. The execution, delivery and performance of this Agreement and the issuance of the Notes have been duly authorized by all necessary corporate action on the part of the Company, including, without limitation, the due authorization by the affirmative votes of a majority of the disinterested directors of the Company’s Board of Directors.

SECTION 2.3 Validity; Enforceability. This Agreement and the Notes have each been duly executed and delivered by the Company, and constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by, or subject to, any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally and subject to general principles of equity.

SECTION 2.4 Capitalization. As of the date hereof, the authorized capital stock of the Company consists of 200,000,000 shares of common stock, \$0.01 par value per share (the “Common Stock”), and 25,000,000 shares of preferred stock, \$0.01 par value per share, of which 500,000 shares have been designated Series A Convertible Preferred Stock, 9,000,000 shares have been designated Series B Convertible Preferred Stock, 3,500 shares have been designated Series C Convertible Preferred Stock, 7,150 shares have been designated Series D Convertible Preferred Stock, 1,000 shares have been designated Series E Convertible Preferred Stock and 7,000 shares have been designated as Series F Convertible Preferred Stock. The issued and outstanding capital stock of the Company consists of (i) 13,278,103 shares of Common Stock and (ii) 571 shares of Series F Convertible Preferred Stock. All such shares of the Company have been duly authorized and are fully paid and non-assessable. Except as set forth on Schedule 2.4 hereto or as otherwise contemplated by this Agreement, there are no outstanding options, deferred stock units, warrants or other equity securities that are convertible into, or exercisable for, shares of the Company’s capital stock.

SECTION 2.5 Governmental Consents. The execution and delivery by the Company of this Agreement, and the performance by the Company of the transactions contemplated hereby, do not and will not require the Company to effectuate or obtain any registration with, consent or approval of, or notice to any federal, state or other governmental authority or regulatory body, other than periodic and other filings under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and all required filings with the Nasdaq Capital Market. The parties hereto agree and acknowledge that, in making the representations and warranties in the foregoing sentence of this Section 2.5, the Company is relying on the representations and warranties made by the Investors in Section 3.4.

SECTION 2.6 No Violation. The execution and delivery of this Agreement and the performance by the Company of the transactions contemplated hereby will not (i) conflict with or result in a breach of any provision of the certificate of incorporation or by-laws of the Company, (ii) result in a default or breach of, or require any consent, approval, authorization or permit of, or filing or notification to, any person, company or entity under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, loan, factoring arrangement, license, agreement, lease or other instrument or obligation to which the Company is a party or by which the Company or any of its assets may be bound or (iii) violate any law, judgment, order, writ, injunction, decree, statute, rule or regulation of any court, administrative agency, bureau, board, commission, office, authority, department or other governmental entity applicable to the Company, except, in the case of clause (ii) or (iii) above, any such event that could not reasonably be expected to have a Material Adverse Effect or materially impair the transactions contemplated hereby.

SECTION 2.7 Issuance of Notes. The Notes have been validly issued, and, upon payment therefor, will be fully paid and non-assessable. The offering, issuance, sale and delivery of the Notes as contemplated by this Agreement is exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the “Securities Act”), are being made in compliance with all applicable federal and (except for any violation or non-compliance that could not reasonably be expected to have a Material Adverse Effect) state laws

and regulations concerning the offer, issuance and sale of securities, and are not being issued in violation of any preemptive or other rights of any stockholder of the Company. The parties hereto agree and acknowledge that, in making the representations and warranties in the foregoing sentence of this Section 2.7, the Company is relying on the representations and warranties made by the Investors in Section 3.4.

SECTION 2.8 Absence of Certain Developments. Since December 31, 2007, except as disclosed in the Company's public filings, there has not been any: (i) material adverse change in the condition, financial or otherwise, of the Company or in the assets, liabilities, properties or business of the Company; (ii) declaration, setting aside or payment of any dividend or other distribution with respect to, or any direct or indirect redemption or acquisition of, any capital stock of the Company; (iii) waiver of any valuable right of the Company or cancellation of any material debt or claim held by the Company; (iv) material loss, destruction or damage to any property of the Company, whether or not insured; (v) acquisition or disposition of any material assets (or any contract or arrangement therefor) or any other material transaction by the Company otherwise than for fair value in the ordinary course of business consistent with past practice; or (vi) other agreement or understanding, whether in writing or otherwise, for the Company to take any action of the type, or any action that would result in an event of the type, specified in clauses (i) through (v).

SECTION 2.9 Commission Filings. The Company has filed all required forms, reports and other documents with the Securities and Exchange Commission (the "Commission") for periods from and after January 1, 2007 (collectively, the "Commission Filings"), each of which has complied in all material respects with all applicable requirements of the Securities Act and/or the Exchange Act (as applicable). As of their respective dates, the Commission Filings did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The audited financial statements and unaudited interim financial statements of the Company included or incorporated by reference in such Commission Filings have been prepared in accordance with generally accepted accounting principles, consistently applied ("GAAP") (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q), complied as of their respective dates in all material respects with applicable accounting requirements and the published rules and regulations of the Commission with respect thereto, and fairly present, in all material respects, the financial position of the Company as of the dates thereof and the results of operations for the periods then ended (subject, in the case of any unaudited interim financial statements, to the absence of footnotes required by GAAP and normal year-end adjustments).

SECTION 2.10 Brokers. Neither the Company, nor any of its officers, directors or employees, has employed any broker or finder, or incurred any liability for any brokerage fees, commissions, finder's or other similar fees or expenses in connection with the transactions contemplated hereby.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE INVESTORS

Each Investor represents and warrants to the Company, severally but not jointly, as follows:

SECTION 3.1 Organization, etc. Such Investor has been duly formed and is validly existing and in good standing under the laws of its jurisdiction of organization. Such Investor has the requisite organizational power and authority to enter into, execute, deliver and perform all of its duties and obligations under this Agreement and to consummate the transactions contemplated hereby.

SECTION 3.2 Authority. The execution, delivery and performance of this Agreement have been duly authorized by all necessary organizational or other action on the part of such Investor.

SECTION 3.3 Validity; Enforceability. This Agreement has been duly executed and delivered by such Investor, and constitutes the legal, valid and binding obligation of such Investor, enforceable against such Investor in accordance with its terms, except as such enforceability may be limited by, or subject to, any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and subject to general principles of equity.

