

ZALE CORPORATION
901 West Walnut Hill Lane
Irving, Texas 75038-1003

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On November 18, 2008

Notice is hereby given that the Annual Meeting of Stockholders (the "Annual Meeting") of Zale Corporation, a Delaware corporation (the "Company"), will be held on Tuesday, November 18, 2008, at 10:00 a.m., local time, at Zale Corporation Headquarters, 901 W. Walnut Hill Lane, Irving, Texas 75038, for the following purposes:

1. To elect nine directors for terms that will expire at the 2009 Annual Meeting of Stockholders;
2. To approve the material terms of the performance goals for performance-based compensation;
3. To approve an advisory proposal on the Company's executive pay-for-performance policies and procedures;
4. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2009; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on September 26, 2008, as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof. A list of such stockholders will be maintained at the Company's headquarters during the 10 day period prior to the date of the Annual Meeting and will be available for inspection during ordinary business hours by stockholders for any purpose germane to the Annual Meeting.

We hope you will be represented at the Annual Meeting by signing and returning the enclosed proxy card in the accompanying envelope as promptly as possible or by following the alternative voting procedures described on the proxy card, whether or not you expect to be present in person. Your vote is important and the Board of Directors appreciates the cooperation of stockholders in directing proxies to vote at the Annual Meeting.

Important Notice regarding the Accessibility of Proxy Materials for the Annual Meeting to be held on November 18, 2008. This Proxy Statement and 2008 Annual Report are available at www.proxyvote.com.

By Order of the Board of Directors,

Hilary Molay
Senior Vice President, General Counsel and Secretary

Irving, Texas
October 17, 2008

ZALE CORPORATION
901 West Walnut Hill Lane
Irving, Texas 75038-1003
(972) 580-4000

PROXY STATEMENT
October 17, 2008

General Information

This Proxy Statement is being furnished by the Board of Directors (the "Board of Directors") of Zale Corporation, a Delaware corporation (the "Company"), to the holders of shares of the common stock of the Company, par value \$.01 per share ("Common Stock"), in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Stockholders of the Company (the "Annual Meeting") to be held at Zale Corporation Headquarters, 901 W. Walnut Hill Lane, Irving, Texas 75038, at 10:00 a.m., local time, on Tuesday, November 18, 2008, and at any adjournments or postponements thereof.

A proxy may be revoked, prior to its exercise, by signing and delivering a later dated proxy, by submitting a later dated proxy by internet or telephone, by delivering written notice of the revocation of the proxy to the Secretary of the Company, or by attending and voting at the Annual Meeting.

Attendance at the Annual Meeting, in and of itself, will not constitute a revocation of a proxy. Unless previously revoked, the shares represented by a duly submitted proxy will be voted in accordance with the stockholder's directions. If no directions are specified in a duly submitted proxy, the shares will be voted **FOR** the election of the director nominees recommended by the Board of Directors, **FOR** the approval of the material terms for the performance goals for performance-based compensation, **FOR** the approval of the advisory proposal on the Company's executive pay-for-performance policies and procedures and **FOR** ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm. Shares represented by a duly submitted proxy will be voted in accordance with the discretion of the named proxies on any other matters properly brought before the Annual Meeting or any adjournments or postponements thereof.

The expense of preparing, printing and mailing this Proxy Statement and soliciting the proxies sought hereby will be borne by the Company. In addition to the use of the mail, proxies may be solicited by officers, directors and regular employees of the Company, who will not receive additional compensation for doing so, in person, by telephone, electronically or by facsimile transmission. The Company also will request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of Common Stock as of the record date for the Annual Meeting and will provide reimbursement for the cost of forwarding proxy materials in accordance with customary practice. Your cooperation in promptly signing and returning the enclosed proxy card, or in following the alternative voting procedures described on the proxy card, will help to avoid additional expense.

At September 26, 2008, the Company had 31,888,620 shares of Common Stock outstanding. Each share of Common Stock entitles the holder to one vote. Only stockholders of record at the close of business on September 26, 2008 are entitled to notice of, and to vote at, the Annual Meeting.

This Proxy Statement and the enclosed proxy card are first being mailed to stockholders on or about October 17, 2008.

VOTING REQUIREMENTS

Record Date and Voting Rights

In order for the Company to conduct the Annual Meeting, a majority of the outstanding shares of Common Stock as of September 26, 2008, must be represented in person or by proxy at the Annual Meeting. This is referred to as a quorum. Abstentions and broker non-votes will be counted for purposes of establishing a quorum. A “broker non-vote” occurs when a brokerage firm returns a signed proxy card but does not vote shares on a particular proposal because the proposal is not a routine matter and the brokerage firm has not received voting instructions from the beneficial owner of the shares.

Stockholders of record may vote by:

- Attending the Annual Meeting and casting a ballot;
- Logging onto the internet and following the instructions on their proxy card;
- Calling 1-800-690-6903 and following the instructions for voting; or
- Completing and mailing the enclosed proxy card.

Instructions for voting are included on the enclosed proxy card.

Required Vote

With regard to Proposal No. 1, the election of directors, votes may be cast for or votes may be withheld from each nominee. In order to elect directors, a majority of the votes is not required; instead, the nominees will be elected by a plurality of the votes cast, which means that the nominees receiving the most votes will be elected. Therefore, votes that are withheld will be excluded entirely from the vote and will have no effect. Abstentions may not be specified with respect to the election of directors and, under applicable Delaware law, broker non-votes will not be counted and will have no effect on the outcome of the election of directors.

With regard to Proposal No. 2, the proposal to approve the material terms of the performance goals for performance-based compensation, Proposal No. 3, the advisory proposal on the Company’s executive pay-for-performance policies and procedures, and Proposal No. 4, the ratification of the Company’s independent registered public accounting firm, votes may be cast for or against each matter, or stockholders may abstain from voting on one or more matters. Each proposal will be approved if the number of votes cast for approval of the particular proposal exceeds the number of votes cast against approval of the particular proposal. Abstentions and broker non-votes will be excluded from the tabulation of votes cast on these proposals and, therefore, will not affect the outcome of the vote on these proposals.

**OUTSTANDING VOTING SECURITIES OF THE COMPANY
AND PRINCIPAL HOLDERS THEREOF**

The following table sets forth information regarding beneficial ownership of Common Stock by (1) persons believed to beneficially own five percent (5%) or more of the outstanding shares of Common Stock, (2) each of the Company's directors, (3) each of the Company's executive officers named in the Summary Compensation Table below, and (4) the Company's directors and executive officers as a group. Ownership is as of September 26, 2008 unless otherwise indicated below. Except as noted below, the Company believes that each of the persons listed has sole investment and voting power with respect to the shares included in the table.

Name of Beneficial Owner	Shares of Common Stock(1)	Shares That May be Acquired Within 60 Days	Percent of Class
Five Percent Stockholders:			
Breeden Capital Management, LLC 100 Northfield Street Greenwich, CT 06830	8,070,839(2)	—	25.3%
First Pacific Advisors, Inc. 11400 West Olympic Boulevard Suite 1200 Los Angeles, CA 90064	5,131,700(3)(4)	—	16.1%
Franklin Resources Inc. One Parker Plaza Ninth Floor Fort Lee, NJ 07024	4,161,300(3)	—	13.0%
Cooke & Bieler, L.P. 1700 Market Street, Suite 3222 Philadelphia, PA 19103	3,466,297(3)(5)	—	10.9%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue 11 th Floor Santa Monica, CA 90401	3,162,959(3)	—	9.9%
Directors and Named Executive Officers:			
J. Glen Adams	30,644	30,700	*
Yuval Braverman	650	—	*
Richard C. Breeden	8,071,879(6)	—	25.3%
James M. Cotter	1,040	—	*
Neal L. Goldberg	11,000	—	*
John B. Lowe, Jr.	15,500	15,700	*
Thomas C. Shull	9,500	10,700	*
Charles M. Sonstebly	4,000	2,850	*
David M. Szymanski	4,500	15,700	*
Rodney Carter	5,000	51,250	*
Theo Killion	—	—	*
Steve Larkin	—	15,000	*
Gilbert P. Hollander	5,514	72,273	*
Betsy Burton(7)	—	—	*
Charles Fieramosca(7)	3,107	—	*
John Zimmermann(7)	4,000	—	*
Directors and Executive Officers As a Group (13 persons):	8,159,227	214,173	26.3%

* Represents less than one percent (1%)

- (1) Includes restricted shares of Common Stock as follows: each of J. Glen Adams, John B. Lowe, Jr., Thomas C. Shull, Charles M. Sonstebly, and David M. Szymanski—1,500 shares; Richard C. Breeden and James M. Cotter—1,040; and Yuval Braverman—650 shares. Messrs. Breeden and Cotter disclaim beneficial ownership of such shares. Under the governing documents of Breeden Partners and related investment funds, compensation received by Messrs. Breeden and Cotter for service as directors of the Company is turned over to the investment funds. Messrs. Breeden and Cotter have no interest in such compensation other than to the extent of their pro rata ownership interest in the investment funds. Does not reflect any unvested time-vesting or performance-based restricted stock units.
- (2) Based on information included in a Schedule 13D/A filed with the SEC on January 22, 2008 by Breeden Capital Management LLC ("BCM"), certain entities affiliated with BCM, including Breeden Capital Partners LLC, Breeden Partners L.P., Breeden Partners (California) L.P., Breeden Partners Holdco Ltd. and Breeden Partners (Cayman) Ltd., and Richard C. Breeden, the managing member of BCM. BCM has shared voting and shared disposition power with respect to all such shares.

