



The mission of Zale Corporation is to be the best specialty retailer in North America. Our goal is to develop and maximize the finest collection of jewelry brands in order to build lasting customer relationships that will generate solid returns for our shareholders.

## Financial Highlights 2004

(Amounts in thousands, except per share amounts)

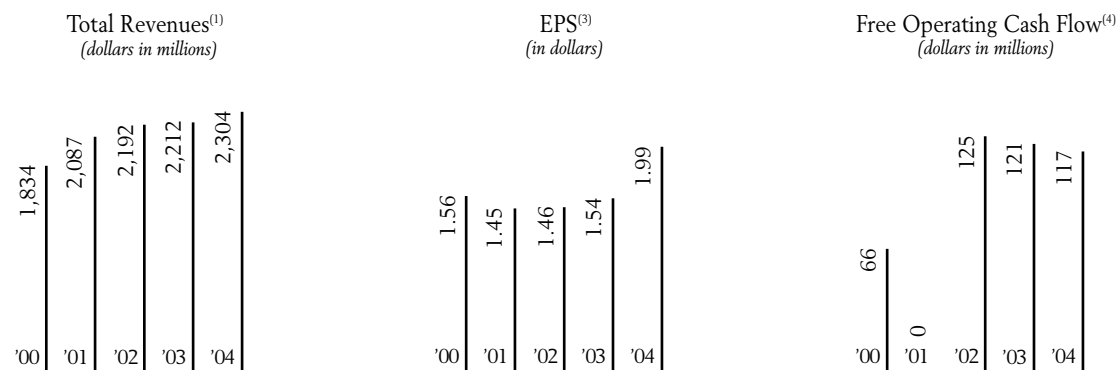
	2004	2003	2002	2001	2000
<b>TOTAL REVENUES</b> <sup>(1)</sup> . . . . .	\$2,304,440	\$2,212,241	\$2,191,727	\$2,087,199	\$1,834,090
<b>ADJUSTED OPERATING EARNINGS</b> <sup>(2)</sup> . . . . .	\$ 176,354	\$ 163,224	\$ 168,449	\$ 170,202	\$ 210,418
<b>NET EARNINGS</b>					
Excludes unusual items, special inventory charge, debt retirement and effect of accounting change <sup>(3)</sup> . . . . .	\$ 106,473	\$ 99,396	\$ 101,883	\$ 100,467	\$ 111,514
Includes unusual items, special inventory charge, debt retirement and effect of accounting change . . . . .	\$ 106,473	\$ (40,645)	\$ 143,932	\$ 82,048	\$ 111,514
<b>EARNINGS PER SHARE</b>					
Excludes unusual items, special inventory charge, debt retirement and effect of accounting change <sup>(3)</sup> . . . . .	\$ 1.99	\$ 1.54	\$ 1.46	\$ 1.45	\$ 1.56
Includes unusual items, special inventory charge, debt retirement and effect of accounting change . . . . .	\$ 1.99	\$ (.63)	\$ 2.07	\$ 1.18	\$ 1.56
<b>FREE OPERATING CASH FLOW</b> <sup>(4)</sup> . . . . .	\$ 117,290	\$ 121,241	\$ 124,756	\$ (481)	\$ 65,516

(1) Total revenues includes net sales as well as insurance revenue, previously netted in selling, general and administrative expenses. All periods have been restated to reflect the change.

(2) Excludes unusual items of \$136,300 of goodwill impairment in 2003, \$2,300, or \$1,446 net of tax, for executive transactions and (\$3,502), or (\$2,208) net of tax for a retiree medical plan curtailment gain in 2002, and \$25,236, or \$15,520 net of tax related to a special inventory charge and \$4,713, or \$2,899 net of tax for executive transactions in 2001.

(3) Excludes the unusual charges described above, costs of early retirement of debt of \$5,910 in 2003, or \$3,741 net of taxes, and the effect of a change in accounting principle of \$41,287 in 2002.

(4) Free operating cash flow is net cash provided by operating activities less capital expenditures. For more complete cash flow information, including a presentation of net cash from operating activities, financing activities and investing activities in accordance with GAAP, and reconciliation information for free operating cash flow, see "Selected Financial Data."







