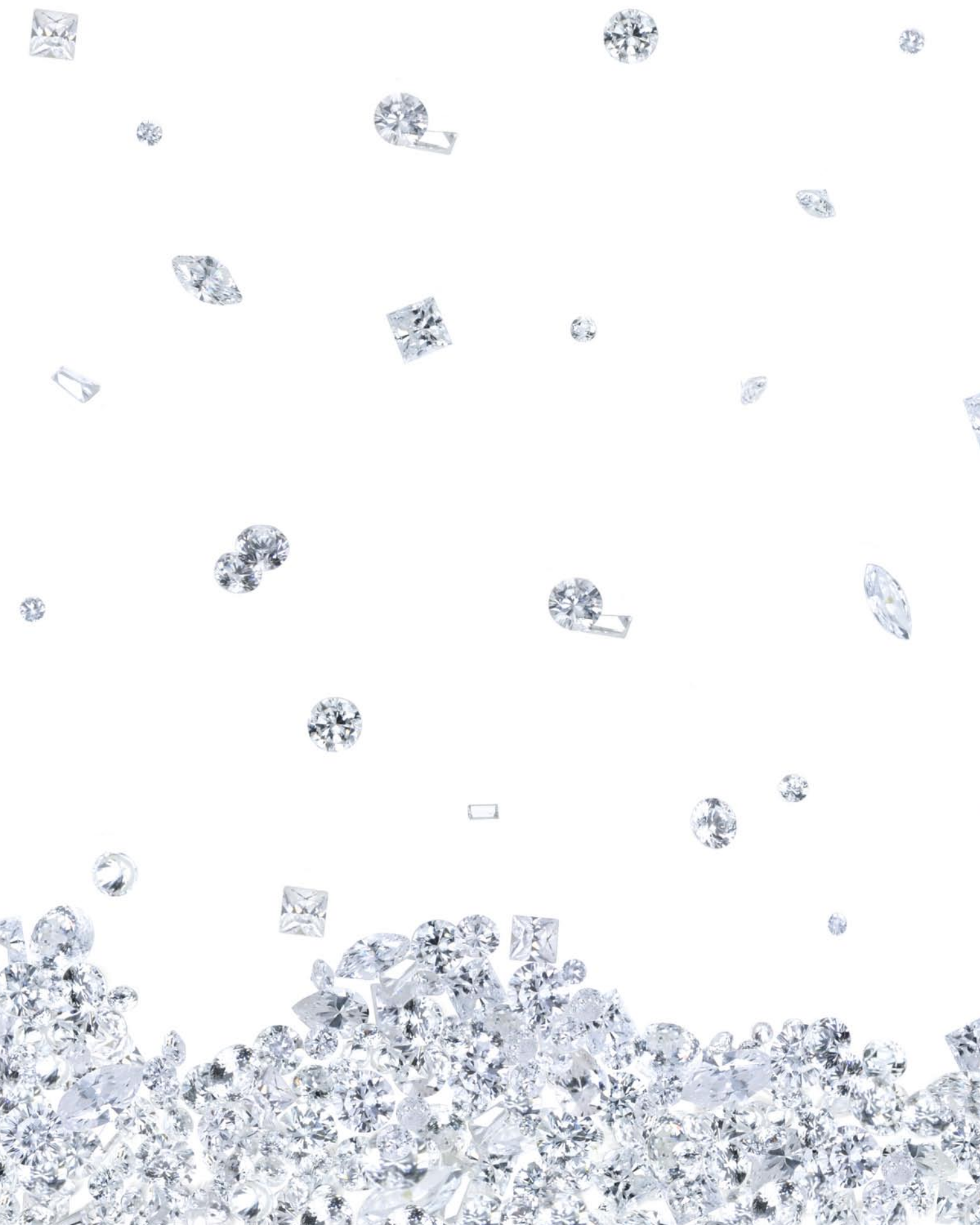




Z A L E C O R P O R A T I O N
2005 Annual Report



Letter to Shareholders

Three years ago, we put a strategic plan in place that provided the framework and foundation to support the Company's long-term growth. Our focus this year remained on the execution and advancement of this strategy to capture market share, improve our supply chain and create the customer experience. We made significant progress on our plan in fiscal year 2005 as we achieved our square footage growth objectives, continued the rollout of direct sourcing initiatives within the organization and implemented an enhanced training program that raised the bar with regard to customer service. Additionally, by achieving a number of key financial goals, including generating \$89 million in free operating cash flow and a \$68 million reduction in outstanding debt from the prior year, we have created substantial flexibility as we look towards a very exciting future for the Company.