SECTION 3.4 Investment Representations. Such Investor acknowledges that the offer and sale of the Notes to such Investor have not been registered under the Securities Act, or the securities laws of any state or regulatory body, are being offered and sold in reliance upon exemptions from the registration requirements of the Securities Act and such laws and may not be transferred or resold without registration under such laws unless an exemption is available.

(a) Such Investor is acquiring the Notes for investment, and not with a view to the resale or distribution thereof, and is acquiring the Notes for its own account.

(b) Such Investor is an "accredited investor" (as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act), is sophisticated in financial matters and is familiar with the business of the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. Such Investor has had the opportunity to investigate on its own the Company's business, management and financial affairs and has had the opportunity to review the Company's operations and facilities and to ask questions and obtain whatever other information concerning the Company as such Investor has deemed relevant in making its investment decision.

(c) Neither such Investor, nor any of its principal owners, partners, members, directors or officers is included on the Office of Foreign Assets Control list of foreign nations, organizations and individuals subject to economic and trade sanctions, based on U.S. foreign policy and national security goals, or a person named on the list of known or suspected terrorists, terrorist organizations or other sanctioned persons issued by the U.S. Treasury Department's Office of Foreign Assets and Control.

(d) No representations or warranties have been made to such Investor by the Company or any director, officer, employee, agent or affiliate of the Company, other than the representations and warranties of the Company set forth herein, and the decision of such Investor to purchase the Notes is based on the information contained herein, the Commission Filings and such Investor's own independent investigation of the Company.

SECTION 3.5 Governmental Consents. The execution and delivery by such Investor of this Agreement, and the performance by such Investor of the transactions contemplated hereby, do not and will not require such Investor to effectuate or obtain any registration with, consent or approval of, or notice to any federal, state or other governmental authority or regulatory body, except for compliance with the Exchange Act with respect to its acquisition of the Notes.

SECTION 3.6 No Violation. The execution and delivery of this Agreement and the performance by such Investor of the transactions contemplated hereby, will not (i) conflict with or result in a breach of any provision of the articles of incorporation, by-laws or similar organizational documents of such Investor or (ii) violate any law, judgment, order, writ, injunction, decree, statute, rule or regulation of any court, administrative agency, bureau, board, commission, office, authority, department or other governmental entity applicable to such Investor, except, in the case of clause (ii) above, any such violation that could not reasonably be expected to materially impair the transactions contemplated hereby.

SECTION 3.7 Brokers. Neither the Investors, nor any of their officers, directors or employees, has employed any broker or finder, or incurred any liability for any brokerage fees, commissions, finder's or other similar fees or expenses in connection with the transactions contemplated hereby.

ARTICLE IV

SURVIVAL; INDEMNIFICATION

SECTION 4.1 Survival. The representations and warranties contained in Articles II and III hereof shall survive until the first anniversary of the date hereof.

SECTION 4.2 Indemnification. Each party (including its officers, directors, employees, affiliates, agents, successors and assigns (each an "Indemnified Party")) shall be indemnified and held harmless by the other parties hereto (each an "Indemnifying Party") for any and all liabilities, losses, damages, claims, costs and expenses, interest, awards, judgments and penalties (including, without limitation, reasonable attorneys' fees and expenses) actually suffered or incurred by them (collectively, "Losses"), arising out of or resulting from the breach of any representation or warranty made by an Indemnifying Party contained in this Agreement. Notwithstanding the foregoing, the aggregate liability of any Investor under this Article IV shall in no event exceed fifty percent (50%) of the purchase price paid by such Investor for the Notes purchased by it and the aggregate liability of the Company under this Article IV shall in no event exceed fifty percent (50%) of the purchase price paid by the Investors for the Notes, except that the Company's liability for a violation of any of the representations and warranties contained in the first two sentences of Section 2.7 may exceed such

limitation, but shall in no event exceed one hundred percent (100%) of the purchase price paid by the Investors for the Notes.

SECTION 4.3 Indemnification Procedure. The obligations and liabilities of the Indemnifying Party under this Article IV with respect to Losses arising from claims of any third party that are subject to the indemnification provided for in this Article IV (“Third Party Claims”) shall be governed by and contingent upon the following additional terms and conditions: if an Indemnified Party shall receive notice of any Third Party Claim, the Indemnified Party shall give the Indemnifying Party notice of such Third Party Claim promptly after the receipt by the Indemnified Party of such notice (which notice shall include the amount of the Loss, if known, and method of computation thereof, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises); provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Article IV except to the extent the Indemnifying Party is materially prejudiced by such failure and shall not relieve the Indemnifying Party from any other obligation or liability that it may have to any Indemnified Party otherwise than under this Article IV. Upon written notice to the Indemnified Party within five (5) days of the receipt of such notice, the Indemnifying Party shall be entitled to assume and control the defense of such Third Party Claim at its or his expense and through counsel of its or his choice (which counsel shall be reasonably satisfactory to the Indemnified Party); provided, however, that, if there exists or is reasonably likely to exist a conflict of interest that would make it inappropriate in the reasonable judgment of counsel to the Indemnified Party for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to retain its or his own counsel in each jurisdiction for which the Indemnified Party reasonably determines counsel is required, at the expense of the Indemnifying Party. In the event the Indemnifying Party exercises the right to undertake any such defense against any such Third Party Claim as provided above, the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to such Indemnifying Party, at the Indemnifying Party’s expense, all witnesses, pertinent records, materials and information in the Indemnified Party’s possession or under the Indemnified Party’s control relating thereto as is reasonably required by the Indemnifying Party. Similarly, in the event the Indemnified Party is, directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnifying Party shall cooperate with the Indemnified Party in such defense and make available to the Indemnified Party, at the Indemnifying Party’s expense, all such witnesses (including himself), records, materials and information in the Indemnifying Party’s possession or under the Indemnifying Party’s control relating thereto as is reasonably required by the Indemnified Party. No such Third Party Claim may be settled by the Indemnifying Party on behalf of the Indemnified Party without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld); provided, however, in the event that the Indemnified Party does not consent to any such settlement that would provide it with a full release from indemnified Loss and would not require it to take, or refrain from taking, any action, the Indemnifying Party’s liability for indemnification shall not exceed the amount of such proposed settlement. The Indemnified Party will refrain from any act or omission that is inconsistent with the position taken by the Indemnifying Party in the defense of a Third Party Claim unless the Indemnified Party determines that such act or omission is reasonably necessary to protect its own interest.