## DEAR SHAREHOLDERS,

Our focus entering Fiscal Year 2004 was to continue to use our strong brand dominance to maximize opportunities during the key gift-giving periods. We capitalized on our strengths with compelling merchandise, impactful marketing and an uncompromising level of service from knowledgeable, well-trained sales associates. This led to us achieving our goal of taking market share during the most critical times of the year. Our success at the important gift-giving occasions, as well as year round, signifies the powerful relationship that exists between our brands and our customers.

Fiscal 2004 was another successful year for Zale Corporation as we executed our strategic plan. We utilized our brand management strategy to further differentiate our brands as each continued to capture its segment of the market. We launched an aggressive growth plan this year. New store growth began to accelerate in 2004 as we put numerous projects in the pipeline to expand our off-mall presence. This year we also began to see some significant benefits from our recent investments such as direct product sourcing. By strengthening our infrastructure and building a stronger foundation, we are able to utilize our size and strength to begin capitalizing on our opportunities. This strategy will further increase the competitive advantage we enjoy as the leading specialty retailer of fine jewelry.

We achieved our financial objectives this year. Comparable store sales increased 3.9% while operating margin improved by 30 basis points. Diluted earnings per share rose 30% to \$1.99, adjusted for the stock split we completed in June 2004. For the third consecutive year, we produced in excess of \$100 million in free operating cash flow, generating \$117 million in 2004. We used our strong cash position to repurchase 5.6 million shares of outstanding common stock for \$142 million. We continue to maintain a healthy balance sheet that provides substantial flexibility to pursue opportunities to extend our market leadership. Sound financial disciplines are in place regarding our capital investments. We will continue to evaluate the most efficient use of our capital, including repurchasing stock, expanding and remodeling our store base, investing in technology, and paying down our debt. We are committed to making investments that create the most value for our shareholders.

The turnaround at Piercing Pagoda led our success this year. The brand's strong performance resulted from product innovation and improvements in merchandise assortments. Piercing Pagoda was on top of the latest trends with products such as the Italian Charm bracelet and several introductions in the body jewelry category. Various line extensions were launched to capitalize on this popular jewelry that generated excitement with our

more fashion-forward customer. In addition to its merchandise assortments, Piercing Pagoda has gained a competitive advantage by direct sourcing the majority of its products. Working with factories in the Far East, Turkey and Italy, Piercing Pagoda improved margins, placed price pressure on its competition, and dominated certain product categories. New merchandising and direct sourcing initiatives, coupled with the continued rollout of a more productive and appealing kiosk design, positioned Piercing Pagoda to exceed our expectations in 2004.

The implementation of our real estate growth strategy took full shape in 2004. We expanded our off-mall presence with the opening of 21 Zales Fine Jewelry Outlets. These "neighborhood outlets" are extending our reach and represent a significant market share opportunity with no other established jewelry brands located off-mall. We are very pleased with our customers' response to this new concept. We also revamped our urban strategy in New York City with Zales Jewelers. We had a very successful store opening in Brooklyn and have several additional stores in the pipeline for Fiscal Year 2005. Additionally, with our Piercing Pagoda turnaround complete and the real estate portfolio cleansed, we started to increase the number of Piercing Pagoda openings in 2004 and we will continue to accelerate growth in the new year.

Supply chain improvements were instrumental to our success in 2004. We began direct sourcing diamond solitaire product last fall with Zales Canada, where it has positively impacted the diamond business at both Peoples Jewellers and Mappins Jewellers. We actually sourced twice the amount of diamond product for these brands compared to our original expectations. By the end of our fiscal year, Gordon's Jewelers and Zales Fine Jewelry Outlet started to receive direct-sourced merchandise. We believe there is a tremendous opportunity to enhance revenues and improve gross margins through sourcing

basic diamond and gold product, thereby further leveraging our size and brand strength. This year direct product sourcing contributed 50 basis points of gross margin improvement. Another major supply chain improvement was the opening of our new Piercing Pagoda distribution center last summer. The new facility supported Piercing Pagoda's strong performance by shipping 47% more units than the same period last year while reducing its overall unit cost significantly.