At the core of our plan has been a brand management strategy to increase market share, differentiating each brand to capture its segment of the market. In 2005, our goal of capturing market share through comparable store sales growth was negatively impacted by the underperformance at the Zales brand. The Zales brand had lost market share over a three-year period with performance declining further in the Fall season of fiscal year 2005. In January 2005, Paul Leonard became the new President. As the most recognized jewelry brand in America, we know Zales has tremendous potential. After analyzing the business and identifying areas of opportunity, we put a plan in place that included many new initiatives. We are developing upgraded merchandise assortments and are tailoring store inventories by analyzing demographic information and sales history for each location. The implementation of direct sourcing strategies is also a priority as we work to put these new merchandise initiatives in place for the start of our new fiscal year. To achieve our goals for the Zales brand, there is a significant amount of repositioning taking place. We are very confident in Zales' strategic direction and opportunities for its future growth.

We ended fiscal year 2005 with a 0.3% comparable store sales increase. Revenues rose 3.4% to \$2.4 billion and merchandise margins increased 10 basis points from the prior year, led by our direct product sourcing initiatives. Our

strong free operating cash flow, which has averaged more than \$100 million annually over a four-year period, allowed us to continue reinvesting in the business by repurchasing 1.8 million shares of our outstanding common stock. Creating shareholder value through share repurchases has resulted in a 29% reduction in outstanding shares over the last six fiscal years.

At the same time, we strengthened an already healthy balance sheet, reducing our debt-to-equity ratio to 15.9% in 2005 from 27.2% the prior year. During the year, we successfully amended our revolving credit facility, reducing borrowing costs and extending its maturity to August 2009. By continuing to improve the Company's financial position, we are not only supporting the strategic and operational needs of our business, but have created the flexibility to capitalize on additional opportunities to deliver value to shareholders.

While we did not reach all of our market share goals, we began to experience benefits from our growth strategy. Square footage and other growth accelerated over 3% in fiscal year 2005 as we opened 61 new stores, 50 kiosks and 71 carts, while renovating an additional 67 stores and 97 kiosks.

A significant portion of our growth was outside the mall with our urban strategy in New York City, as well as our expanded presence in neighborhood and power strip centers. In New York City, our Zales store openings included a flagship at Herald Square, a second Brooklyn location in the Bay Ridge area and a beautiful store on Fifth Avenue and 38th street. In the off-mall venue, we successfully positioned Zales Outlet in the Texas, Florida and New Jersey markets.

Our growth plans extended to Canada where we leveraged the strong brand recognition of Peoples Jewellers, along with the familiarity and success with the younger, fashion-forward consumer at Piercing Pagoda, to introduce Peoples II. This new cart program in the center of the mall offers the latest trends in the marketplace to the opening price point customer in Canada.

As part of our strategy to improve brand performance and profitability, we announced our intention to close, after the upcoming Holiday Season, 30 to 35 Bailey Banks & Biddle stores that do not fit with the brand's long-term positioning in the luxury market. While we have been shrinking the store base and investing in key locations to increase square footage, we felt it necessary to accelerate this process, allowing us to focus capital, inventory and other resources on the most productive stores. The decision to close these under-performing stores was a difficult one; however, the net effect from these closures will be a stronger and more productive Bailey Banks & Biddle brand.

During the year we implemented new software to assist with real estate decisions regarding site selection. Additional experience with this sophisticated tool will provide even greater benefit in targeting locations as we move forward.

Additionally, we positioned our powerful brands to maximize their growth opportunity in online shopping through a partnership with GSI Commerce that allows us to leverage advanced technology and web support. Through our partnership with GSI, our goal is to add site functionality and make all brands e-commerce capable. Our two e-commerce sites, zales.com and baileybanksandbiddle.com, grew over 30% this year, and we believe there is further opportunity to grow the online business as a complement to our national store base.

Improving all aspects of our supply chain has been a focal point of our strategic plan. We increased direct sourcing of diamond merchandise at Gordon's, Zales Outlet and our Canadian brands during the year as we sourced \$37 million in product. We remain pleased with its impact on both gross margin and top line sales. Our Canadian brands, which launched this initiative in the fall of 2003, achieved a 13% increase in gross margin dollars for 2005 for their diamond solitaire categories. This increase was in addition to the significant improvement from the prior year. Momentum ramped up at Gordon's and Zales Outlet during the year as they also experienced a favorable impact in their diamond business.



Piercing Pagoda increased the direct importing of finished goods to over 75% of purchases. This allowed us to be both price competitive as well as offer our customers the latest fashion trends. In total, direct product sourcing contributed 40 basis points of gross margin improvement, which was on top of the 50 basis point increase in fiscal year 2004.