- (3) Based on information contained in filings made by such stockholders with the Securities and Exchange Commission (“SEC”) on Schedule 13G, as adjusted to reflect information reported in each such stockholder’s June 30, 2008 Schedule 13F filing. Since this information in some instances predates share repurchases by the Company, and there may have been subsequent purchases or sales of securities, this information may not reflect the current holdings by these stockholders.
- (4) First Pacific Advisors, Inc. reported that it had shared voting power with respect to 1,843,900 shares and sole disposition power with respect to all shares.
- (5) Cooke & Bieler, L.P. reported that it had shared voting power with respect to 1,986,047 shares and shared disposition power with respect to all shares.
- (6) Richard C. Breeden is the managing member of Breeden Capital Partners LLC, managing member and Chairman and Chief Executive Officer of BCM and the Key Principal of Breeden Partners (Cayman) Ltd., and, as such, may be deemed to be the indirect beneficial owner of the shares of Common Stock owned by Breeden Partners L.P., Breeden Partners (California) L.P., Breeden Partners Holdco Ltd. and Breeden Partners (Cayman) Ltd.; however, he disclaims beneficial ownership of such shares except to the extent of his pecuniary interest.
- (7) Each of Ms. Burton and Messrs. Fieramosca and Zimmermann are former executive officers of the Company. Ownership of these former officers is not included in the total for directors and executive officers as a group.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Under the Company's Certificate of Incorporation and Bylaws, directors are elected annually by stockholders. The Certificate of Incorporation provides for a Board of Directors consisting of not less than seven directors and not more than nine directors, with the precise number to be set by the Board of Directors from time to time. Currently, the Board of Directors has set the number of directors at nine.

Action will be taken at the Annual Meeting for the election of nine directors, each of whom will serve until the 2009 Annual Meeting of Stockholders and until his or her successor is elected and qualified. Proxies may not be voted for more than nine directors.

The Board of Directors has no reason to believe that any of the nominees for director will not be available to stand for election as a director. However, if some unexpected occurrence should require the substitution of some other person or persons for any one or more of the nominees, the proxy cards may be voted for such substitute nominee or nominees as the Board of Directors may designate.

Information concerning each of the nine nominees standing for election to the Board of Directors pursuant to Proposal No. 1 is set forth below. All ages are as of August 1, 2008.

The Board of Directors recommends that stockholders vote "FOR" the election of each of the director nominees listed below.

J. Glen Adams, Age 69.

Mr. Adams has served as a director of the Company since July 21, 1993. From August 1990 to August 1996, Mr. Adams served as Chairman, President and Chief Executive Officer of Southmark Corporation, a real estate financing and syndication firm in Dallas, Texas. From 1986 to 1989, he served as Chairman, President and Chief Executive Officer of The Great Western Sugar Company.

Yuval Braverman, Age 52.

Mr. Braverman has served as a director of the Company since June 19, 2008. Since 1981 Mr. Braverman has been the president of J & J Zaidman Inc., a wholesaler of diamonds and other precious stones.

Richard C. Breeden, Age 58.

Mr. Breeden has served as a director of the Company since January 17, 2008. Mr. Breeden is the Chairman and Chief Executive Officer of Breeden Capital Management, LLC, the manager of a series of affiliated investment funds. Since 1996 he has also been Chairman of Richard C. Breeden & Co., LLC a professional services firm specializing in strategic consulting, financial restructuring and corporate governance advisory services. Mr. Breeden currently serves as the non-executive Chairman of the Board of H&R Block, Inc., and also as a director of Banco Bilbao Vizcaya Argentaria, S.A. and Steris Corporation. Mr. Breeden served as Chairman of the United States Securities & Exchange Commission from 1989-1993.

James M. Cotter, Age 66.

Mr. Cotter has served as a director of the Company since January 17, 2008. Mr. Cotter is a founding partner of Breeden Capital Management and is a Senior Managing Director of Richard C. Breeden & Co. Prior to joining Richard C. Breeden & Co. in 2005, Mr. Cotter was a senior partner and Vice Chairman of the law firm Simpson Thacher & Bartlett LLP. Mr. Cotter joined Simpson Thacher in 1971 and became a partner in 1975.

Neal Goldberg, Age 49.

Mr. Goldberg has served as a director of the Company and as Chief Executive Officer of the Company since December 20, 2007. Mr. Goldberg also served as President of the Company from December 20, 2007 to August 4, 2008. From January 2004 until December 2007, Mr. Goldberg was the President of The Children's Place Retail Stores, Inc., a leading specialty retailer of children's merchandise marketed under "The Children's Place" and "Disney Store" brands. From April 10, 2005 until December 8, 2006, he also was an Executive Vice President of Hoop Holdings, LLC, a subsidiary of The Children's Place Retail Stores, Inc., which in March 2008, subsequent to Mr. Goldberg's ending his affiliation, filed a bankruptcy petition. From September 2001 to October 2003 he was the President of The Gap Inc.'s Outlet Division, a distributor of clothing.

John B. Lowe, Jr., Age 69.

Mr. Lowe became Chairman of the Board of Directors on August 29, 2007, and has served as a director of the Company since March 5, 2004. Mr. Lowe served as Chairman and Chief Executive Officer of TDIndustries, a national mechanical/electrical/plumbing construction and facility service company from 1980 until January 1, 2005. He continues to serve as Chairman of TDIndustries. Mr. Lowe serves as the President of the Board of Trustees for the Dallas Independent School District. He is a director of Drew Industries Incorporated.

Thomas C. Shull, Age 56.

Mr. Shull has served as a director of the Company since August 26, 2004. Mr. Shull has served as Chief Executive Officer of Meridian Ventures, LLC, a venture management and turnaround firm, since its inception in December 1990. Mr. Shull served as Chairman of the Board of Directors of Wise Foods, Inc. from March 2005 through February 2008. He served as President and Chief Executive Officer of Wise Foods, Inc. from September 2004 to December 2006. Mr. Shull served as President and Chief Executive Officer and as a director of Hanover Direct, Inc., a retailer of branded merchandise through catalogs and e-commerce, from December 2000 through May 2004, where from January 2002 through May 2004, Mr. Shull also served as Chairman of the Board of Directors. From August 1997 to May 1998, he served as President of Barneys New York, a leading luxury retailer, and from May 1998 to May 1999 he served as President and Chief Executive Officer of Barneys New York.

Charles M. Sonsteby, Age 54.

Mr. Sonsteby has served as a director of the Company since November 15, 2006. Mr. Sonsteby is currently the Executive Vice President and Chief Financial Officer of Brinker International, a multi-billion dollar restaurant company. Mr. Sonsteby joined Brinker International in 1990 and served in various capacities until his promotion to Senior Vice President of Finance in 1997, a position he held until 2001, when he was elected to his current position. Earlier in his career, Mr. Sonsteby worked in the accounting and finance departments of WNS, Inc., Kwik Kopy Corp., Lifemark Corp., and Jerrico, Inc.

David M. Szymanski, Age 51.

Dr. Szymanski has served as a director of the Company since January 15, 2004. Dr. Szymanski is a member of the marketing department faculty of Texas A&M University where he served as the Director of the Center for Retailing Studies from July 2000 through April 2006. Dr. Szymanski has held senior positions at the University since 1987. Dr. Szymanski is presently a director of OfficeMax, Inc.

Other Information

No family relationships exist between any of our executive officers or directors.

CORPORATE GOVERNANCE

The Company has established corporate governance practices designed to serve the best interests of the Company and its stockholders. The Company is in compliance with the corporate governance requirements of the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange (“NYSE”). The Company will continue to review and modify its policies and procedures to ensure compliance with developing standards in the corporate governance area. The Company’s Corporate Governance Guidelines, Board of Directors Committee Charters and Code of Business Conduct and Ethics are available on the Company’s corporate web site at www.zalecorp.com under the heading “Corporate and Social Responsibility.” Any stockholder may request a printed copy of such documents by contacting Investor Relations at the following address: Zale Corporation, Investor Relations, 901 West Walnut Hill Lane, Irving, Texas, 75038-1003.

Set forth below is information regarding the composition and independence of the Board of Directors, the meetings of the Board of Directors during the fiscal year ended July 31, 2008 (“Fiscal Year 2008”), a description of the standing committees of the Board of Directors and additional highlights of the Company’s corporate governance policies and procedures.

Independence of Board of Directors

The NYSE listing standards require listed companies to have a board of directors with at least a majority of independent directors. The Company has, and has had for many years, a majority of independent directors. Under the Company’s Nominating and Corporate Governance Committee Charter, no nominees for initial election to the Board of Directors may be non-independent, other than the Chief Executive Officer and one additional executive officer.

No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company. In making the independence determination, the Board of Directors reviews and considers all commercial, consulting, legal, accounting, charitable or other business relationships that a director or his or her immediate family members may have with the Company. In addition, consistent with the rules of the NYSE, the Nominating and Corporate Governance Committee Charter, which is available on the Company’s corporate website as described above, provides that:

- A director who is an employee or whose immediate family member is an executive officer of the Company is not independent until three years after the end of such employment relationship.
- A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.
- A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former external auditor of the Company is not independent until three years after the end of the affiliation or the employment or auditing relationship.
- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company’s present executives serve on that company’s compensation committee is not independent until three years after the end of such service or the employment relationship.
- A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of

\$1 million or 2 percent (2%) of such other company's consolidated gross revenues, is not independent until three years after falling below such threshold.

In addition, in order to be independent for purposes of service on the Audit Committee, a director cannot receive any compensation from the Company (other than in his capacity as a director) and cannot be an "affiliate."