Fiscal Year 2004 saw an improvement in our marketing efforts. Our customer-centric focus compelled us to better understand the needs and desires of our customers. This increased sensitivity to the customer and the marketplace became the basis for our positioning efforts, which drove substantive changes in our advertising. Investments in database marketing have given us new insights into the behavior of our customers, driven incremental sales, and serve as the cornerstone of our ongoing efforts to establish relationships that are relevant to our customer. Our development and utilization of proprietary clientele development systems allow us to place a personal touch on our relationship efforts. In total, our marketing enhancements are strengthening our customer relationships and improving the effectiveness of our marketing.

We also invested in our most important resource, our people, by significantly increasing our level and frequency of training for new and experienced associates. At the same time, we focused on our new-hire selection techniques and processes to assist us in selecting the best candidates. Centers of Excellence in Training and Recruiting were established during the year to improve the quality and consistency of our recruiting efforts and further strengthen our employees' professional development. Our goal is to fine-tune our employees' skills and enhance performance, while ultimately better meeting the needs of our customers.



Another achievement this year was our recognition by the Internet trade magazine, *Internet Retailer*, naming Zales.com one of the Top 50 Internet Retailing Web Sites. The magazine's criteria for determining the "Best of the Web" consisted of retailers who know their customers, understand how the Web fits into a retail strategy, and companies that continually improve online shopping. We remain committed to providing our customers with superior service and the best shopping experience regardless of the channel they choose to shop.

Building on our momentum in 2004, we will continue executing our strategy as we enter our new fiscal year. First, we plan to accelerate new store growth, particularly off-mall with Zales Fine Jewelry Outlet and Zales Jewelers. We believe this is a significant market-share opportunity since we currently have only a fraction of the off-mall business. We will also increase our square footage at Piercing Pagoda with 50 additional locations planned. We further believe that there is substantial organic growth within our portfolio of brands. Second, we plan to continue to make improvements in our supply chain as direct product sourcing is expanded to our largest brand, Zales Jewelers, by next spring. Third, we will use our more sophisticated marketing capabilities to continue refining our direct mail and television advertising. By building our database and enhancing our modeling techniques, our marketing will be more targeted and productive. Additionally, this year we will launch our second e-commerce Web site with BaileyBanksandBiddle.com as we give our customers an opportunity to interact in the manner that they find most convenient and relevant to them. Fourth, we will continue making investments in our information technology strategy to gain efficiencies and achieve a competitive business advantage. Strategic investments in 2005 include a system to support our direct sourcing initiatives that will allow us to control our production process and measure our performance.

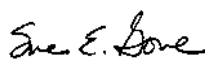
Finally, a key component of our human resources strategy this year is the implementation of an integrated human resources information system that will support the changing needs of our business as we move forward. This new system will benefit our training and development focus by providing our managers with timely and detailed data, allowing us to continuously enhance productivity.

We would like to thank our former Chairman of the Board, Robert DiNicola, for his years of leadership and guidance. The entire organization wishes him much continued success in all his future endeavors. Richard Marcus assumed the role of Chairman in August 2004. Richard is a long-time Director, having served in that capacity since 1993. We look forward to working more closely with Richard as he assumes leadership of the Board.

In closing, we believe we are uniquely positioned to capture market share in this fragmented industry through the finest collection of brands in the jewelry business. These strong brands combined with the commitment of our 17,000 employees make it easy to get excited about our future. We would also like to recognize our shareholders and our Board of Directors for their support as we continue to execute our business plan to build the best specialty retailer in North America.



Mary L. Forté  
*President and Chief Executive Officer*



Sue E. Gove  
*Executive Vice President and Chief Operating Officer*



# ZALES Outlet

FINE JEWELRY



*Zales Fine Jewelry Outlet—Shenandoah, Texas*





*Bailey Banks & Biddle Fine Jewelers—Houston, Texas*

## GROWTH

Growth is made possible through the development of new concepts and ideas that, if well thought out, nurtured and supported, can prosper. With seven differentiated brands, we believe our growth potential is quite substantial.