We also made improvements in distribution with the construction of a new, integrated distribution and assembly center in Canada. This new facility will improve productivity and provide increased capacity for our expanding presence in Canada with Peoples II. Furthermore, this new distribution center will support the growing direct sourcing efforts for our Canadian brands.

In addition to distribution, we made investments in systems and people to significantly enhance our merchandise planning organization. Through a centralized replenishment function and system investments designed to improve inventory management and sales forecasting, we are providing the tools, processes and leadership to execute our merchandise strategies. This foundation includes a newly created position of Senior Vice President of Upstream Supply Chain. These enhancements raised our in-store stock position through the critical Holiday Season to 91% from 87% last year, and we believe there is more opportunity ahead as we better forecast our needs.

A significant focus of our strategy has been creating a customer experience that drives growth and loyalty. One way we are enhancing the customer experience is through the use of technology to design “the next generation store.” Our goal is to increase transaction speed and enhance accessibility while improving performance. This will include shortening checkout times, increasing sales associates’ access to inventory and customer information and reducing administrative responsibilities in our stores. With the prototype “next generation store” developed this year, we will test its impact on customer convenience and service in all of our brands in fiscal year 2006.

New store designs for Bailey Banks & Biddle, Gordon’s and an in-line model for Piercing Pagoda were developed to further position each of these brands with its target market



and create a distinctive shopping experience. Each design has been well received and will serve as each brand’s prototype going forward as we use store design to communicate with our customers and enhance the store experience.

We are also impacting the customer experience through investments in our people. Exceeding customer expectations through enhanced training and education was a top priority during the year. Last fall, we held our first all-brand Regional Managers meeting encouraging cross-brand communication. This meeting launched our new corporate motto of “One Vision, One Voice” to communicate the power of our brands and encourage working together across the organization to achieve our goals.

We launched additional technical training in 2005, introducing a color gemstone certification program to complement our diamond certification training. Almost 1,500 employees are currently enrolled in these programs, working towards certification by the Diamond Council of America. Store manager development was also a focus with approximately 400 managers in the second phase of a training program concentrated in the areas of communication skills, time management, delegation, interviewing and team building. We firmly believe that in a business built on relationships, a company grows when its people grow.

A key component of the Human Resources strategy this year included implementation of an integrated HR information system that provides online employee access, eliminates manual processes and provides detailed data

analysis to our managers, allowing us to continuously enhance productivity. We also established a shared service contact center that creates one point of contact for handling all employee questions from technical support to employee services. By simplifying this process, we have increased productivity and improved employee morale.

Zale Corporation is strongly committed to good corporate governance and compliance. Reflecting this commitment was our Company-wide effort to achieve full compliance with the corporate governance and financial reporting standards set forth by Section 404 of the Sarbanes-Oxley Act. We completed our Section 404 testing at the end of fiscal year 2005 and assessed our controls as effective, identifying no material weaknesses in financial reporting. In addition, we added a variety of information regarding our corporate governance practices to our website this year, including our Board Committee Charters, Corporate Governance Guidelines and Code of Business Conduct.

Looking ahead, our focus in fiscal year 2006 will be the continued capture of market share, utilizing a more targeted merchandising and marketing strategy by brand. A greater portion of our merchandise assortments will be customized by specific location to meet that particular customer's needs and desires. We will utilize our enhanced marketing capabilities to segment the customer base, tailoring our message to increase effectiveness. We will further develop our bridal business through an exclusive partnership between *The Knot* and our three legacy brands, Zales Jewelers, Gordon's Jewelers and Bailey Banks & Biddle Fine Jewelers. Our partnership will include banners within theknot.com, product placement in its jewelry search tools, direct email to its one million members, in-store events and editorial opportunities on The Knot TV. Another key marketing initiative is the development of a new advertising campaign for Zales Jewelers that more effectively communicates its brand position to exceed customers' expectations with style, quality and value. Additionally, our commitment to growth will continue with double-digit store openings planned for the Zales, Gordon's, Zales Outlet and Piercing Pagoda brands in fiscal year 2006.

Enhancement to the customer experience in 2006 will include expanding our training programs by enrolling an additional 1,500 employees in diamond and color gemstone programs. We are committed to educating, motivating and rewarding our employees to maximize the talents of each individual, thus establishing the foundation to build lasting customer relationships. We will also implement and measure the technology investments made to improve service levels as we begin the rollout of our "next generation stores."