ARTICLE V
MISCELLANEOUS

SECTION 5.1 Publicity. Except as may be required by applicable law or the rules of any securities exchange or market on which securities of the Company are traded, no party hereto shall issue a press release or public announcement or otherwise make any disclosure concerning this Agreement and the transactions contemplated hereby, without prior approval of the others; provided, however, that nothing in this Agreement shall restrict the Company or any Investor from disclosing such information (a) that is already publicly available, (b) to the extent required or appropriate in response to any summons or subpoena or to comply with applicable law, regulations or the rules of any national securities exchange or quotation system (provided that the disclosing party will use commercially reasonable efforts to notify the other parties in advance of such disclosure under this clause (b) so as to permit the non-disclosing parties, in the case of a summons or subpoena, seek a protective order or otherwise contest such disclosure, and the disclosing party will use commercially reasonable efforts to cooperate, at the expense of the non-disclosing parties, in pursuing any such protective order) or (c) in connection with any litigation involving disputes as to the parties' respective rights and obligations hereunder.

SECTION 5.2 Entire Agreement. This Agreement and any other agreement or instrument to be delivered expressly pursuant to the terms hereof constitute the entire Agreement between the parties hereto with respect to the subject matter hereof and supersede all previous negotiations, commitments and writings with respect to such subject matter.

SECTION 5.3 Assignments; Parties in Interest. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing herein, express or implied, is intended to or shall confer upon any person not a party hereto any right, benefit or remedy of any nature whatsoever under or by reason hereof, except as otherwise provided herein.

SECTION 5.4 Amendments. This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, the parties against whom such amendment or modification is sought to be enforced.

SECTION 5.5 Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience of reference only and do not constitute a part of and shall not be utilized in interpreting this Agreement.

SECTION 5.6 Notices and Addresses. Any notice, demand, request, waiver, or other communication under this Agreement shall be in writing and shall be deemed to have been duly given on the date of

service, if personally served or sent by facsimile; on the business day after notice is delivered to a courier or mailed by express mail, if sent by courier delivery service or express mail for next day delivery; and on the fifth business day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered, return receipt requested, postage prepaid and addressed as follows:

To Company: Bluefly, Inc.
42 West 39th Street, 9th Floor
New York, New York 10018
Fax: (212) 840-1903
Attn: General Counsel

With a copy to:

Dechert LLP
30 Rockefeller Plaza
New York, NY 10112-2200
Fax: (212) 698-3599
Attn: Richard A. Goldberg, Esq.

To the Investors: To the address set forth on Schedule 1.

SECTION 5.7 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

SECTION 5.8 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to conflicts of law principles. The parties agree that the federal and state courts located in New York, New York shall have exclusive jurisdiction over any dispute involving this Agreement or the transactions contemplated hereby, and each party hereby irrevocably submits to the jurisdiction of, and waives any objection to the laying of venue in, such courts.

SECTION 5.9 Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being

understood that all parties need not sign the same counterpart. This Agreement may be executed by facsimile, and a facsimile signature shall have the same force and effect as an original signature on this Agreement.

SECTION 5.10 Expenses. The Company shall reimburse the Investors for their reasonable legal fees and expenses incurred in connection with the negotiation of this Agreement and the transactions contemplated hereby. Except as provided above, all costs and expenses, including, without limitation, fees and disbursements of counsel, incurred in connection with the negotiation, execution and delivery of this Agreement and its related documents shall be paid by the party incurring such costs and expenses, whether or not the closing shall have occurred.

IN WITNESS WHEREOF, this Agreement has been duly executed on the date first set forth above.

BLUEFLY, INC.

By: /s/ Kara B. Jenny

Name: Kara B. Jenny

Title: CFO

QUANTUM INDUSTRIAL PARTNERS LDC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

SFM DOMESTIC INVESTMENTS LLC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

MAVERICK FUND USA, LTD.

By: Maverick Capital, Ltd.,

Its Investment Manager

By: /s/ John T. McCafferty

Name: John T. McCafferty

Title: Limited Partner and General Counsel

MAVERICK FUND, L.D.C.

By: Maverick Capital, Ltd.,

Its Investment Manager

By: /s/ John T. McCafferty

Name: John T. McCafferty

Title: Limited Partner and General Counsel

MAVERICK FUND II, LTD.

By: Maverick Capital, Ltd.,

Its Investment Manager

By: /s/ John T. McCafferty

Name: John T. McCafferty

Title: Limited Partner and General Counsel



SCHEDULE 1

INVESTORS AND SHARE AND NOTE ALLOCATIONS

<u>Name and Address of Investor</u>	<u>Aggregate Principal Amount of Note</u>	<u>Aggregate Purchase Price</u>
Quantum Industrial Partners LDC Kaya Flamboyan 9 Willemstad Curacao Netherlands-Antilles with a copy to: Soros Fund Management LLC 888 Fifth Avenue New York, New York 10106 Facsimile: (212) 664-0544 Attn: Jay Schoenfarber, Esq.	\$1,809,480.00	\$1,809,480.00
SFM Domestic Investments LLC c/o Soros Fund Management LLC 888 Fifth Avenue New York, New York 10106 Facsimile: (212) 664-0544 Attn: Jay Schoenfarber, Esq.	\$59,220.00	\$59,220.00
Maverick Fund USA, Ltd. c/o Maverick Capital, Ltd. 300 Crescent Court, 18th Floor Dallas, Texas 75201 Facsimile: (214)880-4042 Attn: General Counsel:	\$215,580.00	\$215,580.00
Maverick Fund, L.D.C. c/o Maverick Capital, Ltd. 300 Crescent Court, 18th Floor Dallas, Texas 75201 Facsimile: (214)880-4042 Attn: General Counsel:	\$489,000.00	\$489,000.00
Maverick Fund II, Ltd. c/o Maverick Capital, Ltd. 300 Crescent Court, 18th Floor Dallas, Texas 75201 Facsimile: (214)880-4042 Attn: General Counsel:	\$426,720.00	\$426,720.00



TOTAL	\$3,000,000.00	\$3,000,000.00
--------------	----------------	----------------

SCHEDULE 2.4**CAPITALIZATION**

As of the date hereof (except as otherwise provided below), but without giving effect to the transactions contemplated by this Agreement, the following equity securities are outstanding and convertible into, or exercisable for shares of Common Stock:

- Warrants to purchase an aggregate of 113,574 shares of Common Stock are issued and outstanding.
- Options issued to purchase 368,353 shares of Common Stock are issued and outstanding under the Company's 1997 Stock Option Plan, as amended, 2000 Stock Option Plan, as amended, and 2005 Stock Incentive Plan, as amended.
- 847,536 shares of Common Stock reserved for issuance upon the settlement of deferred stock units.