At the center of our growth plan is Zales Fine Jewelry Outlet. Over the past seven years, we have grown the traditional Outlet concept from four stores to more than 100 stores, averaging \$1.3 million in sales volume. We believe that Zales Fine Jewelry Outlet, already positioned outside the traditional mall, has tremendous potential beyond outlet centers as we continue to diversify our portfolio. Expansion into value-oriented shopping center footprints is a natural extension of the business that will continue leveraging the Zales brand, giving us additional flexibility to enter new markets and driving further traffic from customers we are not reaching today. Our target customer is seeking convenience and a full-service jewelry experience from a brand that has been trusted for generations. After having successfully tested these “neighborhood outlets” in Chicago and several Texas markets during fiscal 2004, we plan to open 50 stores a year for the next several years. These expansion plans will extend our off-mall presence into Maryland, Washington D.C., Florida and New Jersey for the coming fiscal year.

Our off-mall presence will expand even further as we pursue an urban strategy to extend the reach of our most established brand, Zales Jewelers. A few years ago we entered New York City with six Zales stores which allowed us to learn the market and fine-tune our merchandise assortments. We are pleased with the performance of those stores and confident in our business model. We believe we can expand our presence significantly, building a \$100 million business in this market with the Zales brand. This past summer we opened two new stores, one on Fulton Street in Brooklyn and one on Fifth Avenue and 38th Street that have been very well received. Our plans include opening a flagship store at Herald Square before this holiday season. Along with increasing our footprint in New York City, we have the scale to use our marketing strengths more effectively and serve a customer that is very brand loyal. Zales Jewelers’ growth potential also includes lifestyle centers across the country. We are currently testing this format as we look to leverage the most recognized brand in jewelry.

Our growth plans also include expanding our presence in Canada. We are leveraging the strong brand recognition of Peoples Jewellers and our knowledge of the fashion-forward consumer to introduce Peoples II. This new concept will consist of a cart program in the center of the mall that will feature the latest trends in the marketplace to the hip, opening price point customer and will leverage the infrastructure of the anchoring Peoples store in the mall.

In addition to our plans to expand the store base to new venues and markets, we are also maintaining a firm emphasis on enhancing the quality and productivity of our current portfolio. At Piercing Pagoda, we have now redesigned 148 kiosks to a format that is more appealing and efficient. These remodeled kiosks have operated at a 7% increase in productivity, plus over normal in their first year. We have also begun to take key Bailey Banks & Biddle locations to new heights by creating a store experience that utilizes design to communicate our message to the high-end consumer. We recently transformed a 4,500 square-foot location in the Houston Galleria into a beautiful 7,700 square-foot flagship store that positions Bailey Banks & Biddle as a leader in the luxury market. Gordon’s Jewelers is also utilizing a new store design to communicate its message of warmth and trust. The sit-down bridal cases are the focus of the store and reflect Gordon’s positioning as the relationship expert.

As the largest specialty retail jeweler in North America, we have established our dominance within the industry. Yet, we recognize the internal and external opportunities for expansion in this highly fragmented landscape. By leveraging the most recognized brands in jewelry into new avenues, along with renovating our existing store portfolio, we are positioned to grow our market share even further.



*Piercing Pagoda distribution center—Irving, Texas*

## SUPPLY CHAIN

The rapid and cost-efficient movement of product through an organization to its customers is vital to a company's ability to compete. As the industry leader, we leverage that position to gain a competitive advantage across all aspects of our supply chain.

During fiscal 2004, we extended this leverage as we set out to improve how we source product. By purchasing cut and polished stones as well as the mountings last fall, we began to assemble solitaire rings, pendants and earrings for Peoples Jewellers and Mappins Jewellers in Canada. We are very pleased with the results in our Canadian brands as newly sourced product drove significant improvement not just to margins but in revenue as well. Additionally, our customers are benefiting through more consistent product, enhanced assortments and improved pricing. This past spring, we extended our sourcing efforts to Gordon's Jewelers and Zales Fine Jewelry Outlet as we continue the orderly rollout of direct sourcing to the remainder of the organization. Additionally, a new manufacturing system is being implemented to support our direct sourcing initiatives. This investment will enable the Company to increase the production capacity for all its brands as well as measure its performance.