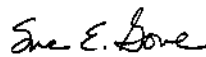
Our supply chain strategy includes integrating merchandise systems into a single point solution, resulting in reduced costs, improved efficiencies and increased speed to market. We will utilize our merchandise planning and inventory management tools to improve inventory productivity, reduce complexity and improve our in-stock and service rates. Also in the upcoming fiscal year, we will begin direct sourcing product at the Zales brand and continue to expand it at existing brands, to achieve our goal of 50 basis points of gross margin improvement.

We are very excited about the opportunities that lie ahead for Zale Corporation. We want to thank our loyal customers, dedicated associates, supportive Board of Directors and, of course, our shareholders for their commitment to helping us achieve our goal as the best fine jewelry retailer in North America.

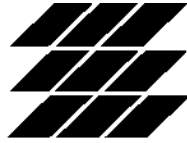
Sincerely,



Mary L. Forté
President and Chief Executive Officer



Sue E. Gove
Executive Vice President and Chief Operating Officer



The mission of Zale Corporation is to be the best fine jewelry retailer in North America. Our goal is to develop and market the finest collection of jewelry brands by creating a customer experience that builds lasting relationships and generates superior returns for our shareholders. To achieve this objective, we are committed to educate, motivate and reward our employees to maximize the talents of each individual.

ZALES
THE DIAMOND STORE[®]

ZALES *outlet*
THE DIAMOND STORE

Gordon's
JEWELERS[®]
Since 1905


BAILEY BANKS & BIDDLE

PIERCING
Pagoda[®]
www.pagoda.com

PEOPLES
the DIAMOND STORE

Mappins
FINE JEWELLERS SINCE 1935

Financial

Highlights 2005

(Amounts in thousands, except per share amounts)

	2005	2004	2003	2002	2001
Total Revenues ⁽¹⁾	\$ 2,383,066	\$ 2,304,440	\$ 2,212,241	\$ 2,191,727	\$ 2,087,199
Adjusted Operating Earnings ⁽²⁾	\$ 177,803	\$ 176,354	\$ 163,224	\$ 168,449	\$ 170,202
Net Earnings:					
Excludes unusual items, special inventory charge, debt retirement and effect of accounting change ⁽³⁾	\$ 106,775	\$ 106,473	\$ 99,396	\$ 101,883	\$ 100,467
Includes unusual items, special inventory charge, debt retirement and effect of accounting change	\$ 106,775	\$ 106,473	\$ (40,645)	\$ 143,932	\$ 82,048
Earnings Per Share:					
Excludes unusual items, special inventory charge, debt retirement and effect of accounting change ⁽³⁾	\$ 2.05	\$ 1.99	\$ 1.54	\$ 1.46	\$ 1.45
Includes unusual items, special inventory charge, debt retirement and effect of accounting change	\$ 2.05	\$ 1.99	\$ (.63)	\$ 2.07	\$ 1.18
Free Operating Cash Flow ⁽⁴⁾	\$ 89,125	\$ 117,290	\$ 121,241	\$ 124,756	\$ (481)

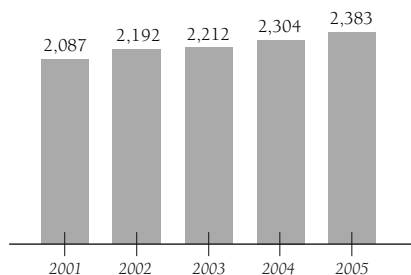
(1) Total revenues includes net sales as well as insurance revenue, previously netted in selling, general and administrative expenses. All periods have been restated to reflect the change.

(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.

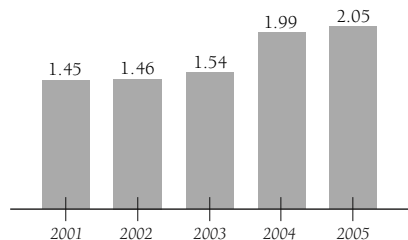
(3) Excludes the unusual charges described above, costs of early retirement of debt of \$5,910 in 2003, or \$3,741 net of taxes, and the effect of a change in accounting principle of \$41,287 in 2002.

(4) Free operating cash flow is net cash provided by operating activities less net 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."

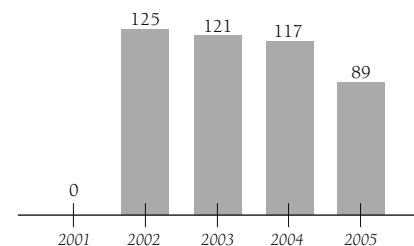
TOTAL REVENUES⁽¹⁾
(dollars in millions)



EPS⁽³⁾
(in dollars)



FREE OPERATING CASH FLOW⁽⁴⁾
(dollars in millions)





Zales new flagship store at Herald Square, New York.