EXHIBIT UUUU

THIS INSTRUMENT IS SUBJECT TO THE TERMS OF A SUBORDINATION AND INTERCREDITOR AGREEMENT, DATED MARCH 26, 2008, BETWEEN WELLS FARGO RETAIL FINANCE, LLC, A DELAWARE LIMITED LIABILITY COMPANY, QUANTUM INDUSTRIAL PARTNERS LDC, A CAYMAN ISLANDS LIMITED DURATION COMPANY, SFM DOMESTIC INVESTMENTS LLC, A DELAWARE LIMITED LIABILITY COMPANY, MAVERICK FUND USA, LTD., A TEXAS LIMITED PARTNERSHIP, MAVERICK FUND, L.D.C., A CAYMAN ISLANDS EXEMPTED LIMITED DURATION COMPANY AND MAVERICK FUND II, LTD., A CAYMAN ISLANDS EXEMPTED COMPANY. PAYOR SHALL FURNISH A COPY OF SUCH SUBORDINATION AND INTERCREDITOR AGREEMENT UPON WRITTEN REQUEST AND WITHOUT CHARGE.

THE OFFER AND SALE OF THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE. THIS NOTE AND ANY SECURITIES ISSUABLE UPON THE CONVERSION HEREOF MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS. CERTIFICATES REPRESENTING ANY SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE SHALL INCLUDE A LEGEND TO SIMILAR EFFECT AS THE FOREGOING.

BLUEFLY, INC.

CONVERTIBLE PROMISSORY NOTE

\$1,809,480.00

New York, New York

July 23, 2008

FOR VALUE RECEIVED, the undersigned, BLUEFLY, INC., a Delaware corporation (the "Payor" or the "Company"), promises to pay to the order of Quantum Industrial Partners LDC or its registered assign (the "Payee"), the principal sum of One Million, Eight Hundred and Nine Thousand, Four Hundred and Eighty Dollars (\$1,809,480.00) and interest on the outstanding principal balance as set forth herein.

1. Interest Rate; Payment.

(a) The outstanding principal balance of this Convertible Promissory Note (this “Note”) shall bear interest at an annual rate equal to 8% per annum, with interest accruing, from and including the date hereof, on a cumulative, compounding basis. Interest shall be computed on the basis of a 365- or 366-day year, as the case may be, and the actual number of days elapsed, and, subject to Section 5, shall be payable only upon repayment of the principal on any Repayment Date (as defined below) in cash.

(b) The outstanding balance of any amount owed under this Note which is not paid when due shall bear interest at the rate of 2.0% per annum (the “Default Interest”) above the rate that would otherwise be in effect under this Note with the Default Interest accruing, from and including such due date, on a cumulative, compounding basis.

(c) The outstanding principal and all accrued and unpaid interest shall be paid in full no later than July 23, 2011 (the “Maturity Date”), unless repaid earlier pursuant to the provisions of Section 2 (the date of any payment pursuant to Section 2 and the Maturity Date, collectively referred to as a “Repayment Date”) or unless converted into Conversion Securities (as defined below) pursuant to Section 5 on or prior to the Maturity Date. On a Repayment Date, the Payor shall pay the applicable amount of principal and interest in lawful money of the United States of America by wire or bank transfer of immediately available funds to an account designated by the Payee in writing from time to time.

2. Prepayment.

(a) Mandatory Prepayment.

(i) Upon the occurrence of an Event of Default (under Section 3(d) or (e)), the outstanding principal of and all accrued interest on this Note shall be accelerated and shall automatically become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are expressly waived by the Payor, notwithstanding anything contained herein to the contrary.

(ii) The holders of a Majority of Notes Outstanding shall, at their sole option, have the right to require the Payor to pay the outstanding principal of and all accrued interest on this Note upon the occurrence of any of the following events: (1) an Event of Default under Section 3(a), (b), (c), (f), (g) or (h), (2) the Company entering into an agreement to effectuate any sale or other disposition of all or substantially all of its assets, in one transaction or in a series of transactions, (3) the Company entering into an agreement to effectuate any consolidation or merger with or into another entity, or (4) any sale of a majority of the outstanding equity of the Company (or any other event that constitutes a Change of Control (as defined below) of the Company), in one transaction or in a series of transactions. Immediately upon the occurrence of either of the events set forth in clauses (1), (2) or (3) above, or immediately upon obtaining knowledge that any person has entered into an agreement to effectuate the event set forth in clause (4) above, the Company shall give written notice of such event to the Payee. “Change of Control” means any “Person” (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or “group” (as defined in Rule 13d-5, promulgated under the Exchange Act) other than Payee and/or its affiliates and one or more of Quantum

Industrial Partners, LDC, SFM Domestic Investments, LLC, Maverick Capital, Ltd., Prentice Capital Management, LP and/or their affiliates or any group that includes any such Person, becoming the beneficial owner (as determined by Rule 13d-3, promulgated under the Exchange Act), directly or indirectly, of outstanding shares of stock of the Company entitling such Person or Persons to exercise 50% or more of the total votes entitled to be cast at a regular or special meeting, or by action by written consent, of the stockholders of the Company in the election of directors.

(iii) Any mandatory prepayment under this Section 2(a) shall include payment of reasonable costs and expenses, if any, of the Payee associated with such prepayment.

(b) Optional Prepayment. The Company may, at its option, without premium or penalty, upon five (5) days' prior written notice to the Payee, repay the unpaid principal amount of this Note, at any time in whole or from time to time in part, together with interest accrued thereon to the date of prepayment. Any such prepayment shall be applied first to the payment of accrued interest and then to repayment of principal. Upon any partial prepayment of the unpaid principal amount of this Note, the Holder shall make notation on this Note of the portion of the principal so prepaid. No notice of prepayment shall in any way prohibit the Payee from converting this Note pursuant to Section 5.