Piercing Pagoda is also capitalizing on its leadership position by sourcing and directly importing the majority of its product. This has allowed Piercing Pagoda to stay ahead of the fashion trends while offering its assortments at unrivaled prices. New introductions such as the Italian Charm bracelet and various line extensions combined with several introductions in the body jewelry category have appealed to Piercing Pagoda's hip, fashion-forward customer. All of this is being accomplished while still improving gross margins, giving Piercing Pagoda a strong competitive advantage in capturing the opening price-point customer in fine jewelry.

Our distribution strategy has been another factor contributing to our success. We relocated the Piercing Pagoda distribution center to Dallas last summer. Our future plans include opening a new integrated Canadian distribution and assembly center. This new center will increase capacity to support the addition of our Peoples II concept as well as our expanding direct sourcing efforts in Canada. We continue to evaluate our distribution needs and areas to improve productivity as part of our long-term strategy.

Additionally, we have recently invested in systems to enable us to better manage our inventory, both at the store level and in the distribution center. Through better allocation of merchandise and replenishment, we are generating improvements to revenue along with optimizing product flow. Our long-term objective is to provide an integrated merchandising system with an improved buyer workbench.

Our supply chain improvements have continued to increase our competitive advantage. We are constantly improving productivity to maximize performance as well as meet the expectations of our customers.







## MARKETING

By communicating each brand's message effectively, we will meet the needs of our customers and build long-term relationships. Recently, we have dedicated resources to enhancing our marketing function. We know more about our customers than ever before, and we are using that knowledge to drive more impactful marketing.

We are building a customer-centric organization that seeks to continually improve our understanding of the needs, desires and behaviors of our customers, and of the overall marketplace. Our knowledge of the different types of customers that we have—and their respective behaviors—has improved our decision-making with respect to the media that we buy and the message that we deliver. This increased awareness has compelled us to evolve the positioning of our key brands so that they are more relevant to the customer and further differentiated from each other.

We are using this knowledge, along with our differentiated portfolio of brands, to meet the needs of the jewelry-buying consumer. These needs vary in importance depending on the person. Therefore, the communication strategy utilized for each brand will vary as well, giving each brand a distinct look, style and feel.

Our research tells us that given the many different reasons for making a jewelry purchase, we can place the emotional needs being satisfied to one of three categories: status and prestige, enhanced beauty and personal style, or gifts of love and sharing. Our Bailey Banks & Biddle brand is positioned to serve prestige and status needs. A national magazine campaign is built to communicate how Bailey Banks & Biddle satisfies these needs by leveraging its 172-year legacy of service and its assortment of upscale designer product which is unique and of timeless design. Zales Jewelers with its breadth of assortment and strength in fashion jewelry is best positioned to capitalize on the needs of personal style and selection. This is communicated to the marketplace via Zales' aggressive marketing campaign, including television, newspaper inserts and direct mail. Gordon's Jewelers' focus is on relationships and sharing. Capitalizing on its larger, more developed bridal business, Gordon's is positioning itself as the relationship expert. Gordon's jewelry consultants use a more low-key approach to give knowledgeable guidance in a comfortable setting.

The genesis for these marketing initiatives is our customer database, which provides significant benefits beyond customer knowledge. The database, combined with our ever improving statistical modeling capabilities, allows us to interpret our overall brand message into resonant direct mail communications. We are continuing to build upon these efforts through an initiative called Personalized Dynamic Marketing. Our goal is to combine demographics, psycho-graphics, and transaction history into customized communications to our customers. We are developing the capability to vary images, copy and offers into mailings that are relevant to our customers.

We are better positioned than ever before to use what we have learned about our customers to drive more impactful and targeted marketing. The end result from this focus on marketing will be sharpened brand differentiation and improved customer relationships through more personal and higher levels of service.



## PEOPLE

Our people are our most important investment. As such, we developed our human resources vision to better serve our 17,000 employees and ultimately benefit our customers through improved service levels.

We recognize that as the organization has become more complex, we need an integrated human resources strategy to meet the future needs of the business. Key components of the strategy include an integrated human resources information system, along with online employee and manager access that will give our employees immediate access to information. This will eliminate manual processes and provide detailed data analysis to our managers, allowing us to continuously enhance productivity.