With the most recognized brands in the jewelry industry, we have tremendous opportunity to expand our position as the largest specialty jeweler in North America. At Zales, our strategy is to build on our differentiation.

We are achieving this differentiation through our merchandising expertise and “versioned” assortments. We are offering customers compelling product that is suited to the individual store. We tailor a portion of the assortments to meet each store’s customer base using demographic data to pinpoint style and preference. This allows us to customize each store’s inventory to its strengths and to meet the needs of that particular customer while improving the productivity of our inventory.

With seven differentiated brands, internal growth opportunities are quite substantial to improve square footage growth. And when the time is right, we have the flexibility to accelerate those brands that give us the best return on our investment.

Extending our business through new avenues of growth is always a priority. While we are the leader within traditional malls, we are significantly expanding our off-mall presence with the Zales and Zales Outlet brands. As we move into more urban areas, power strip footprints and outlet centers, we are extending our business to a customer we were not previously reaching. Our growth potential could also



Peoples store located at Yorkdale Shopping Centre, Toronto.

Market Share Opportunities

Maximizing Our Leadership Position

include lifestyle centers as we currently test additional opportunities to leverage the most recognized brands in jewelry. Additionally, we are currently testing an in-line jewelry repair store branded *Master Jewelry Repair*. This new concept offers technicians and jewelers on site to provide expert repair services while our customers shop or wait.

Growing our business includes developing new ways to serve the fine jewelry customer. In Canada, we targeted the opening price point customer with a new concept called Peoples II. This cart program leverages our fashion-forward and trendy experience with Piercing Pagoda and the brand recognition of Peoples Jewellers. We believe Peoples II has more growth opportunity ahead as we refine the merchandising mix and maximize our locations within the mall.

Further expansion of our e-commerce business will make it seamless for our customers to do business with us. We believe there is a significant opportunity to meet the customer’s multi-channel expectations using our powerful brands to grow our online businesses as a complement to our national store base.

We have considerable opportunities within each brand to effectively increase our market share. Through further differentiation, as well as innovation, we will grow our business and maximize our leadership position in the industry.

Bailey Banks & Biddle located at The Gardens Mall, Florida.



Gordon's new prototype located at Annapolis Mall, Maryland.

Market Share Opportunities

Targeting the Customer

Gordon's 2005 direct mail campaign commemorating its 100 years of love.



Zales Outlet marketing, showcasing its colorful gemstone offerings.

Along with tapping into new markets and channels, we can increase visibility and differentiation through powerful marketing campaigns. Effective marketing requires the ability to understand the customer, develop compelling messages and distribute the message via the appropriate media channels.

Our goal is to use our enhanced marketing capabilities to further develop brand awareness by creating an emotional connection with the customer. To achieve this objective, we are placing the customer's needs at the center of all marketing decision-making. Through extensive market research, we are developing a deeper understanding of the consumer. This allows us to align all of our marketing efforts to better satisfy the needs of our customers.

The increased knowledge and learnings from our marketing research is being applied to our repositioning of the Zales brand. We are developing a new advertising campaign for Zales that will maintain television as its core medium to more effectively communicate the brand's position of style, quality and value.

Our customer database is essential to all of our marketing efforts. We are utilizing the database to improve our understanding of each customer, significantly improving the effectiveness of our media decisions.

The database is also used to drive sales directly. We are beginning to maximize our database marketing efforts by capitalizing on our understanding of the customer to tailor communications. We have developed advanced statistical modeling capabilities which allow us to interpret our brand positions into customized communications, improving the relevance and effectiveness of these efforts. The delivery of these messages is managed through the implementation of a contact strategy. The contact strategy seeks to optimize the direct communication with our customers, by allocating the marketing spend consistent with our perceived sales opportunities, as well as by managing the timing and quantity of our offers.

We are developing marketing initiatives that specifically target the bridal customer. These customers are highly motivated to learn about bridal offerings and, as a result, our efforts are directed towards key information points. This includes *The Knot* (internet), *Bride's* and *Modern Bride* (magazine) and franchise positions in the wedding section of *The New York Times* (newspaper).

Our focus on marketing provides us with a more thorough understanding of our customer, allowing us to both serve our customer better and refine our brand differentiation.