The Board of Directors has affirmatively determined that Messrs. Adams, Braverman, Lowe, Shull, Sonstebly, and Szymanski meet the categorical standards described above, have no material relationships with the Company and are independent under the Board of Directors' independence standards. The Board of Directors similarly has concluded that Messrs. Breeden and Cotter are independent for all purposes other than for service on the Audit Committee. Mr. Goldberg is not independent due to his present employment as an executive officer of the Company.

Committees and Meetings of the Board of Directors

Meetings of the Board of Directors. During Fiscal Year 2008, the Board of Directors met 26 times. No incumbent director attended fewer than 75 percent of the total number of meetings held by the Board of Directors and committees on which such director served during that period.

Board Committees. The standing committees of the Board of Directors are the Audit, Compensation, and Nominating and Corporate Governance Committees. In addition, the Board of Directors formed two additional non-standing committees which held 14 meetings during Fiscal Year 2008. The principal functions and the names of the directors currently serving as members of the Audit, Compensation, and Nominating and Corporate Governance Committees are set forth below. The Board of Directors has determined that each member of the Audit, Compensation, and Nominating and Corporate Governance Committees is an independent director under the rules of the NYSE with respect to such committees.

Audit Committee. The Audit Committee assists the Company's Board of Directors in fulfilling its oversight responsibilities with respect to the Company's financial matters. Under its charter, which is available on the Company's website at www.zalecorp.com under the heading "Corporate and Social Responsibility," the Audit Committee's principal responsibilities include:

- reviewing the financial reports and other financial information provided by the Company to any governmental or other regulatory body and monitoring any public distribution or other uses thereof;
- reviewing the annual independent audit of the Company's financial statements;
- reviewing the Company's systems of internal accounting and financial controls; and
- reviewing and monitoring the internal audit process and internal audit results.

The Audit Committee also reviews the Company's quarterly financial statements, is responsible for the selection, evaluation, retention and, if applicable, replacement from time to time of the Company's independent auditors, and establishes and maintains procedures for the receipt and treatment of accounting or auditing complaints or concerns, including providing for confidential reporting of such concerns by employees of the Company. The Audit Committee met 10 times during Fiscal Year 2008. J. Glen Adams, John B. Lowe, Jr. and Charles M. Sonstebly are the current members of the Audit Committee. Mr. Sonstebly is its Chairman. The Board of Directors has determined that each of J. Glen Adams and Charles M. Sonstebly qualifies as an "audit committee financial expert" under SEC regulations and that each member of the Audit Committee is financially literate under NYSE rules.

Compensation Committee. The Compensation Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to executive compensation and administration of compensation

plans. The Compensation Committee operates under a written charter, a copy of which is available on the Company's web site at www.zalecorp.com under the heading "Corporate and Social Responsibility." Under the Compensation Committee's written charter, the Committee's principal responsibilities include:

- monitoring compensation practices at other companies generally and in the retail industry in particular;
- establishing corporate goals and objectives with respect to compensation; and
- overseeing the Company's compensation-setting practices.

The Compensation Committee establishes the compensation of the Company's Chief Executive Officer, reviews and approves the compensation of all other officers, periodically reviews the status of director compensation, reviews and approves the adoption of equity-based and other incentive compensation plans, oversees, in consultation with appropriate Company officers, regulatory compliance with respect to compensation matters, and reviews and approves employment agreements with Company executive officers. In addition, the Compensation Committee administers the Company's stock incentive plans and its other incentive-based compensation plans. The Compensation Committee met 19 times during Fiscal Year 2008. Yuval Braverman, James M. Cotter, Thomas C. Shull, Charles M. Sonstebly and David M. Szymanski are the current members of the Compensation Committee. Mr. Cotter and Dr. Szymanski are its Co-Chairmen.

For a discussion of the Company's processes and procedures for the consideration of executive compensation, including the role of management and the Compensation Committee, and the use of compensation consultants, see "Compensation Discussion and Analysis" later in this Proxy Statement.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee assists the Board of Directors in developing corporate governance guidelines and in identifying qualified independent directors. The Nominating and Corporate Governance Committee operates under a written charter, a copy of which is available on the Company's web site at www.zalecorp.com under the heading "Corporate and Social Responsibility." Under the charter, the Committee's principal responsibilities include:

- identifying individuals qualified to become members of the Board of Directors and recommending candidates for election or reelection as directors;
- monitoring and recommending corporate governance and other board practices; and
- overseeing performance reviews of the Board of Directors, its committees and the individual members of the Board of Directors.

The Nominating and Corporate Governance Committee met six times during Fiscal Year 2008. J. Glen Adams, Richard C. Breeden, Thomas C. Shull and David M. Szymanski are the current members of the Nominating and Corporate Governance Committee. Messrs. Adams and Breeden are its Co-Chairmen.

Nominating Procedures. With respect to the Nominating and Corporate Governance Committee's evaluation of director nominee candidates, the Committee considers the guidelines set forth in the Committee's charter. The guidelines provide that:

- All candidates must be independent at the time of their initial election, other than the Company's Chief Executive Officer and up to one (1) additional executive officer;
- A majority of the directors should be active or retired senior executives (or the equivalent) of significant companies, educational institutions, governmental agencies, service providers or non-profit organizations. Directors may not be directors, consultants or employees of or to any direct competitor of the Company without prior approval of the Board of Directors;

- The Committee shall consider candidates’ other obligations and time commitments and their ability to attend meetings in person; and
- Interlocking directorships (a senior executive officer of the Company serves on the board of directors of or as a trustee of a company or institution that employs one or more of the Company’s directors) will not be allowed.

Beyond these guidelines, the Nominating and Corporate Governance Committee has no formal requirements or minimum standards for the individuals that it nominates. Rather, the Nominating and Corporate Governance Committee considers each candidate on his or her own merits. However, in evaluating candidates, there are a number of criteria that the Nominating and Corporate Governance Committee generally views as relevant and is likely to consider. Some of these factors include the candidates’:

- Career experience, particularly experience that is germane to our business, such as retail, legal, human resources, finance, marketing, and regulatory experience;
- Status as, or ability to qualify as, an “audit committee financial expert” (as defined by the SEC);
- Status as, or ability to qualify as, “financially literate” under NYSE rules;
- Experience in serving on other boards of directors or in the senior management of companies that have faced issues generally of the level of sophistication that the Company faces;
- Contribution to diversity of the Board of Directors;
- Integrity and reputation;
- Ability to work collegially with others;
- Academic credentials; and
- Current membership on the Company’s Board of Directors—our Board values continuity (but not entrenchment).

The Nominating and Corporate Governance Committee does not assign a particular weight to any individual factor. Similarly, the Nominating and Corporate Governance Committee does not expect to see all (or even more than a few) of these factors in any individual candidate. Rather, the Nominating and Corporate Governance Committee looks for a mix of factors that, when considered along with the experience and credentials of the other candidates and existing board members, will provide stockholders with a diverse and experienced Board of Directors.

With respect to the identification of nominee candidates, the Nominating and Corporate Governance Committee has not developed a formalized process. Instead, its members and the Company’s senior management generally recommend candidates of whom they are personally aware or whom they know by reputation. The Company historically has not utilized a recruiting firm to assist in the process but could do so in the future.

The Nominating and Corporate Governance Committee welcomes recommendations from stockholders. The Committee evaluates a candidate for director who was recommended by a stockholder in the same manner that the Committee evaluates a candidate recommended by other means. In order to make a recommendation, the Committee asks that a stockholder send the Committee:

- A resume for the candidate detailing the candidate’s work experience and academic credentials;
- Written confirmation from the candidate that he or she (1) would like to be considered as a candidate and would serve if nominated and elected, (2) consents to the disclosure of his or her name, (3) has read the Company’s Code of Business Conduct and Ethics and that during the prior three years has not engaged in any conduct that, had he or she been a director, would have violated

the Code or required a waiver, (4) is, or is not, “independent” as that term is defined in the Committee’s charter, and (5) has no plans to change or influence the control of the Company;

- The name of the recommending stockholder as it appears in the Company’s books, the number of shares of Common Stock owned by the stockholder and written confirmation that the stockholder consents to the disclosure of his or her name. (If the recommending person is not a stockholder of record, he or she should provide proof of share ownership);
- Personal and professional references for the candidate, including contact information; and
- Any other information relating to the candidate required to be disclosed in a proxy statement for election of directors under Regulation 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

This information should be sent to the Nominating and Corporate Governance Committee, c/o Hilary Molay, Secretary, 901 West Walnut Hill Lane, Irving, Texas 75038-1003, who will forward it to the Chairperson of the Committee. The Committee does not necessarily issue a written or telephonic reply to recommendations.

In addition to the procedures described above for recommending prospective nominees for consideration by the Nominating and Corporate Governance Committee for inclusion in the group of nominees on the Board of Directors’ proxy card, stockholders may directly nominate directors for consideration by stockholders at any annual meeting of stockholders. See “Stockholder Nomination of Director Candidates” later in this Proxy Statement for further information.

Each of the nominees for election as a director at the Annual Meeting was nominated by the Company’s Board of Directors.

Related Party Transactions

Under the Company’s written Corporate Governance Guidelines, the Company does not engage in transactions with directors or their affiliates if a transaction would cast into doubt the independence of a director, would present the appearance of a conflict of interest or is otherwise prohibited by law, rule or regulation. This prohibition includes significant business dealings with directors or their affiliates, and consulting contracts with, or other indirect forms of compensation to, a director. In addition, absent a waiver, the Company’s written Code of Business Conduct and Ethics prohibits any conduct by a director, officer or employee of the Company that has the potential to create a conflict of interest. Any waiver of these policies with respect to a director or executive officer may be made only by the Board or the Audit Committee and must be disclosed in an SEC filing on Form 8-K.