To further enhance job satisfaction, we are establishing a shared service call center that will provide one point of contact for handling all employee questions and issues.

Additionally, we are creating Centers of Excellence in Training and Recruiting to support all brands within assigned regions. The Training Center is allowing us to identify specific needs and develop the appropriate programs which are being utilized across the corporation. Other targeted benefits include improved employee retention, an even more professional selling organization and increased employee productivity. The Recruiting Center, with field recruiters supporting all brands, is identifying qualified candidates and leveraging this talent pool across the Company.

As we continue to support the professional growth of our people, we are utilizing this deep bench strength within the organization to increase responsibilities and create succession plans. This allows for further stability as the business continues to grow.

We recognize that the dedication of our people is what built our organization into the industry leader we are today. Their commitment to a business built upon relationships is what propels us as we take our Company to the next level.

Zale Corporation's commitment extends beyond its own family and into the communities where its stores operate and its employees reside. Zale and its employees support several organizations that benefit children and families in need, including the Make-A-Wish Foundation and Jewelers For Children. Our support also extends to work in medical research and treatment through a grant to the University of Texas Southwestern Medical Center. In addition, we believe the strengthening of our own industry is vital as demonstrated by our funding the Gemological Institute of America®, the world's largest nonprofit institute of gemological research and learning. Zale Corporation is proud of its long history of community and industry involvement.



## Selected Financial Data

*(Amounts in thousands, except per share amounts)*

	2004	2003	2002	2001	2000
<b>Income Statement Data</b>					
Total revenue <sup>(a)</sup> . . . . .	\$2,304,440	\$2,212,241	\$2,191,727	\$2,087,199	\$1,834,090
Costs and expenses					
Cost of sales . . . . .	1,122,946	1,101,030	1,083,053	1,034,913	930,826
Special inventory charge <sup>(b)</sup> . . . . .	—	—	—	25,236	—
Selling, general and administrative expenses <sup>(a)</sup> . . . . .	942,796	884,069	873,265	818,205	644,487
Cost of insurance operations . . . . .	5,963	8,228	8,620	5,589	5,928
Depreciation and amortization expense . . . . .	56,381	55,690	58,340	58,290	42,431
Unusual items <sup>(c)</sup> . . . . .	—	136,300	(1,202)	4,713	—
Operating earnings . . . . .	176,354	26,924	169,651	140,253	210,418
Interest expense, net . . . . .	7,528	6,319	7,750	6,857	32,178
Cost of early retirement of debt <sup>(d)</sup> . . . . .	—	5,910	—	—	—
Earnings before income taxes . . . . .	168,826	14,695	161,901	133,396	178,240
Income taxes . . . . .	62,353	55,340	59,256	51,348	66,726
Earnings before effect of accounting change . . . . .	106,473	(40,645)	102,645	82,048	111,514
Effect of accounting change . . . . .	—	—	(41,287)	—	—
Net (loss) earnings . . . . .	106,473	(40,645)	143,932	82,048	111,514
Earnings (loss) per diluted common share:					
Excludes unusual items, special inventory charge, debt retirement, and effect of accounting change . . . . .	1.99	1.54	1.46	1.45	1.56
Includes unusual items, special inventory charge, debt retirement, and effect of accounting change . . . . .	1.99	(.63)	2.07	1.18	1.56
Weighted average number of diluted common shares outstanding . . . . .	53,519	64,528	69,692	69,502	71,766
<b>Balance Sheet Data:</b>					
Inventory . . . . .	826,824	798,761	782,316	724,157	630,450
Property and equipment, net . . . . .	266,688	266,167	284,438	296,413	231,255
Total assets . . . . .	1,342,084	1,294,106	1,489,265	1,408,029	1,384,961
Total debt . . . . .	197,500	184,400	86,749	109,463	109,369
Total stockholders' investment . . . . .	726,114	652,323	939,807	840,563	781,777
<b>Other Financial Data:</b>					
Debt to equity . . . . .	27.2%	28.3%	9.2%	13.0%	14.0%
<b>Cash Flow Data:</b>					
Net cash provided by operating activities . . . . .	178,078	164,820	178,915	87,175	144,134
Net cash used by investing activities . . . . .	(60,017)	(42,353)	(54,885)	(325,839)	506,055
Net cash used by financing activities . . . . .	(90,693)	(172,475)	(68,387)	(33,976)	(387,437)
Free operating cash flow <sup>(e)</sup> . . . . .	117,290	121,241	124,756	(481)	65,516
Capital expenditures . . . . .	60,788	43,579	54,159	87,656	78,618
<b>Selected Store Data:</b>					
Beginning of period . . . . .	2,234	2,295	2,344	1,389	1,333
Opened <sup>(f)</sup> . . . . .	72	37	48	1,022	84
Closed . . . . .	72	98	97	67	28
End of period . . . . .	2,234	2,234	2,295	2,344	1,389
Renovated . . . . .	160	137	135	145	95
Comparable sales <sup>(g)</sup> . . . . .	3.9%	0.8%	1.4%	(4.1)%	11.6%