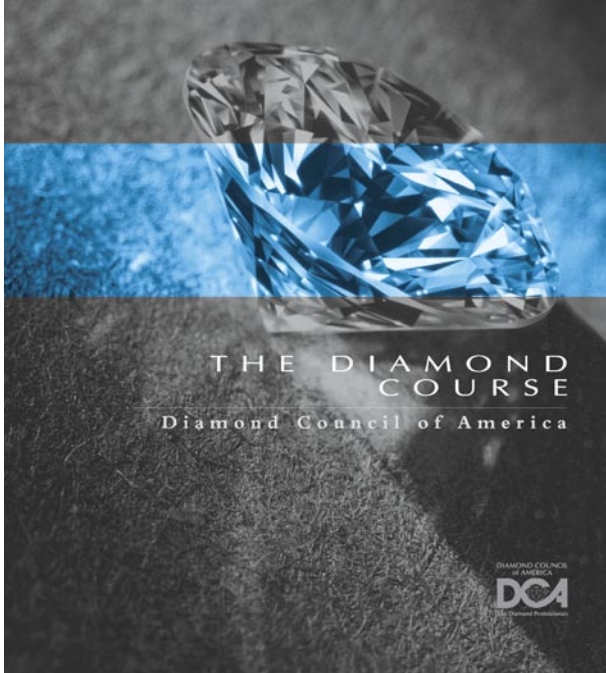
Zale's heritage is built on reaching its customers through marketing (circa 1950s).



Piercing Pagoda's in-store signage captures the latest jewelry fashion trends.

Create the Customer Experience

Exceeding Customer Expectations



Store employees are trained and certified in diamond and color gemstone product knowledge.



Our business is built on relationships, and exceeding customer expectations is critical to our future success. Our goal is to drive loyalty through an intentional and consistent customer experience. Through a focus on associate development, technology and store design, we intend to create a superior in-store experience for our customers.

It all starts and ends with our sales associates. Because of this crucial link, we continue to invest in the development of our associates, equipping them to better serve customers and increase productivity. We have established Centers of Excellence in Training and Recruiting to support our increased dedication in this area. Through a partnership with the Diamond Council of America, in fiscal year 2006 we will double the number of employees to 3,000 that are currently enrolled in or have already completed certification programs for diamond and color gemstone product knowledge. Our training program also focuses on developing successful leaders through effective communication skills, time management and team building. Additionally, we are expanding our leadership development programs for high potential sales associates and store managers as we look to successfully manage our growth.



Zale store associates have always been the Company's most valuable asset (circa 1950s).

We are making investments in our people that are both qualitative and quantitative. These include additional staffing hours, new positions such as office administrators in high performing stores and regional office coordinators, all in an effort to help us increase focus on the customer.

Technology investments in our “next generation store” are driving improvements to the customer experience and the bottom line. These investments will accelerate the checkout process through the use of better connectivity, touch screens, wireless checkout and electronic signature capture. Our philosophy is to make it simple on the associate who in turn makes it simple for the customer. The next generation store will provide the capability to deliver just-in-time-training to our store associates through online, interactive training programs. Our online training will monitor participation, completion and performance of our associates, enabling us to measure the effectiveness of our results. After being tested and measured, the rollouts of these next generation stores will begin.



Designer images are continuously streamed on this Bailey Banks & Biddle Z screen.

The “next generation store” includes technology enhancements designed to accelerate the checkout process.



We are also utilizing store design to enhance the customer experience. New designs are creating an inviting and comfortable shopping environment while communicating our style and quality message. We are also incorporating technology into our in-store marketing to educate our customer in a new and exciting way. By creating a setting that caters to the jewelry shopper, we are building a stronger brand identity and enhancing the shopping experience.

Maintaining an intense customer focus, Zale will not only sustain but also continue to grow the most recognizable brands in the industry for many years to come.

Supply Chain Innovation

From Product Development to the Customer



The Zale history as a vertically integrated diamond merchant dates back to the 1940s.

An effective supply chain is instrumental in delivering value to the customer. Our overall strategy is to deliver the right product to the right place at the right time for the best cost. We have identified opportunities to create more value for the customer within our supply chain by increasing direct sourcing across brands, improving quality and consistency of product and increasing inventory productivity.

With our ongoing direct diamond sourcing initiative, we are purchasing polished stones, as well as the mountings, and assembling basic diamond product. By building the direct sourcing infrastructure and establishing new relationships, we are creating a more consistent supply of diamond product. Our customers benefit from consistent quality because we hand pick every stone to our exact specifications. Also, in buying product closer to the source, we reduce our cost of inventory, which provides for additional investment in other areas of the business through margin expansion.

These reduced costs also give us the ability to sharpen our prices, driving revenue growth and market share improvement. Diamond sourcing has increased at all three brands in which it has been implemented. Our Peoples, Gordon's and Zales Outlet brands will source approximately 30% of their diamond product in fiscal year 2006. Additionally, in fiscal 2006 our Zales brand will begin direct sourcing a portion of its diamond merchandise as we continue the expansion of our sourcing program.