3. Events of Default. An "Event of Default" shall occur if:

(a) the Payor shall default in the payment of the principal of or interest payable on this Note, when and as the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise and such default with respect to the payment of interest shall continue unremedied for two days;

(b) the Payor shall fail to observe or perform any covenant or agreement contained in this Note, and such failure shall continue for five business days after Payor receives notice of such failure;

(c) any representation, warranty, certification or statement made by or on behalf of the Payor in this Note or in any certificate, writing or other document delivered pursuant hereto shall prove to have been incorrect in any material respect when made;

(d) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (A) relief in respect of Payor or of a substantial part of Payor's respective property or assets, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law (any such law, a "Bankruptcy Law"), (B) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a substantial part of the property or assets of any Payor, (C) the winding up or liquidation of any Payor; and such proceeding or petition shall continue undismissed for 60 days, or an order or decree approving or ordering any of the foregoing shall be entered;

(e) the Payor shall (A) voluntarily commence any proceeding or file any petition seeking relief under a Bankruptcy Law, (B) consent to the institution of or the entry of an order for relief against it, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in clause (d), (C) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a substantial part of the property or assets of the Payor, (D) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (E) make a general assignment for the benefit of creditors, (F) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (G) take any action for the purpose of effecting any of the foregoing;

(f) one or more judgments or orders for the payment of money in excess of \$250,000 in the aggregate shall be rendered against the Payor and such judgment(s) or order(s) shall continue unsatisfied and unstayed for a period of 30 days;

(g) the Payor shall default in the payment of any principal, interest or premium, or any observance or performance of any covenants or agreements, with respect to indebtedness (excluding trade payables and other indebtedness entered into in the ordinary course of business) in excess of \$125,000 in the aggregate for borrowed money or any obligation which is the substantive equivalent thereof and such default shall continue for more than the period of grace, if any, or of any such indebtedness or obligation shall be declared due and payable prior to the stated maturity thereof;

(h) any material provisions of this Note shall terminate or become void or unenforceable or the Payor shall so assert in writing.

4. Reserved.

5. Conversion.

(a) Right to Convert.

(i) Subject to the terms and conditions of this Section 5, the Payee shall have the right, at its option, at any time and from time to time, upon or following the consummation of any Subsequent Round of Financing (as defined below), to convert all or any portion of the principal amount of this Note (the "Principal Obligations") into a number of fully paid and nonassessable Subsequent Round Securities (with the most favorable terms received by any investor in such Subsequent Round of Financing) equal to the quotient obtained by dividing the aggregate amount of Principal Obligations to be converted by the lowest price per Subsequent Round Security paid by any investor in such Subsequent Round of Financing. Written notice of a Subsequent Round of Financing stating the date on which such Subsequent Round of Financing is expected to become effective and describing the terms and conditions of such Subsequent Round of Financing shall be delivered by the Company to, and received by, the Payee not less than 10 days prior to the consummation of such Subsequent Round of Financing.

(ii) Subject to the terms and conditions of this Section 5, the Payee shall have the right, at its option, at any time and from time to time, to convert all or any portion of the Principal Obligations into a number of fully paid and nonassessable shares of Common Stock, \$0.01 par value per share (the “Common Stock”), equal to the quotient obtained by dividing the aggregate amount of Principal Obligations to be converted by \$3.65.

(b) Procedure for Conversion. In order to convert all or any portion of the Principal Obligations, the Payee shall (i) surrender this Note, duly endorsed, at the office of the Payor and (ii) simultaneously with such surrender, notify the Payor in writing of its election to convert all or a portion of the Principal Obligations, which notice shall specify the amount of Principal Obligations to be so converted, and whether such conversion is for Common Stock or Subsequent Round Securities. The date on which the Note is surrendered for conversion is referred to herein as the “Conversion Date.” As soon as practicable after the Conversion Date, the Payee shall be entitled to receive a certificate or certificates, registered in such name or names as the Payee may direct, representing the Conversion Securities issuable upon conversion of the applicable Principal Obligations, along with a new promissory note, in the same form as this Note, reflecting any Principal Obligations that have not been so converted and any obligations in respect of accrued and unpaid interest on converted Principal Obligations; provided that the Payee shall be treated for all purposes as the record holder of such Conversion Securities as of the Conversion Date. The issuance of Conversion Securities upon conversion of any Principal Obligations shall be made without charge to the Payee for any issuance tax in respect thereof, provided that the Payor shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Payee.

(c) Reservation of Shares. Payor shall reserve and keep available solely for issuance upon the conversion of Principal Obligations such number of shares of Conversion Securities as will from time to time be sufficient to permit the conversion of all outstanding Principal Obligations, and, if applicable, shall take all action to increase the authorized number of Conversion Securities if at any time there shall be insufficient authorized but unissued Conversion Securities to permit such reservation or permit the conversion of all outstanding Principal Obligations. The Payor covenants that all Conversion Securities that shall be so issued shall be duly authorized, validly issued, fully paid and non-assessable by the Payor, not subject to any preemptive rights, and free from any taxes, liens and charges with respect to the issue thereof. The Payor will take all such action as may be necessary to ensure that all such Conversion Securities may be so issued without violation of any applicable law or regulation, or any requirement of any national securities exchange or quotation system upon which the Common Stock may be listed.

(d) Certain Definitions. For purposes of this Note, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa):

“Conversion Securities” means Common Stock or Subsequent Round Securities, as applicable.

“Majority of Notes Outstanding” means a majority of the aggregate outstanding principal amount of notes issued pursuant to the Note Purchase Agreement dated as of July 23, 2008 by and between the Payor and the Investors party thereto.

“Subsequent Round of Financing” means the offer and sale for cash by the Company of its equity securities.

“Subsequent Round Securities” means the equity securities sold in the Subsequent Round of Financing; provided that, to the extent that two or more types or classes of equity securities are sold as a unit in the Subsequent Round of Financing, “Subsequent Round Securities” shall mean a unit consisting of the same types or classes of equity securities, in the same proportion, as the units sold in the Subsequent Round of Financing.

6. Suits for Enforcement.

(a) Upon the occurrence of any one or more Events of Default, the holder of this Note may proceed to protect and enforce its rights by suit in equity, action at law or by other appropriate proceeding in aid of the exercise of any power granted in this Note, or may proceed to enforce the payment of this Note, or to enforce any other legal or equitable right it may have as a holder of this Note.