The Board of Directors does not believe that charitable contributions to organizations with which a director is affiliated raise the same governance issues and concerns as non-charitable transactions so long as such charitable contributions are (1) in an amount not exceeding \$25,000 per year, (2) made pursuant to a general corporate giving program established by the Company, approved by the Board and administered by disinterested officers appointed by the Board, or (3) pursuant to non-program contributions the facts of which are disclosed to the Board and approval of which is granted by the Board in accordance with the provisions of the General Corporation Law of the State of Delaware governing “interested director” transactions (currently, Section 144 thereof) as if such contributions were required to be so approved by the terms of the General Corporation Law of the State of Delaware.

During Fiscal Year 2008, the Company did not engage in any transactions involving a director or executive officer of the Company that would require disclosure under SEC rules and regulations or that required a waiver to the Company’s Corporate Governance Guidelines or Code of Business Conduct and Ethics.

Other Corporate Governance Policies

In addition to corporate governance matters described throughout this Proxy Statement, some other highlights of the Company's corporate governance policies and procedures are set forth below:

Corporate Governance Guidelines. The Board of Directors has adopted a set of Corporate Governance Guidelines that address a number of corporate governance matters, including director responsibilities, director qualifications, director compensation and evaluations, director orientation, management evaluation and succession and director access to management.

The Company's Corporate Governance Guidelines are in compliance with the rules of the NYSE, which require a listed Company to adopt corporate governance guidelines covering certain matters. The Nominating and Corporate Governance Committee reviews the Corporate Governance Guidelines on a regular basis and proposes any necessary additions, which are presented to the Board of Directors for its consideration and approval. The Company's Corporate Governance Guidelines are available on the Company's corporate web site at www.zalecorp.com under the heading "Corporate and Social Responsibility."

Separate and Independent Chairman. The Company has a Chairman of the Board of Directors who is separate from its Chief Executive Officer and whom the Board of Directors has determined to be independent.

Meetings of Non-Management Directors. The Company's non-management directors meet in executive session without management present at regularly scheduled Board of Directors meetings, with the Chairman of the Board of Directors presiding over such meetings.

Committee Authority to Retain Independent Advisors. Each of the Audit, Compensation and Nominating and Corporate Governance Committees has the authority to retain independent advisors and consultants, with all fees and expenses to be paid by the Company.

Whistleblower Procedures. The Audit Committee has established procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for confidential and anonymous submission of concerns regarding questionable accounting, internal accounting controls or auditing matters.

Disclosure Committee. The Company has established a Disclosure Committee composed of members of management to assist the Company in fulfilling its obligations to maintain disclosure controls and procedures and to coordinate and oversee the process of preparing the Company's periodic filings with the SEC.

No Executive Loans. The Company does not extend loans to executive officers or directors and has no such loans outstanding.

Director Attendance at Annual Meeting. When the Company holds a Board of Directors meeting in conjunction with its Annual Meeting, which is its practice, it expects all directors to attend the Annual Meeting. All members of the Board of Directors who were then serving as members of the Board of Directors attended last year's Annual Meeting.

Recoupment. It is the policy of the Board of Directors that in the event the Board of Directors determines that a current or former executive officer has engaged in negligence or fraudulent or intentional misconduct that has resulted in a significant restatement of the Company's financial results and, had the results been properly calculated, such executive officer would have received less compensation, that the Board of Directors has the authority to seek reimbursement of any portion of any performance-based or incentive compensation paid or awarded to such executive officer, whether cash or equity-based, in all years that is greater than would have been paid or awarded calculated based upon the restated financial results. Without limiting the foregoing, it is the policy of the Board of Directors to seek

recoupment in all instances where Section 304 of the Sarbanes-Oxley Act of 2002 requires the Company to seek recoupment. This policy does not limit the Company's entitlement to take other appropriate actions with respect to executive officers, up to and including their termination.

Communicating with the Board of Directors. Stockholders and other interested parties who wish to send communications to the Board of Directors, the non-management directors as a group, the Chairman or any other individual director may do so by writing to the Board of Directors and addressing the communication to the attention of Hilary Molay, Secretary, 901 West Walnut Hill Lane, Irving, Texas 75038-1003. With the exception of communications that are primarily commercial in nature, all communications directed to the Board or to specified directors will be relayed to them. The Board of Directors will not necessarily issue a written or telephonic reply to any communication.

COMPENSATION DISCUSSION AND ANALYSIS

Overview and Objectives

The Compensation Committee of the Board of Directors oversees the Company's compensation program for its executive officers. As part of this role, the Compensation Committee, acting together with any other independent directors who indicate that they would like to participate, establishes the Chief Executive Officer's compensation and reviews and approves the compensation of the other executive officers. In addition, the Compensation Committee administers the Company's incentive-based compensation plans for executive officers and approves any perquisites available to executive officers. The Compensation Committee acts under a written charter adopted by the Board of Directors that sets forth its responsibilities and the requirements for the Compensation Committee's composition and meetings. A copy of the charter is available on the Company's corporate web site at www.zalecorp.com under the heading "Corporate and Social Responsibility."

Under the oversight of the Compensation Committee, the Company has developed and implemented a pay-for-performance compensation program designed to reward executive performance and enhance stockholder value. These objectives are achieved primarily by providing a substantial portion of each executive officer's compensation through performance bonuses and equity-based compensation. In addition, the Company's compensation program is designed to:

- Provide compensation that will attract and retain superior talent and reward Company executives based upon Company and individual performance;
- Align the executive's financial interests with the success of the Company by placing a substantial portion of pay at risk (i.e., payout that is dependent upon Company and individual performance);
- Support a performance oriented environment;
- Foster commonality of interest between executives and stockholders through the use of equity-based incentives and by encouraging executive stock ownership;
- Provide a strategic balance among short-term and long-term compensation such that it encourages a balanced perspective on the part of the executive between short-term profit goals and long-term value creation; and
- Maximize the financial efficiency of the compensation program to the Company from cash flow, tax, accounting and share dilution perspectives.

When we do not achieve targeted performance levels and/or our stock does not appreciate, compensation that can be realized by our executives is reduced. When we exceed targeted performance levels and/or our stock price appreciates, compensation that can be realized by our executives is increased.

Components of the Company's Executive Compensation Program

Primary Components. The Company's executive compensation program consists of three primary components consistent with the objectives described above:

- Base salary;
- The potential for annual cash incentive compensation in the form of performance bonuses; and
- Long-term incentive compensation in the form of stock options and other equity-based awards, including time-vesting and performance-based restricted stock units.

We have chosen these elements because we believe each supports achievement of one or more of our compensation objectives, and that together they have been and will continue to be effective in these regards. The compensation program does not generally utilize indirect benefits such as perquisites.

A more detailed discussion of each of these components is set forth below.

Role and Use of Compensation Consultants. Frederic W. Cook & Co. (“Frederic Cook”) was engaged in Fiscal Year 2008 by the Compensation Committee to provide advice on executive compensation. The Compensation Committee selected and engaged Frederic Cook. Frederic Cook does not provide any other services to the Company and works with management only under the direction of the Committee.

Hay Group Management Limited (“Hay”) was engaged in Fiscal Year 2008 by the Company’s management to provide data on competitive compensation levels. Management selected Hay based, in part, on the companies available in the Hay database. The Compensation Committee approved of Hay’s appointment to provide competitive data.

To assist in the establishment of compensation levels, Hay provided compensation data for a peer group of companies that were similar to the Company in terms of industry, complexity, location, and competitiveness vis-à-vis the Company for customers and employees, among other factors. The data for these companies generally was “size-adjusted” using linear regression based on annual revenue in order to provide more meaningful comparisons. For Fiscal Year 2008, the peer group included 24 companies consisting primarily of specialty retailers (including one specialty jewelry retailer) with annual revenues ranging from \$500 million to \$20 billion. These companies were selected by the Compensation Committee and consist of the following:

Abercrombie & Fitch	Helzberg Diamonds	Pacific Sunwear
Aeropostale, Inc.	J. Crew	Payless ShoeSource
American Eagle Outfitters	J. C. Penney	PetSmart
AnnTaylor Stores	Kohl’s	Pier 1 Imports
Bon-Ton Stores	Limited Brands	RadioShack
Chico’s	Michaels Stores	Stage Stores
Children’s Place	Neiman Marcus Group	Tween Brands
Gap	New York & Company	Williams-Sonoma

In Fiscal Year 2007 the Compensation Committee used a peer group of 16 companies that included six of the companies listed above. The changes from Fiscal Year 2007 reflect (1) a substantially greater focus on companies that compete for employees and customers, and (2) the retention of Hay, which maintains a more extensive database of companies than previously was available to the Company. The Compensation Committee reviews and approves the composition of the peer group annually to ensure that it continues to comprise an appropriate representative group of companies.

Target Level Compensation. An essential objective of the Compensation Committee is to maintain a competitive executive compensation program that allows the Company to attract and retain executive officers who will achieve the Company’s strategic objectives and that aligns the interests of such officers with those of the Company’s stockholders through an appropriate pay-for-performance structure. In furtherance of this objective, the Compensation Committee has established an executive compensation program that provides a broad mix of overall direct compensation (salary, annual cash bonus and long-term incentive compensation) for its executive officers.

The overall philosophy in making compensation decisions for Fiscal Year 2008 was to provide a greater portion of the compensation, relative to the peer group, in the form of performance-based compensation, i.e., to more heavily focus on pay-for-performance than the average peer. Accordingly, base salaries generally were targeted at the 25th percentile of market, performance-based bonuses were targeted between the 25th and 50th percentile of market, and total direct compensation, which includes these two items plus the grant date fair value of equity-based awards, was targeted between the 50th and 75th percentile of market.