(a) Total revenues and cost of insurance operations include insurance premium revenue and expense, respectively, from insurance operations previously netted in selling, general, and administrative expense. All periods have been restated to reflect the change.

(b) \$15,520 net of tax.

(c) Unusual items include \$136,300 of goodwill impairment for the year ended July 31, 2003, \$2,300, or \$1,446 net of tax, for executive transactions and (\$3,502), or (\$2,208) net of tax, for a retiree medical plan curtailment gain for the year ended July 31, 2002, and \$4,713, or \$2,899 net of tax, for executive transactions for the year ended July 31, 2001.

(d) \$3,741 net of tax.

(e) Free operating cash flow is net cash provided by operating activities less net capital expenditures.

(f) Stores opened in 2001 include 937 Piercing Pagoda kiosks acquired in September 2000.

(g) Including the effect of currency translations.



## Board of Directors:

**Richard C. Marcus**  
Chairman of the Board  
Nominating and Corporate  
Governance Committee Member

**J. Glen Adams**  
Director  
Nominating and Corporate  
Governance Committee Chairman  
Audit Committee Member

**A. David Brown**  
Director  
Compensation Committee  
Chairman  
Nominating and Corporate  
Governance Committee Member

**Mary E. Burton**  
Director  
Compensation Committee Member

**John B. Lowe, Jr.**  
Director  
Audit Committee Member

**Thomas C. Shull**  
Director  
Audit Committee Chairman

**David M. Szymanski**  
Director  
Compensation Committee Member

**Mary L. Forté**  
Director  
President  
Chief Executive Officer

**Sue E. Gove**  
Director  
Executive Vice President  
Chief Operating Officer

## Officers of the Company:

**Mary L. Forté**  
President  
Chief Executive Officer

**Sue E. Gove**  
Executive Vice President  
Chief Operating Officer

**Mark R. Lenz**  
Group Senior Vice President  
Chief Financial Officer

**Pamela J. Romano**  
Group Senior Vice President  
President, Zales Jewelers

**Charles E. Fieramosca**  
Senior Vice President  
President, Bailey Banks & Biddle  
Fine Jewelers

**Paul G. Leonard**  
Senior Vice President  
President, Piercing Pagoda

**Frank C. Mroczka**  
Senior Vice President  
President, Gordon's Jewelers

**Nancy O. Skinner**  
Senior Vice President  
President, Zales Fine  
Jewelry Outlet

**John A. Zimmermann**  
Senior Vice President  
President, Peoples Jewellers

**Ellen A. Aldridge**  
Senior Vice President  
Chief Information Officer

**Cynthia T. Gordon**  
Senior Vice President  
Controller

**Gregory Humenesky**  
Senior Vice President  
Human Resources

**Stephen C. Massanelli**  
Senior Vice President  
Real Estate

**Ervin G. Polze**  
Senior Vice President  
Support Operations

**Bernard M. Sensale, Jr.**  
Senior Vice President  
Marketing

**George J. Slichó**  
Senior Vice President  
Loss Prevention

**Stephen L. Strong**  
Senior Vice President  
Executive Vice President,  
Zales Jewelers

**Charleen R. Wuellner**  
Senior Vice President  
President, Corporate  
Merchandising

**Hilary Moly**  
Vice President  
General Counsel and Secretary

## Corporate Information:

**Executive Offices**  
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Irving, Texas 75038-1003  
972-580-4000

**Transfer Agent & Registrar**  
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**Independent  
Public Accountants**  
KPMG LLP

**Stock Listings**  
New York Stock Exchange  
Common—Symbol: ZLC

**Form 10-K Requests**  
Investors may obtain, without charge, a copy of the Company's Form 10-K and Annual Report as filed with the Securities and Exchange Commission for the year ended July 31, 2004. The Company's Form 10-K and Annual Report are available online at [www.zalecorp.com](http://www.zalecorp.com).