(b) The holder of this Note may direct the time, method and place of conducting any proceeding for any remedy available to itself.

(c) In case of any Event of Default, the Payor will pay to the holder of this Note such amounts as shall be sufficient to cover the reasonable costs and expenses of such holder due to such Event of Default, including without limitation, costs of collection and reasonable fees, disbursements and other charges of counsel incurred in connection with any action in which the holder prevails.

7. Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in accordance with the provisions of the Note Purchase Agreement, dated as of the date hereof, by and among the Payor and the investors listed on Schedule 1 thereto.

8. Successors and Assigns. This Note shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. The Payor may not assign any of its rights or obligations under this Note without the prior written consent of Payee. The Payee may assign all or a portion of their rights or obligations under this Note to an affiliate without the prior written consent of the Payor.

9. Amendment and Waiver.

(a) No failure or delay on the part of the Payor or Payee in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Payor or Payee at law, in equity or otherwise.

(b) Any amendment, supplement or modification of or to any provision of this Note, any waiver of any provision of this Note and any consent to any departure by the Payor from the terms of any provision of this Note, shall be effective (i) only if it is made or given in writing and signed by the Payor and the Payee and (ii) only in the specific instance and for the specific purpose for which made or given.

10. Headings. The headings in this Note are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

11. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

12. Costs and Expenses. The Payor hereby agrees to pay on demand all reasonable out-of-pocket costs, fees, expenses, disbursements and other charges (including but not limited to the fees, expenses, disbursements and other charges of counsel to the Payee) of the Payee arising in connection with any consent or waiver granted or requested hereunder or in connection herewith, and any renegotiation, amendment, work-out or settlement of this Note or the indebtedness arising hereunder.

13. Waiver of Jury Trial and Setoff. The Payor hereby waives trial by jury in any litigation in any court with respect to, in connection with, or arising out of this Note or any instrument or document delivered pursuant to this Note, or the validity, protection, interpretation, collection or enforcement thereof, or any other claim or dispute howsoever arising, between any Payor and the Payee; and the Payor hereby waives the right to interpose any setoff or counterclaim or cross-claim in connection with any such litigation, irrespective of the nature of such setoff, counterclaim or cross-claim except to the extent that the failure so to assert any such setoff, counterclaim or cross-claim would permanently preclude the prosecution of the same.

14. Consent to Jurisdiction. The Payor hereby irrevocably consents to the nonexclusive jurisdiction of the courts of the State of New York and of any federal court located in such State in connection with any action or proceeding arising out of or relating to this Note or any document or instrument delivered pursuant to this Agreement.

15. Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

16. Entire Agreement. This Note is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter hereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. This Note supersedes all prior agreements and understandings between the parties with respect to such subject matter.

17. Further Assurances. The Payor shall execute such documents and perform such further acts (including, without limitation, obtaining any consents, exemptions, authorizations or other actions by, or giving any notices to, or making any filings with, any governmental authority or any other Person) as may be reasonably required or desirable to carry out or to perform the provisions of this Note.

IN WITNESS WHEREOF, the Payor has executed and delivered this Convertible Promissory Note on the date first above written.

BLUEFLY, INC.

By: /s/ Kara B. Jenny

Name: Kara B. Jenny

Title: CFO

Agreed to and accepted as of the date first written above:

QUANTUM INDUSTRIAL PARTNERS LDC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact

EXHIBIT VVVV

THIS INSTRUMENT IS SUBJECT TO THE TERMS OF A SUBORDINATION AND INTERCREDITOR AGREEMENT, DATED MARCH 26, 2008, BETWEEN WELLS FARGO RETAIL FINANCE, LLC, A DELAWARE LIMITED LIABILITY COMPANY, QUANTUM INDUSTRIAL PARTNERS LDC, A CAYMAN ISLANDS LIMITED DURATION COMPANY, SFM DOMESTIC INVESTMENTS LLC, A DELAWARE LIMITED LIABILITY COMPANY, MAVERICK FUND USA, LTD., A TEXAS LIMITED PARTNERSHIP, MAVERICK FUND, L.D.C., A CAYMAN ISLANDS EXEMPTED LIMITED DURATION COMPANY AND MAVERICK FUND II, LTD., A CAYMAN ISLANDS EXEMPTED COMPANY. PAYOR SHALL FURNISH A COPY OF SUCH SUBORDINATION AND INTERCREDITOR AGREEMENT UPON WRITTEN REQUEST AND WITHOUT CHARGE.

THE OFFER AND SALE OF THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR THE SECURITIES LAWS OF ANY STATE. THIS NOTE AND ANY SECURITIES ISSUABLE UPON THE CONVERSION HEREOF MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS. CERTIFICATES REPRESENTING ANY SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE SHALL INCLUDE A LEGEND TO SIMILAR EFFECT AS THE FOREGOING.

BLUEFLY, INC.

CONVERTIBLE PROMISSORY NOTE

\$59,220.00

New York, New York

July 23, 2008

FOR VALUE RECEIVED, the undersigned, BLUEFLY, INC., a Delaware corporation (the “Payor” or the “Company”), promises to pay to the order of SFM Domestic Investments LLC or its registered assign (the “Payee”), the principal sum of Fifty-Nine Thousand, Two Hundred and Twenty (\$59,220.00) and interest on the outstanding principal balance as set forth herein.

1. Interest Rate; Payment.

(a) The outstanding principal balance of this Convertible Promissory Note (this “Note”) shall bear interest at an annual rate equal to 8% per annum, with interest accruing, from and including the date hereof, on a cumulative, compounding basis. Interest shall be computed on the basis of a 365- or 366-day year, as the case may be, and the actual number of days elapsed, and, subject to Section 5, shall be payable only upon repayment of the principal on any Repayment Date (as defined below) in cash.

(b) The outstanding balance of any amount owed under this Note which is not paid when due shall bear interest at the rate of 2.0% per annum (the “Default Interest”) above the rate that would otherwise be in effect under this Note with the Default Interest accruing, from and including such due date, on a cumulative, compounding basis.