Our sourcing strategy includes direct importing basic gold and diamond finished product such as hearts and crosses from factories in Europe, Asia and the Middle East. We have established new business partners, eliminating layers in the supply chain and created substantial gross margin improvement. Our Piercing Pagoda brand has been effectively direct importing product, which reflects the significant opportunity for our other brands as we move forward.



Zale jewelers are experienced craftsmen who ensure consistent, quality product.

Merchandise Planning and Allocation is a key area of focus in our supply chain. We are concentrating on inventory productivity and sales forecasting to improve gross margins through a centralized replenishment function and system investments. Additionally, we are preparing to implement a new integrated merchandise system that will allow us to maximize our store and item volume opportunities. Additional expected benefits from our system investment are improved speed to market, increased efficiency, reduced maintenance costs and improved real time communication with our stores, our vendors and our customers. Our new system, which is planned for fiscal 2008, will also enable the corporation to convert to cost-based accounting, resulting in greater simplicity, visibility, accuracy and speed throughout the supply chain. Furthermore, the new system will support our move to a 4-5-4 retail calendar that will provide the ability to plan, forecast and report year over year figures on a more consistent basis.

Distribution is an important channel in the supply chain. We recently opened a Canadian distribution and assembly center that will optimize delivery to our Canadian stores as well as support our growing direct sourcing needs in Canada. As part of our long-term strategy, we will analyze our distribution needs to constantly improve productivity.

By managing each aspect of our supply chain, we increase our ability to merchandise more effectively and optimize our product flow.

Selected Financial Data

(Amounts in thousands, except per share amounts)	2005	2004	2003	2002	2001
Income Statement Data:					
Total revenue ^(a)	\$2,383,066	\$2,304,440	\$2,212,241	\$2,191,727	\$2,087,199
Costs and expenses					
Cost of sales	1,157,226	1,122,946	1,101,030	1,083,053	1,034,913
Special inventory charge ^(b)	—	—	—	—	25,236
Selling, general and administrative expenses ^(a)	982,113	942,796	884,069	873,265	818,205
Cost of insurance operations	6,084	5,963	8,228	8,620	5,589
Depreciation and amortization expense	59,840	56,381	55,690	58,340	58,290
Unusual items ^(c)	—	—	136,300	(1,202)	4,713
Operating earnings	177,803	176,354	26,924	169,651	140,253
Interest expense, net	7,725	7,528	6,319	7,750	6,857
Cost of early retirement of debt ^(d)	—	—	5,910	—	—
Earnings before income taxes	170,078	168,826	14,695	161,901	133,396
Income taxes	63,303	62,353	55,340	59,256	51,348
Earnings before effect of accounting change	106,775	106,473	(40,645)	102,645	82,048
Effect of accounting change	—	—	—	(41,287)	—
Net (loss) earnings	106,775	106,473	(40,645)	143,932	82,048
Earnings (loss) per diluted common share:					
Excludes unusual items, special inventory charge, debt retirement, and effect of accounting change	2.05	1.99	1.54	1.46	1.45
Includes unusual items, special inventory charge, debt retirement, and effect of accounting change	2.05	1.99	(.63)	2.07	1.18
Weighted average number of diluted common shares outstanding	51,975	53,519	64,528	69,692	69,502
Balance Sheet Data:					
Inventory	853,580	826,824	798,761	782,316	724,157
Property and equipment, net	282,033	266,688	266,167	284,438	296,413
Total assets	1,380,900	1,342,084	1,294,106	1,489,265	1,408,029
Total debt	129,800	197,500	184,400	86,749	109,463
Total stockholders' investment	817,588	726,114	652,323	939,807	840,563
Other Financial Data:					
Debt to equity	15.9%	27.2%	28.3%	9.2%	13.0%
Cash Flow Data:					
Net cash provided by operating activities	168,278	178,078	164,820	178,915	87,175
Net cash used in investing activities	(78,193)	(60,017)	(42,353)	(54,885)	(325,839)
Net cash used in financing activities	(99,975)	(90,693)	(172,475)	(68,387)	(33,976)
Free operating cash flow ^(e)	89,125	117,290	121,241	124,756	(481)
Net capital expenditures ^(f)	79,153	60,788	43,579	54,159	87,656
Selected Store Data:					
Beginning of period	2,234	2,234	2,295	2,344	1,389
Opened ^(g)	182	72	37	48	1,022
Closed	71	72	98	97	67
End of period	2,345	2,234	2,234	2,295	2,344
Renovated	164	160	137	135	145
Comparable sales ^(h)	0.3%	3.9%	0.8%	1.4%	(4.1)%

(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) Net capital expenditures includes addition to property and equipment and proceeds from the sales of fixed assets, including in 2005 the sale of an unused Piercing Pagoda warehouse.