The Compensation Committee uses the competitive data from the peer group as an indication of market practice but recognizes that additional factors also must be considered. As such, actual target compensation for the Company's executive officers may vary from the targeted percentile based on a variety of factors, such as experience and time in the job, the degree of difficulty in replacing the executive, the importance of each position to the Company and internal peer comparisons, individual performance (based on specific financial and operating objectives for each executive, as well as leadership behaviors), the readiness of each executive to assume a higher level of responsibility within the Company, and compensation by former employers in the case of new hires. The Compensation Committee also takes into account the annual performance reviews that it conducts of the Chief Executive Officer and that the Chief Executive Officer and other members of senior management conduct of the other executive officers.

The Compensation Committee also considers management's recommendations and advice from the Committee's compensation consultant, Frederic Cook. Significant weight is placed on the recommendations of the Chief Executive Officer for compensation other than his own. The Chief Executive Officer evaluates each executive and makes recommendations about the structure of the compensation program and individual arrangements to the Committee.

With respect to Fiscal Year 2008, the target level compensation of the Chief Executive Officer was established by the Compensation Committee in connection with the negotiation of his employment. The target level total direct compensation of each other named executive officer was recommended by the Chief Executive Officer for Compensation Committee consideration and approval. For Fiscal Year 2008, the target level of total direct compensation for each of the named executive officers was below the indicated median target level.

Allocation Among Components. In determining the mix of overall compensation, the Company generally increases the portion delivered through variable incentives, and long-term equity-based incentives in particular, so that executives with the highest levels of responsibility who are most accountable to stockholders have the greatest amount of total compensation at risk. In determining the actual allocation, the Compensation Committee considered the market data and had discussions with Hay and Frederic Cook regarding the market data to develop an appropriate balance of annual base salary, annual incentive compensation and long-term incentive compensation.

The Compensation Committee does not directly consider the amounts realized or realizable from prior incentive compensation awards in establishing the levels of short-term and long-term incentive compensation. This is in part due to several changes in the management team and the fact that no executive officer holds a significant amount of Company securities. In addition, the Compensation Committee does not want to discourage executive officers from accumulating Company securities out of concern that their accumulation might negatively impact future awards. Consistent with this objective, in Fiscal Year 2008 the Compensation Committee implemented executive stock ownership guidelines to encourage additional ownership. These guidelines encourage executive officers to own or acquire Company stock equal in value to a multiple of their base salaries, ranging from two times in the case of a corporate Senior Vice President to five times in the case of the Chief Executive Officer, within a period of five years.

Executive Employment Arrangements. The Company entered into an employment agreement with Mr. Goldberg in connection with his appointment as President and Chief Executive Officer effective as of December 2007. In addition, the Company entered into an offer letter with Mr. Killion with respect to his Fiscal Year 2008 compensation when he joined the Company in January 2008. Mr. Goldberg's employment agreement has a three-year term that automatically renews each year unless the Company or Mr. Goldberg elects otherwise 90 days prior to the then-scheduled end of the term. Under the terms of Mr. Goldberg's employment agreement, he is entitled to receive an annual base salary of not less than \$925,000 per year and a target level bonus opportunity equal to 125% of his annual base salary. In addition, during the first year of his employment only, the Company guaranteed Mr. Goldberg that his bonus payment would not be

less than his target level bonus amount. Mr. Goldberg also received an \$800,000 relocation and signing bonus and grants of stock options and time-vesting restricted stock units as described below under “Long-Term Incentive Compensation,” and is entitled to termination of employment benefits as described below under “Severance and Change in Control Benefits.” Under Mr. Killion’s offer letter, he is entitled to receive an annual base salary equal to \$550,000 for Fiscal Year 2008, a target level bonus opportunity of 75% of his annual base salary, specified grants of stock options and time-vesting restricted stock units for Fiscal Year 2008 and certain termination of employment benefits. The offer letter also provided for a one-time signing bonus of \$375,000 and a guaranty that he would receive at least 50% of his target bonus for Fiscal Year 2008.

In negotiating the employment agreement with Mr. Goldberg, the Compensation Committee was assisted by outside legal counsel and considered relevant market data provided by Hay and the advice of Frederic Cook. In determining the appropriateness of the compensation payable to Messrs. Goldberg and Killion under their respective arrangements, the Compensation Committee considered a number of factors, including the experience of each officer and the Company’s desire to obtain the services of officers of the caliber and experience of Messrs. Goldberg and Killion. The Compensation Committee’s objective was to align the overall direct compensation, including incentive compensation, of each of Messrs. Goldberg and Killion with the median of the peer group as described above and to provide a substantial portion of such compensation in the form of performance-based compensation. Under the terms of Mr. Goldberg’s employment agreement, more than 50% of his target overall direct compensation will be comprised of performance-based compensation subsequent to Fiscal Year 2008. Under the terms of Mr. Killion’s offer letter, more than 50% of his target overall direct compensation is in the form of performance-based compensation.

As a general matter, the Company does not intend to enter into employment agreements with its executive officers other than the Chief Executive Officer in the future. Instead, the Company will use employment security agreements for executive officers that will provide for severance benefits in the event of a termination of employment, including a termination of employment in connection with a change in control. See “Severance and Change in Control Benefits” below for a discussion of the terms of the employment security agreements. The Company’s expectation is that by using standardized forms of employment security agreements, it can achieve a consistent employment package for its executive officers while maintaining the ability to make changes when determined to be necessary. All such agreements require Compensation Committee approval.

Annual Base Salary

The Company provides each executive officer with a fixed level of annual compensation through the annual base salary component of the Company’s executive compensation program. It is the Compensation Committee’s objective to maintain base salaries that are approximately aligned with the 25th percentile of the Company’s peer group, support the objective of attracting and retaining high quality executives and result in an affordable level of fixed expense relative to peer companies. Actual individual salaries range around the 25th percentile based on each individual executive officer’s experience, responsibility, performance, and other factors considered by the Compensation Committee, as described earlier. The Compensation Committee monitors the salaries of all executive officers annually and makes adjustments it deems necessary and appropriate in support of its various objectives. An annual performance review of each executive officer is utilized as part of this process.

With respect to Messrs. Carter and Hollander, the Compensation Committee approved annual base salaries of \$435,000 and \$400,000, respectively, for Fiscal Year 2008. These adjusted base salaries were recommended by the then current Chief Executive Officer and represented an increase of 16.7% for Mr. Carter and an increase of 23.9% for Mr. Hollander over Fiscal Year 2007 base salaries. The Fiscal Year 2007 base salaries had been adjusted upward to include certain perquisites that had been eliminated in Fiscal Year 2007. The increase in Mr. Carter’s annual base salary related to his assumption of substantial

additional responsibilities as Chief Administrative Officer and the need to appropriately reward him for these enhanced duties. The increase to Mr. Hollander was made in connection with his promotion to Executive Vice President and Chief Sourcing and Supply Chain Officer in September 2007.

Mr. Larkin’s annual base salary for Fiscal Year 2008 was initially set at \$275,000, which represented a 10% increase over his Fiscal Year 2007 annual base salary. The increase in Mr. Larkin’s annual base salary represented an annual merit increase. In February 2008, Mr. Larkin’s annual base salary was increased to \$300,000 in connection with his assumption of responsibility for the Company’s marketing function. In June 2008, Mr. Larkin’s base salary was increased to \$340,000 in conjunction with his promotion to Executive Vice President.

Annual Performance Bonus

The Company provides annual incentive compensation through the Company’s bonus plan. For Fiscal Year 2008, approximately 365 employees participated in the bonus plan, including all of the named executive officers. The Company provides annual incentive compensation to focus management on the achievement of short-term performance goals that are designed to enhance stockholder value. As discussed previously, the performance-based bonus opportunities for the executive officers generally are targeted at between the 25th percentile and the 50th percentile of market.

The bonus opportunity for Fiscal Year 2008 for participating employees at or above the level of Senior Vice President (including Messrs. Goldberg, Killion and Carter) was based 100% on the Company’s consolidated net income. For participating employees below the level of Senior Vice President, and in prior years for some more senior participants with specific responsibility for a brand’s performance, the bonus opportunity was based 50% on the Company’s consolidated net income and 50% on brand performance.

Under the plan, a target level bonus opportunity is established for each participating employee. Target level bonus opportunities for the named executive officers for Fiscal Year 2008 are set forth below and ranged from 37.5% of base salary to 125% of base salary. Depending on actual performance, participating employees may receive no bonus payout if threshold level goals are not achieved or as much as two times the target level if the goals are significantly exceeded. The Compensation Committee and the Board of Directors, in their sole discretion, may adjust the amount and timing of bonus payments under the bonus plan to address special or unusual circumstances, such as a change in accounting principles or an unexpected event that significantly impacts the Company’s operations. To the extent that adjustments are made after-the-fact, they can impact the tax deductibility of bonus payments under Section 162(m) of the Internal Revenue Code, and the Compensation Committee takes this into account in exercising its discretion. The Compensation Committee did not exercise such discretion for the named executive officers in Fiscal Year 2008, except as described below.

Fiscal Year 2008 Target Level Bonus Opportunities. For Fiscal Year 2008, the target level bonus opportunity for each named executive officer was as follows:

<u>Executive Officer</u>	<u>Target Bonus as a Percentage of Base Salary</u>
Mr. Goldberg	125%
Mr. Killion	75%
Mr. Carter	60%
Mr. Hollander	60%
Mr. Larkin	37.5%

The target level bonus opportunities for Messrs. Goldberg and Killion were based on the terms of their respective employment agreement or offer letter. The remaining target levels were established by the

Compensation Committee based upon the recommendations of the Chief Executive Officer. In addition, under the terms of his employment agreement, Mr. Goldberg was entitled to receive an Annual Company Performance Bonus during the first year of his employment of not less than his full target level bonus amount, and under the terms of his offer letter, Mr. Killion was entitled to receive an Annual Company Performance Bonus for Fiscal Year 2008 of not less than 50% of his full target level bonus amount.