(c) The outstanding principal and all accrued and unpaid interest shall be paid in full no later than July 23, 2011 (the “Maturity Date”), unless repaid earlier pursuant to the provisions of Section 2 (the date of any payment pursuant to Section 2 and the Maturity Date, collectively referred to as a “Repayment Date”) or unless converted into Conversion Securities (as defined below) pursuant to Section 5 on or prior to the Maturity Date. On a Repayment Date, the Payor shall pay the applicable amount of principal and interest in lawful money of the United States of America by wire or bank transfer of immediately available funds to an account designated by the Payee in writing from time to time.

2. Prepayment.

(a) Mandatory Prepayment.

(i) Upon the occurrence of an Event of Default (under Section 3(d) or (e)), the outstanding principal of and all accrued interest on this Note shall be accelerated and shall automatically become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are expressly waived by the Payor, notwithstanding anything contained herein to the contrary.

(ii) The holders of a Majority of Notes Outstanding shall, at their sole option, have the right to require the Payor to pay the outstanding principal of and all accrued interest on this Note upon the occurrence of any of the following events: (1) an Event of Default under Section 3(a), (b), (c), (f), (g) or (h), (2) the Company entering into an agreement to effectuate any sale or other disposition of all or substantially all of its assets, in one transaction or in a series of transactions, (3) the Company entering into an agreement to effectuate any consolidation or merger with or into another entity, or (4) any sale of a majority of the outstanding equity of the Company (or any other event that constitutes a Change of Control (as defined below) of the Company), in one transaction or in a series of transactions. Immediately upon the occurrence of either of the events set forth in clauses (1), (2) or (3) above, or immediately upon obtaining knowledge that any person has entered into an agreement to effectuate the event set forth in clause (4) above, the Company shall give written notice of such event to the Payee. “Change of Control” means any “Person” (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or “group” (as defined in Rule 13d-5, promulgated under the Exchange Act) other than Payee and/or its affiliates and one or more of Quantum

Industrial Partners, LDC, SFM Domestic Investments, LLC, Maverick Capital, Ltd., Prentice Capital Management, LP and/or their affiliates or any group that includes any such Person, becoming the beneficial owner (as determined by Rule 13d-3, promulgated under the Exchange Act), directly or indirectly, of outstanding shares of stock of the Company entitling such Person or Persons to exercise 50% or more of the total votes entitled to be cast at a regular or special meeting, or by action by written consent, of the stockholders of the Company in the election of directors.

(iii) Any mandatory prepayment under this Section 2(a) shall include payment of reasonable costs and expenses, if any, of the Payee associated with such prepayment.

(b) Optional Prepayment. The Company may, at its option, without premium or penalty, upon five (5) days' prior written notice to the Payee, repay the unpaid principal amount of this Note, at any time in whole or from time to time in part, together with interest accrued thereon to the date of prepayment. Any such prepayment shall be applied first to the payment of accrued interest and then to repayment of principal. Upon any partial prepayment of the unpaid principal amount of this Note, the Holder shall make notation on this Note of the portion of the principal so prepaid. No notice of prepayment shall in any way prohibit the Payee from converting this Note pursuant to Section 5.

3. Events of Default. An "Event of Default" shall occur if:

(a) the Payor shall default in the payment of the principal of or interest payable on this Note, when and as the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise and such default with respect to the payment of interest shall continue unremedied for two days;

(b) the Payor shall fail to observe or perform any covenant or agreement contained in this Note, and such failure shall continue for five business days after Payor receives notice of such failure;

(c) any representation, warranty, certification or statement made by or on behalf of the Payor in this Note or in any certificate, writing or other document delivered pursuant hereto shall prove to have been incorrect in any material respect when made;

(d) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (A) relief in respect of Payor or of a substantial part of Payor's respective property or assets, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law (any such law, a "Bankruptcy Law"), (B) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a substantial part of the property or assets of any Payor, (C) the winding up or liquidation of any Payor; and such proceeding or petition shall continue undismissed for 60 days, or an order or decree approving or ordering any of the foregoing shall be entered;

(e) the Payor shall (A) voluntarily commence any proceeding or file any petition seeking relief under a Bankruptcy Law, (B) consent to the institution of or the entry of an order for relief against it, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in clause (d), (C) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a substantial part of the property or assets of the Payor, (D) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (E) make a general assignment for the benefit of creditors, (F) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (G) take any action for the purpose of effecting any of the foregoing;

(f) one or more judgments or orders for the payment of money in excess of \$250,000 in the aggregate shall be rendered against the Payor and such judgment(s) or order(s) shall continue unsatisfied and unstayed for a period of 30 days;

(g) the Payor shall default in the payment of any principal, interest or premium, or any observance or performance of any covenants or agreements, with respect to indebtedness (excluding trade payables and other indebtedness entered into in the ordinary course of business) in excess of \$125,000 in the aggregate for borrowed money or any obligation which is the substantive equivalent thereof and such default shall continue for more than the period of grace, if any, or of any such indebtedness or obligation shall be declared due and payable prior to the stated maturity thereof;

(h) any material provisions of this Note shall terminate or become void or unenforceable or the Payor shall so assert in writing.

4. Reserved.

5. Conversion.

(a) Right to Convert.

(i) Subject to the terms and conditions of this Section 5, the Payee shall have the right, at its option, at any time and from time to time, upon or following the consummation of any Subsequent Round of Financing (as defined below), to convert all or any portion of the principal amount of this Note (the "Principal Obligations") into a number of fully paid and nonassessable Subsequent Round Securities (with the most favorable terms received by any investor in such Subsequent Round of Financing) equal to the quotient obtained by dividing the aggregate amount of Principal Obligations to be converted by the lowest price per Subsequent Round Security paid by any investor in such Subsequent Round of Financing. Written notice of a Subsequent Round of Financing stating the date on which such Subsequent Round of Financing is expected to become effective and describing the terms and conditions of such Subsequent Round of Financing shall be delivered by the Company to, and received by, the Payee not less than 10 days prior to the consummation of such Subsequent Round of Financing.

(ii) Subject to the terms and conditions of this Section 5, the Payee shall have the right, at its option, at any time and from time to time, to convert all or any portion of the Principal Obligations into a number of fully paid and nonassessable shares of Common Stock, \$0.01 par value per share (the "Common Stock"), equal to the quotient obtained by dividing the aggregate amount of Principal Obligations to be converted by \$3.65.