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

(h) 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 and Chief Executive Officer

Sue E. Gove
Director
Executive Vice President and
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

Paul G. Leonard
Group Senior Vice President
President, Zales Jewelers

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

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

Gilbert P. Hollander
Senior Vice President
President, Piercing Pagoda

John A. Zimmermann
Senior Vice President
President, Peoples Jewelers

Nancy O. Skinner
Senior Vice President
President, Zales Outlet

E. Ashlee Aldridge
Senior Vice President
Chief Information Officer

Mary Ann Doran
Senior Vice President
Human Resources

Peter B. Feigenbaum
Senior Vice President
Upstream Supply Chain

Cynthia T. Gordon
Senior Vice President
Controller

Stephen C. Massanelli
Senior Vice President
Real Estate

Susann C. Mayo
Senior Vice President
Downstream Supply Chain

Hilary Molay
Senior Vice President
General Counsel and Secretary

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
Corporate Services

CORPORATE INFORMATION

Executive Offices
901 West Walnut Hill Lane
Irving, Texas 75038-1003
972-580-4000

Transfer Agent & Registrar
The Bank of New York
Shareholder Relations Department
P.O. Box 11258
New York, New York 10286
800-524-4458

**Investor Information/
Investor Relations**
901 West Walnut Hill Lane
Mail Station 5A-8
Irving, Texas 75038-1003
ir@zalecorp.com

**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, 2005.
The Company's Form 10-K and
Annual Report are available online
at www.zalecorp.com.

Internet Access
www.zalecorp.com

Notice of Annual Meeting
Zale Corporation's Annual Meeting of Shareholders will be held at 10 a.m.
Friday, November 11, 2005 at The Four Seasons Hotel located at 4150 North
MacArthur Boulevard, Irving, Texas 75038.

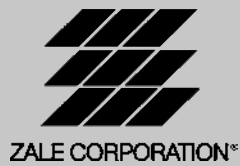
Common Stock Information
The Common Stock is listed on the NYSE under the symbol ZLC. The following
table sets forth the high and low sale prices for the Common Stock for each
fiscal quarter during the two most recent fiscal years. The prices set forth below
have been adjusted to give retroactive effect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

Quarter	2005		2004	
	High	Low	High	Low
First	\$29.17	\$24.59	\$26.03	\$22.05
Second	31.25	25.50	28.05	25.14
Third	30.96	26.15	31.30	26.85
Fourth	34.28	26.95	28.58	25.12

As of September 12, 2005, the outstanding shares of Common Stock were held
by approximately 720 holders of record.

Certifications Zale Corporation has filed the required certifications of its Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Company's Annual Report on Form 10-K for the year ended July 31, 2005. The certification of the Company's Chief Executive Officer regarding compliance with the New York Stock Exchange corporate governance listing standards required by NYSE Rule 303A.12 will be filed with the NYSE following the 2005 Annual Meeting of Stockholders. Last year, the Company filed this certification with the NYSE in November 2004 following the 2004 Annual Meeting of Stockholders.

Cautionary Notice Regarding Forward-Looking Statements This report contains forward-looking statements, including statements regarding the Company's sales and earnings, merchandising and marketing strategies, store remodeling, renovation and expansion, store closings, inventory management and performance, liquidity and cash flows, capital structure, capital expenditures, development of its information technology plan, e-commerce initiatives, human resources initiatives and other statements regarding the Company's plans and objectives. 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 results expressed in the forward-looking statements. These factors include, but are not limited to: if the general economy performs poorly; discretionary spending on goods that are, or are perceived to be, "luxuries" may not grow and may even decrease; the concentration of a substantial portion of the Company's sales in three, relatively brief selling seasons means that the Company's performance is more susceptible to disruptions; most of the Company's sales are of products that include diamonds, precious metals and other commodities, and fluctuations in the availability and pricing of commodities could impact the Company's ability to obtain and produce products at favorable prices; the Company's sales are dependent upon mall traffic; the Company operates in a highly competitive industry; changes in regulatory requirements or in the Company's private label credit card arrangement with Citibank U.S.A., N.A. may increase the cost of or adversely affect the Company's operations and its ability to provide consumer credit and write credit insurance; acquisitions involve special risks, including the possibility that the Company may not be able to integrate acquisitions into its existing operations. For other factors, see the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended July 31, 2005. 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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www.zalecorp.com