Fiscal Year 2008 Performance Goals. Under the bonus plan, the Compensation Committee establishes consolidated net income and brand operating earnings goals for the Annual Company Performance Bonus at the beginning of each fiscal year. For Fiscal Year 2008, the Compensation Committee established the following performance goals for consolidated net income:

	Threshold (Payout of Bonus at 0.5 times Target)	Target (Payout of Bonus at Target)	Stretch (Payout of Bonus at 2.0 Times Target)
Consolidated Net Income	\$35.0 million	\$43.7 million	\$60.9 million

The goals for consolidated net income for Fiscal Year 2008 were lower than the goals for Fiscal Year 2007 because of a reduction in the Company’s planned performance for Fiscal Year 2008.

Fiscal Year 2008 Performance. With respect to each of the current named executive officers, the bonus opportunity for Fiscal Year 2008 was based 100% on consolidated net income performance. The Company’s consolidated net income for Fiscal Year 2008, as adjusted to reflect the impact of accounting changes related to lifetime warranties and for other unusual items, was below the threshold payout goal, and no executive officers received a bonus based upon consolidated net income. However, Mr. Goldberg (based on the terms of his employment agreement) and Mr. Killion (based on the terms of his offer letter) received Annual Company Performance Bonuses equal to 100% and 50%, respectively, of their target level awards pro rated based upon the length of their employment with the Company.

Quarterly Comparable Store Sales Bonus. Until Fiscal Year 2008, the Company’s bonus plan also provided for an additional incremental bonus based on quarterly comparable store sales growth. The Compensation Committee concluded that this program was not cost effective for senior executives and terminated the program for everyone at or above the level of Senior Vice President at the beginning of Fiscal Year 2008.

Long-Term Incentive Compensation

Long-term incentive awards are granted under the Zale Corporation 2003 Stock Incentive Plan (the “2003 Incentive Plan”), which provides for the grant of stock options, stock appreciation rights, restricted stock, time-vesting and performance-based restricted stock and restricted stock units, stock bonuses and phantom stock. Prior to 2005, the Company primarily provided long-term incentive compensation in the form of stock options and time-vesting restricted stock. Since 2005, the Company has provided its executive officers and other key employees with three forms of long-term incentive compensation under the plan: (1) stock options; (2) performance-based restricted stock units; and (3) time-vesting restricted stock units.

The Compensation Committee believes the Company’s three-part approach to long-term incentive compensation provides an appropriately broad array of long-term incentives that aligns the interests of the executive officers with those of stockholders and supports the Company’s attraction/retention and financial efficiency objectives. Since an executive officer will benefit from a stock option award only to the extent the Company’s stock price appreciates above the exercise price of the stock option, stock options align the interests of the executive officers and ensure that executives capture gains only to the extent that shareholder value has appreciated. The performance-based units are designed to focus management on the achievement of specific goals over a three-year performance period, which correlates controllable operating performance and payouts to executives. Costs associated with the performance-based units are

incurred only to the extent that the threshold performance goals are attained, which supports the objective of ensuring financial efficiency in the overall compensation program. Time-based restricted stock, which vests over three years, serves the dual objectives of aligning the executive's interests with stockholders by creating an immediate ownership interest and attracting and retaining highly skilled executives. The retention objective is further supported through the vesting schedules in both the stock option awards and performance-based units, which vest over four- and three-year periods, respectively.

In considering the specific allocation between the various elements of long-term incentive compensation for Fiscal Year 2008, the Compensation Committee analyzed market data with respect to the allocation of various types of long-term incentive compensation. The Compensation Committee also balanced the cost, performance and retention attributes of each type of award as described above. For Messrs. Goldberg and Killion, each of their respective employment arrangements provided for specific long-term incentive compensation awards for Fiscal Year 2008. Overall, the Compensation Committee established the awards at levels designed to place Messrs. Goldberg and Killion at between the 50th percentile and the 75th percentile of market with respect to total direct compensation.

In general, the Compensation Committee makes long-term incentive compensation awards annually in connection with its evaluation of the Company's executive officers. The Compensation Committee meets at the beginning of the fiscal year (on November 14, 2007 for Fiscal Year 2008) and makes annual grants of stock options, performance-based restricted stock units and time-vesting restricted stock units. The exercise price for such stock option awards is based on the closing price of the Company Common Stock on the date of such meeting. In addition, the Compensation Committee also generally makes long-term incentive compensation awards to executive officers at the time of their employment or promotion.

Stock Options. For Fiscal Year 2008, stock option awards were made to 48 of the Company's employees covering an aggregate of 1,206,300 shares of Common Stock. Options were granted with an exercise price equal to the fair market value of the shares of Common Stock at the close of market on the grant date. The Compensation Committee believes that the use of close of business on the date of grant represents a best practice and is consistent with the recently adopted SEC executive compensation reporting requirements with respect to the grant of stock options. All options granted have a maximum term of ten years, and become exercisable in equal increments of 25 percent per year beginning one year from the grant date. Stock options automatically vest upon a change in control. See "Potential Payments upon a Termination or Change in Control" later in this Proxy Statement.

Under the terms of their respective employment arrangements, Messrs. Goldberg and Killion received 300,000 stock options and 100,000 stock options, respectively, for Fiscal Year 2008. For Fiscal Year 2008, Mr. Carter received 55,000 stock options, Mr. Hollander received 55,000 stock options and Mr. Larkin received 20,000 stock options. See "Grants of Plan-Based Awards Made in Fiscal Year 2008" below for information regarding the grant date fair value of these awards.

Time-Vesting and Performance-Based Restricted Stock Units. In Fiscal Year 2008, the Company granted an aggregate of 514,100 time-vesting restricted stock units to 162 employees, including all of the named executive officers. Restricted stock units were granted only to members of management. These grants were consistent with the Compensation Committee's philosophy of increasing the portion of compensation that is subject to risk for those members of management with the highest levels of responsibility and accountability to the Company's stockholders.

Time-Vesting Units. The time-vesting restricted stock units granted in Fiscal Year 2008 to the named executive officers other than Mr. Goldberg vest as to 25% of the shares covered thereby after two years, as to an additional 25% of the shares covered thereby after three years, and as to the remainder after four years. Mr. Goldberg's time-vesting restricted stock units vest as to one-third of the shares covered thereby on each of the first three anniversaries of his employment. Time-vesting restricted stock units automatically

vest upon a change in control. See “Potential Payments upon a Termination or Change in Control” later in this Proxy Statement. Upon vesting, an employee is entitled to receive one share of Common Stock for each vested unit. At the election of the Company, recipients may receive a cash payout in lieu of shares of the Common Stock.

Performance-Based Units. Although it is the Compensation Committee’s intent is to utilize performance-based restricted stock units as a component of long-term incentive compensation, for Fiscal Year 2008, the Compensation Committee decided not to make any grants of performance-based restricted stock units. This decision reflected the recognition at the time of awards that the Company was, and was likely to continue to be for several months, in a state of transition due to the sale of Bailey Banks & Biddle and various management changes and other initiatives, and that it was, at the time of the annual grants, difficult to establish meaningful multi-year performance goals. The Compensation Committee has determined to use performance-based restricted stock units for Fiscal Year 2009.

Units Granted in Fiscal Year 2008. Under the terms of their respective employment arrangements, Mr. Goldberg received 250,000 time-vesting restricted stock units and Mr. Killion received 30,000 time-vesting restricted stock units, respectively, for Fiscal Year 2008.

In Fiscal Year 2007, the Compensation Committee approved the time-vesting and performance-based restricted stock unit awards to be granted to Messrs. Carter, Hollander and Larkin for Fiscal Year 2008. In approving the size of these awards, the Compensation Committee considered the objectives described above and the estimated value of the award based on the then current price of the Company’s common stock. The Compensation Committee also considered the need to provide comparable awards to executive officers serving in comparable positions within the Company. As a general matter, the Compensation Committee has granted an equal number of time-vesting and performance-based restricted stock units as part of the annual award, although as described above, the Compensation Committee did not grant any performance-based restricted stock units in Fiscal Year 2008. For Fiscal Year 2008, Mr. Carter received 6,000 time-vesting restricted stock units, Mr. Hollander received 6,000 time-vesting restricted stock units and Mr. Larkin received 2,000 time-vesting restricted stock units.

Other Benefits

The Company’s executive compensation program is substantially free of perquisites. In Fiscal Year 2007 the Company eliminated executive physicals and the Medical Executive Reimbursement Plan (“MERP”). In addition, in the Company eliminated executive financial planning in Fiscal Year 2008 and is in the process of phasing out its executive automobile lease program. The MERP was replaced, and the automobile program is being replaced, with a one-time corresponding adjustment to base salary. The Company continues to provide executive officers with enhanced group life insurance.

For a more detailed discussion of employee benefits and perquisites made available to the Company’s named executive officers in Fiscal Year 2008, please refer to the footnotes following the Summary Compensation Table below.