(b) Procedure for Conversion. In order to convert all or any portion of the Principal Obligations, the Payee shall (i) surrender this Note, duly endorsed, at the office of the Payor and (ii) simultaneously with such surrender, notify the Payor in writing of its election to convert all or a portion of the Principal Obligations, which notice shall specify the amount of Principal Obligations to be so converted, and whether such conversion is for Common Stock or Subsequent Round Securities. The date on which the Note is surrendered for conversion is referred to herein as the "Conversion Date." As soon as practicable after the Conversion Date, the Payee shall be entitled to receive a certificate or certificates, registered in such name or names as the Payee may direct, representing the Conversion Securities issuable upon conversion of the applicable Principal Obligations, along with a new promissory note, in the same form as this Note, reflecting any Principal Obligations that have not been so converted and any obligations in respect of accrued and unpaid interest on converted Principal Obligations; provided that the Payee shall be treated for all purposes as the record holder of such Conversion Securities as of the Conversion Date. The issuance of Conversion Securities upon conversion of any Principal Obligations shall be made without charge to the Payee for any issuance tax in respect thereof, provided that the Payor shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Payee.

(c) Reservation of Shares. Payor shall reserve and keep available solely for issuance upon the conversion of Principal Obligations such number of shares of Conversion Securities as will from time to time be sufficient to permit the conversion of all outstanding Principal Obligations, and, if applicable, shall take all action to increase the authorized number of Conversion Securities if at any time there shall be insufficient authorized but unissued Conversion Securities to permit such reservation or permit the conversion of all outstanding Principal Obligations. The Payor covenants that all Conversion Securities that shall be so issued shall be duly authorized, validly issued, fully paid and non-assessable by the Payor, not subject to any preemptive rights, and free from any taxes, liens and charges with respect to the issue thereof. The Payor will take all such action as may be necessary to ensure that all such Conversion Securities may be so issued without violation of any applicable law or regulation, or any requirement of any national securities exchange or quotation system upon which the Common Stock may be listed.

(d) Certain Definitions. For purposes of this Note, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa):

“Conversion Securities” means Common Stock or Subsequent Round Securities, as applicable.

“Majority of Notes Outstanding” means a majority of the aggregate outstanding principal amount of notes issued pursuant to the Note Purchase Agreement dated as of July 23, 2008 by and between the Payor and the Investors party thereto.

“Subsequent Round of Financing” means the offer and sale for cash by the Company of its equity securities.

“Subsequent Round Securities” means the equity securities sold in the Subsequent Round of Financing; provided that, to the extent that two or more types or classes of equity securities are sold as a unit in the Subsequent Round of Financing, “Subsequent Round Securities” shall mean a unit consisting of the same types or classes of equity securities, in the same proportion, as the units sold in the Subsequent Round of Financing.

6. Suits for Enforcement.

(a) Upon the occurrence of any one or more Events of Default, the holder of this Note may proceed to protect and enforce its rights by suit in equity, action at law or by other appropriate proceeding in aid of the exercise of any power granted in this Note, or may proceed to enforce the payment of this Note, or to enforce any other legal or equitable right it may have as a holder of this Note.

(b) The holder of this Note may direct the time, method and place of conducting any proceeding for any remedy available to itself.

(c) In case of any Event of Default, the Payor will pay to the holder of this Note such amounts as shall be sufficient to cover the reasonable costs and expenses of such holder due to such Event of Default, including without limitation, costs of collection and reasonable fees, disbursements and other charges of counsel incurred in connection with any action in which the holder prevails.

7. Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in accordance with the provisions of the Note Purchase Agreement, dated as of the date hereof, by and among the Payor and the investors listed on Schedule 1 thereto.

8. Successors and Assigns. This Note shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. The Payor may not assign any of its rights or obligations under this Note without the prior written consent of Payee. The Payee may assign all or a portion of their rights or obligations under this Note to an affiliate without the prior written consent of the Payor.

9. Amendment and Waiver.

(a) No failure or delay on the part of the Payor or Payee in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Payor or Payee at law, in equity or otherwise.

(b) Any amendment, supplement or modification of or to any provision of this Note, any waiver of any provision of this Note and any consent to any departure by the Payor from the terms of any provision of this Note, shall be effective (i) only if it is made or given in writing and signed by the Payor and the Payee and (ii) only in the specific instance and for the specific purpose for which made or given.

10. Headings. The headings in this Note are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

11. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

12. Costs and Expenses. The Payor hereby agrees to pay on demand all reasonable out-of-pocket costs, fees, expenses, disbursements and other charges (including but not limited to the fees, expenses, disbursements and other charges of counsel to the Payee) of the Payee arising in connection with any consent or waiver granted or requested hereunder or in connection herewith, and any renegotiation, amendment, work-out or settlement of this Note or the indebtedness arising hereunder.

13. Waiver of Jury Trial and Setoff. The Payor hereby waives trial by jury in any litigation in any court with respect to, in connection with, or arising out of this Note or any instrument or document delivered pursuant to this Note, or the validity, protection, interpretation, collection or enforcement thereof, or any other claim or dispute howsoever arising, between any Payor and the Payee; and the Payor hereby waives the right to interpose any setoff or counterclaim or cross-claim in connection with any such litigation, irrespective of the nature of such setoff, counterclaim or cross-claim except to the extent that the failure so to assert any such setoff, counterclaim or cross-claim would permanently preclude the prosecution of the same.

14. Consent to Jurisdiction. The Payor hereby irrevocably consents to the nonexclusive jurisdiction of the courts of the State of New York and of any federal court located in such State in connection with any action or proceeding arising out of or relating to this Note or any document or instrument delivered pursuant to this Agreement.

15. Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

16. Entire Agreement. This Note is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter hereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. This Note supersedes all prior agreements and understandings between the parties with respect to such subject matter.

17. Further Assurances. The Payor shall execute such documents and perform such further acts (including, without limitation, obtaining any consents, exemptions, authorizations or other actions by, or giving any notices to, or making any filings with, any governmental authority or any other Person) as may be reasonably required or desirable to carry out or to perform the provisions of this Note.

IN WITNESS WHEREOF, the Payor has executed and delivered this Convertible Promissory Note on the date first above written.

BLUEFLY, INC.

By: /s/ Kara B. Jenny

Name: Kara B. Jenny

Title: CFO

Agreed to and accepted as of the date
first written above:

SFM DOMESTIC INVESTMENTS LLC

By: /s/ Jay Schoenfarber

Name: Jay Schoenfarber

Title: Attorney-in-Fact