**Internet Access**  
[www.zalecorp.com](http://www.zalecorp.com)

**Notice of Annual Meeting**  
Zale Corporation's Annual Meeting of Shareholders will be held at 10 a.m. Friday, November 12, 2004 at The Omni Mandalay Hotel located at 221 East Las Colinas Blvd., Irving, Texas 75039.

**Common Stock Information**  
The Common Stock is listed on the NYSE under the symbol ZLC. The following table sets forth the high and low sale prices for the Common Stock for each fiscal quarter during the two most recent fiscal years. The prices set forth below have been adjusted to give retroactive effect to the Company's two-for-one stock split completed on June 8, 2004.

	2004		2003	
Quarter	High	Low	High	Low
First	\$26.03	\$22.05	\$16.33	\$13.25
Second	28.05	25.14	18.86	14.33
Third	31.30	26.85	17.50	14.18
Fourth	28.58	25.12	24.34	17.03

As of September 24, 2004, the outstanding shares of Common Stock were held by approximately 651 holders of record.

## Cautionary Notice Regarding Forward-Looking Statements:

This Report contains forward-looking statements, including statements regarding the Company's objectives and expectations regarding its sales and earnings, merchandising and marketing strategies, store renovation, remodeling and expansion, real estate growth strategy, inventory management and performance, direct product sourcing, liquidity and cash flows, capital expenditures, development of its information technology plan and related management information systems, e-commerce initiatives, human resource initiatives and other statements regarding the Company's plans and objectives. These forward-looking statements are not guarantees of future performance and a variety of factors could cause the Company's actual results to differ materially from the anticipated or expected results expressed in these forward-looking statements. The following list, which is not an all-encompassing list of risks and uncertainties affecting the Company, summarizes several factors that could cause the Company's actual results to differ materially from those anticipated in these forward-looking statements: that low or negative growth in the economy or in the financial markets will occur and reduce discretionary spending on goods that are, or are perceived to be "luxuries"; that levels of mall traffic may decline as a result of economic or other factors; the Company may experience lost sales in the event of extreme weather conditions (such as a blizzard or hurricane) in an area or areas in which it operates; that warehousing and distribution productivity and capacity can be maintained and further improved to support the Company's distribution requirements; that strong competitive responses may impact the Company's efforts to leverage its brand power with its marketing, merchandising and promotional efforts; that seasonality of the retail jewelry business or downturns in consumer spending during the fourth calendar quarter may adversely affect the Company's results; that the Company may not be able to continue to manage its inventory and product supply effectively to respond to consumer demand; that fluctuations in gold and diamond prices may negatively affect the business by reducing margins and decreasing customer demand if retail prices are raised; that the inability to procure sufficient quantities of diamonds could impact its ability to produce and assemble product at favorable prices; that the Company may not be able to integrate acquisitions into its existing operations or that new acquisition and alliance opportunities that enhance shareholder value may not be available on terms acceptable to the Company; that the Company may be unable to lease new and existing stores on suitable terms in desirable locations; that legal or governmental proceedings may have an adverse effect on the financial results or reputation of the Company; that alternate sources of merchandise supply may not be available on favorable terms to the Company during the three-month period leading up to the Holiday season; that key personnel who have been hired or retained by the Company may depart; that any disruption in or changes to the Company's private label credit card arrangement with Citi may adversely affect the Company's ability to provide consumer credit and write credit insurance; or that changes in government or regulatory requirements may increase the cost of or adversely affect the Company's operations. The Company disclaims any obligation to update or revise publicly or otherwise any forward-looking statements to reflect subsequent events, new information or future circumstances.



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