Severance and Change in Control Benefits

Mr. Goldberg’s employment agreement provides for various benefits in the event that his employment is terminated under certain circumstances. In the event that his employment is terminated by non-renewal, without cause or for a “termination reason,” Mr. Goldberg is entitled to receive the sum of two times his base salary on the date of termination and two times his average annual incentive bonus earned by him with respect to the prior three fiscal years or such shorter period his agreement is in effect. He also is entitled to receive fringe and other benefits for a period of 24 months. If within two years following a “change of control” Mr. Goldberg terminates his employment for “good reason” or the Company terminates Mr. Goldberg’s employment for any reason other than for “cause,” Mr. Goldberg is entitled to receive the sum of three times his base salary on the date of termination and three times the average

annual incentive bonus paid to him over the prior three years or such shorter period his agreement is in effect. Also in connection with a “change of control” related termination, he is entitled to receive fringe and other benefits for 36 months and all unvested restricted stock or units and stock options will be immediately vested. In addition, Mr. Goldberg’s employment agreement provides for a gross-up payment in connection with any “golden parachute” tax imposed under Section 4999 of the Internal Revenue Code or any additional tax, penalties or interest assessed under Section 409A of the Internal Revenue Code.

Each of the other executive officers is party to an employment security agreement. Employment security agreements provide for benefits similar to those received by Mr. Goldberg, but at reduced levels.

This system of employment security agreements was implemented in Fiscal Year 2008 to replace the Company’s previous severance plan and change in control agreements. See “Potential Payments Upon Termination or Change in Control” later in this Proxy Statement.

For a more detailed discussion of the benefits and tables that describe payouts under various termination scenarios, including in connection with a change in control, see “Potential Payments upon a Termination or Change in Control” later in this Proxy Statement.

Termination of Supplemental Executive Retirement Plan

In Fiscal Year 2007, the Company terminated its supplemental executive retirement plan. The class of executives who were eligible to participate in the plan included vice presidents, brand senior vice presidents and all higher offices. The Compensation Committee concluded that the plan was not providing a cost effective incentive to participants. In connection with the termination, current balances under the plan were distributed as cash payments to participating employees in early 2008. No current named executive officer had accrued significant benefits under the plan.

Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code prevents publicly held corporations, including the Company, from taking a tax deduction for compensation paid to a “covered employee” in a taxable year to the extent that the compensation exceeds \$1 million and is not qualified performance-based compensation under the Internal Revenue Code. Generally, covered employees are the executive officers named in the Summary Compensation Table, other than the chief financial officer. The 2003 Incentive Plan and the Company’s executive bonus plan have been designed to meet Internal Revenue Code regulations so that compensation realized in connection with stock options and other performance-based equity incentives granted under the 2003 Incentive Plan and bonuses under the executive bonus plan generally will be excluded from the deduction limit; however, a portion of Mr. Goldberg’s bonus for Fiscal Year 2008 was guaranteed, and the portion of his combined bonus and salary that exceeds \$1 million will not qualify for income tax deductibility. Moreover, the Compensation Committee believes that, in order to attract, retain and reward the executive talent necessary to maximize stockholder returns, the Company’s interests are best served in some circumstances by providing compensation that is subject to the deductibility limitation imposed by Section 162(m). Accordingly, the Compensation Committee retains the discretion to authorize compensation that does not qualify for income tax deductibility. In Fiscal Year 2008, the Company issued shares of restricted stock that, depending on the timing of vesting, may not qualify for income tax deductibility. Except as described above, option grants and cash bonuses made during Fiscal Year 2008 were designed to be excluded from the deduction limits.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K.

Members of the Committee:

James M. Cotter, Co-Chairman
David M. Szymanski, Co-Chairman
Yuval Braverman
Thomas C. Shull
Charles M. Sonsteby

The information contained in the Compensation Committee Report shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, except to the extent that the Company specifically incorporates it by reference in such filing.

EXECUTIVE COMPENSATION

Summary Compensation Table

The Summary Compensation Table shows the amount and type of compensation received or earned in fiscal years 2007 and 2008 for the Chief Executive Officer, Chief Financial Officer and the next three most highly-compensated executive officers of the Company. The chart also includes Mary Elizabeth Burton, Charlie Fieramosca and John Zimmermann, each of whom is a former officer. Collectively, these officers are referred to as the “named executive officers.”

Name and Principal Position	Year	Salary	Bonus	Stock Awards(4)	Option Awards(4)	Non-Equity Incentive Plan Compensation(5)	All Other Compensation(6)	Total
Neal L. Goldberg Chief Executive Officer	2008	\$572,788	\$1,378,125(2)	\$829,136	\$231,281	\$ —	\$ 30,380	\$3,041,710
Rodney Carter Executive Vice President, Chief Administrative Officer and Chief Financial Officer	2008	\$444,548	\$ —	\$ 80,317	\$250,704	\$ —	\$ 7,437	\$ 783,006
	2007	\$267,885	\$ 500,000	\$ 47,883	\$131,914	\$ 62,429	\$176,018	\$1,186,129
Theo Killion(1) President	2008	\$289,808	\$ 581,000(3)	\$ 61,494	\$ 62,439	\$ —	\$ 4,731	\$ 999,472
Steve Larkin(1) Executive Vice President, Chief Marketing and E-Commerce Officer	2008	\$298,818	\$ —	\$ 41,953	\$ 71,308	\$ —	\$ 11,637	\$ 423,716
Gil Hollander Executive Vice President, Chief Sourcing and Supply Chain Officer	2008	\$410,869	\$ —	\$ 55,374	\$235,044	\$ —	\$ 35,194	\$ 736,482
	2007	\$300,000	—	\$ 30,957	\$189,481	\$103,413	\$ 33,342	\$ 657,193
Betsy Burton(1) Former President and Chief Executive Officer	2008	\$386,010	\$ —	\$ 94,807	\$163,368	\$ —	\$ 93,096	\$ 737,281
	2007	\$850,000	\$1,062,500	\$237,053	\$320,790	\$ 6,821	\$ 44,075	\$2,521,239
Charlie Fieramosca Former Senior Vice President and President of Bailey Banks and Biddle	2008	\$210,432	\$ 950,000(7)	\$ 18,786	\$ 57,074	\$ —	\$431,183	\$1,667,473
	2007	\$340,000	\$ —	\$ 63,167	\$178,637	\$ 4,868	\$ 39,585	\$ 626,257
John Zimmermann Former Group President and President, Zale North America	2008	\$343,078	\$ —	\$ 3,846	\$ 5,394	\$ —	\$ 29,792	\$ 382,110
	2007	\$400,000	\$ —	\$267,024	\$400,179	\$167,816	\$ 40,914	\$1,275,933

- (1) Each of Ms. Burton and Messrs. Goldberg and Killion were parties to written employment arrangements with the Company that addressed certain aspects of each such officer's compensation for Fiscal Year 2008. See the “Compensation Discussion and Analysis—Executive Employment Arrangements,” above for a summary of the terms of Messrs. Goldberg's and Killion's employment arrangements. Messrs. Goldberg, Killion and Larkin did not serve as executive officers of the Company during Fiscal Year 2007. Accordingly, compensation information for such officers has been provided only for Fiscal Year 2008.
- (2) Includes a signing bonus of \$800,000. The remaining amount represents the target level bonus payable to Mr. Goldberg under the Company's bonus plan with respect to the first six months of his employment. Under the terms of his employment agreement, Mr. Goldberg was entitled to receive not less than his target level bonus for that period.
- (3) Includes a signing bonus of \$375,000. The remaining amount represents 50% of the target level bonus payable to Mr. Killion under the Company's bonus plan with respect to Fiscal Year 2008. Under the terms of his employment arrangement for Fiscal Year 2008, Mr. Killion was entitled to receive not less than 50% of his target level bonus for Fiscal Year 2008.
- (4) The amounts reported reflect the amounts recognized for financial statement reporting purposes in the Company's Fiscal Year 2008 and Fiscal Year 2007 consolidated financial statements in accordance with SFAS 123R for time-vesting restricted stock units (in the column entitled “Stock Awards”) and stock options (in the column entitled “Option Awards”) granted in Fiscal Year 2008 and Fiscal Year 2007 and the continued accrual of expenses with respect to units and stock options granted in prior years that were not vested in full as of August 1, 2007. The actual value received by the named executive officers from these awards may range from \$0 to amounts greater than the amounts reported for financial statement reporting purposes based on the Company's performance and the named executive officer's number of additional years of service with the Company.

In accordance with SEC regulations, the amounts reported in the table above do not reflect the amount of estimated forfeitures. In accordance with SFAS 123R, the Company made certain assumptions in determining the value of these awards for financial reporting purposes. See “Capital Stock—Incentive Stock Plan” in the Notes to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended July 31, 2008 for a discussion of these assumptions.

- (5) Represents amounts earned under the Company's annual bonus plan that were based on the Company's achievement of certain performance goals in Fiscal Year 2008 and Fiscal Year 2007. Also includes incentive compensation based on quarterly comparable store sales performance in Fiscal Year 2007. See the “Compensation Discussion and Analysis” above for a summary of the terms of the bonus plan and the comparable store sales bonus opportunity.

- (6) Mr. Goldberg's "All Other Compensation" for 2008 consists of \$25,000 of legal fee reimbursements in connection with Mr. Goldberg's employment agreement, \$3,011 annual insurance premiums paid by the Company and \$2,369 for the Company's executive long-term disability plan ("Executive LTD").

Mr. Carter's "All Other Compensation" for 2008 consists of \$3,103 annual insurance premiums paid by the Company, \$3,832 for the Executive LTD and \$502 for a 401(k) Company match on behalf of Mr. Carter.

Mr. Killion's "All Other Compensation" for 2008 consists of \$2,116 annual insurance premiums paid by the Company, \$2,031 for the Executive LTD, and \$584 for relocation related expenses.

Mr. Larkin's "All Other Compensation" for 2008 consists of \$3,289 annual insurance premiums paid by the Company, \$1,426 for the Executive LTD, \$3,320 for executive financial planning, and \$3,602 for a 401(k) Company match on behalf of Mr. Larkin.

Mr. Hollander's "All Other Compensation" for 2008 consists of \$3,023 annual insurance premiums paid by the Company, \$2,688 for the Executive LTD, \$25,925 for benefits due upon termination of the Company Supplemental Executive Retirement Plan ("SERP"), and \$3,558 for a 401(k) Company match on behalf of Mr. Hollander.

Ms. Burton's "All Other Compensation" for 2008 consists of \$2,559 annual insurance premiums paid by the Company, \$3,037 for the Executive LTD and \$87,500 in consulting fees under a Consulting Agreement between Ms. Burton and the Company. Under the terms of the Consulting Agreement, Ms. Burton will provide certain consulting services as required by the Company from time to time and shall receive an annual fee of \$150,000, payable in monthly installments. Unless earlier terminated in accordance with its terms, the Consulting Agreement will remain in effect until December 19, 2009. Under the Consulting Agreement, Ms. Burton agreed to certain non-competition, non-solicitation and confidentiality provisions for a period of time following her termination of employment.

Mr. Fieramosca's "All Other Compensation" for 2008 consists of \$1,510 annual insurance premiums paid by the Company, \$859 for the Executive LTD, \$44,141 for benefits due upon termination of the SERP, \$3,586 for a 401(k) Company match on behalf of Mr. Fieramosca, a \$13,837 payout for accrued but unused vacation, \$7,500 for executive financial planning, and \$359,750 for severance.

Mr. Zimmermann's "All Other Compensation" for 2008 consists of \$2,094 annual insurance premiums paid by the Company, \$1,237 for the Executive LTD, \$25,100 for benefits due upon termination of the SERP, and \$1,361 for executive financial planning.

- (7) Represents a bonus payable to Mr. Fieramosca in connection with the sale of the Bailey Banks & Biddle division.

With respect to Ms. Burton and Messrs. Goldberg, Carter, Killion, Larkin, Hollander, Fieramosca and Zimmermann, the aggregate amounts reflected in the "salary" and "bonus" columns in the Summary Compensation Table comprised 52.4%, 64.1%, 56.8%, 87.1%, 70.5%, 55.8%, 69.6%, and 89.8%, respectively, of the total compensation for each such officer.

Grants of Plan-Based Awards Made in Fiscal Year 2008

The Grants of Plan-Based Awards Table provides information on goals established for payouts under the Zale Executive Bonus Plan for Fiscal Year 2008, and restricted stock and restricted stock unit awards and stock option grants made to the named executive officers in Fiscal Year 2008.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock of Units(2) (#)	All Other Option Awards		Grant Date Fair Value of Stock and Option Awards(4) (\$)
		Threshold	Target	Maximum	Threshold (#)	Target (#)	Maximum (#)		Number of Securities Underlying Options(3) (#)	Exercise Of Base Price (\$/Sh)	
Neal L. Goldberg	12/20/2007	\$578,125	\$1,156,250	\$2,312,500	—	—	—	—	—	—	N/A
	12/20/2007	—	—	—	—	—	—	250,000	—	—	\$4,042,500
	12/20/2007	—	—	—	—	—	—	—	300,000	\$16.17	\$1,502,815
Rodney Carter	11/14/2007	\$130,500	\$ 261,000	\$ 522,000	—	—	—	—	—	—	N/A
	11/14/2007	—	—	—	—	—	—	6,000	—	—	\$ 127,740
	11/14/2007	—	—	—	—	—	—	—	55,000	\$21.29	\$ 370,106
Theo Killion	1/23/2008	\$206,000	\$ 412,500	\$ 825,000	—	—	—	—	—	—	N/A
	1/23/2008	—	—	—	—	—	—	30,000	—	—	\$ 470,000
	1/23/2008	—	—	—	—	—	—	—	100,000	\$15.69	\$ 477,939
Steve Larkin	11/14/2007	\$ 55,156	\$ 110,313	\$ 220,625	—	—	—	—	—	—	N/A
	11/14/2007	—	—	—	—	—	—	2,000	—	—	\$ 42,580
	11/14/2007	—	—	—	—	—	—	—	20,000	\$21.29	\$ 134,584
Gil Hollander	11/14/2007	\$120,000	\$ 240,000	\$ 480,000	—	—	—	—	—	—	N/A
	11/14/2007	—	—	—	—	—	—	6,000	—	—	\$ 127,740
	11/14/2007	—	—	—	—	—	—	—	55,000	\$21.29	\$ 370,106
Betsy Burton(5)	11/14/2007	\$578,125	\$1,156,250	\$2,312,500	—	—	—	—	—	—	N/A
	11/14/2007	—	—	—	—	—	—	30,000	—	—	\$ 638,700
	11/14/2007	—	—	—	—	—	—	—	284,000	\$21.29	\$1,911,095
Charlie Fieramosca	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A
John Zimmerman	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A
	N/A	—	—	—	—	—	—	—	—	—	N/A

- (1) Represent bonus opportunities under the Company's annual bonus plan for Fiscal Year 2008. The target bonus levels for Messrs. Goldberg, Killion, Carter, Hollander, and Larkin, for Fiscal Year 2008 expressed as a percentage of base salary were 125%, 75%, 60%, 60% and 37.5%, respectively. Based on goals established by the Compensation Committee for consolidated net income, actual payouts to the named executive officers, other than Messrs. Goldberg and Killion, could have ranged from 0% of the target award to 200% of the target award. Under the terms of his written employment agreement, Mr. Goldberg was entitled to receive a bonus of not less than 100% of his target level bonus for his first year of employment. Under the terms of his employment arrangement for Fiscal Year 2008, Mr. Killion was entitled to receive a bonus of not less than 50% of his target level bonus for Fiscal Year 2008. The actual bonus amounts are reflected in the Summary Compensation Table above. For a more detailed description of the Company's bonus plan, including a discussion of the Company's performance with respect to goals and the additional incremental bonus opportunity related to comparable store sales, see the "Compensation Discussion and Analysis" above.
- (2) Represents time-vesting restricted stock units granted under the 2003 Incentive Plan. These time-vesting restricted stock units will vest as to 25% of the shares covered thereby on the second anniversary of grant date, 25% of the shares covered thereby on the third anniversary of the grant date and 50% of the shares covered thereby on the fourth anniversary of the grant date. The units granted to Mr. Goldberg will vest in three equal annual installments beginning on the first anniversary of the grant date. Upon vesting, the holder is entitled to receive one share of the Company's common stock per restricted stock unit. At the election of the Company, holders may receive a cash payment in lieu of shares of the Common Stock. Holders of time-vesting restricted stock units are not entitled to receive dividends with respect to such awards. In the event of a change in control of the Company, all unvested time-vesting restricted stock units will immediately vest in full.
- (3) Represents stock options granted under the 2003 Incentive Plan. All options granted have a term of 10 years, and become exercisable in equal increments of 25% per year beginning one year from the grant date. Upon the occurrence of a change in control of the Company, the options become fully and immediately exercisable.
- (4) Represents the grant date fair value of each equity-based award as determined in accordance with SFAS 123R. The actual value received by the named executive officers with respect to these awards may range from \$0 to an amount greater than the reported amount, depending on the Company's actual performance and the executive officer's number of additional years of service with the Company.
- (5) Ms. Burton's grants were terminated with no payment on December 20, 2007.

Outstanding Equity Awards

As of the end of Fiscal Year 2008, the named executive officers held the following equity awards:

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units That Have Not Vested	Market Value of Shares or Units That Have Not Vested(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested(1)
Neal L. Goldberg	—	300,000	\$16.17	12/20/2017	250,000(2)	\$5,530,000	—	\$ —
Rodney Carter	—	55,000	\$21.29	11/14/2017	6,000(3)	\$ 132,720	—	\$ —
	18,750	56,250	\$28.73	10/16/2016	6,000(4)	\$ 132,720	6,000(6)	\$132,720
Theo Killion	—	100,000	\$15.69	01/23/2018	30,000(3)	\$ 663,600	—	\$ —
Steve Larkin	—	20,000	\$21.29	11/14/2017	2,000 (3)	\$ 44,240	—	\$ —
	2,500	7,500	\$27.24	08/29/2016	1,500 (4)	\$ 33,180	1,500 (6)	\$ 33,180
	5,000	5,000	\$24.84	01/23/2016	2,500 (5)	\$ 55,300	—	\$ —
Gil Hollander	—	55,000	\$21.29	11/14/2017	6,000(3)	\$ 132,720	—	\$ —
	2,500	7,500	\$27.89	09/14/2016	—	\$ —	—	\$ —
	3,750	11,250	\$27.24	08/29/2016	2,000 (4)	\$ 44,240	2,000 (6)	\$ 44,240
	12,500	12,500	\$24.10	05/05/2016	—	\$ —	—	\$ —
	4,999	5,001	\$27.52	09/06/2015	1,500 (5)	\$ 33,180	1,500 (7)	\$ 33,180
	7,500	2,500	\$26.33	01/10/2015	—	\$ —	—	\$ —
	10,000	—	\$27.44	07/21/2014	—	\$ —	—	\$ —
	8,524	—	\$22.23	07/22/2013	—	\$ —	—	\$ —
Betsy Burton	—	—	\$ —	—	N/A	\$ —	—	\$ —
Charlie Fieramosca	—	—	\$ —	—	N/A	\$ —	—	\$ —
John Zimmerman	—	—	\$ —	—	N/A	\$ —	—	\$ —

- (1) Based on the closing price of the Company's Common Stock as reported on the New York Stock Exchange on July 31, 2008.
- (2) Represents time-vesting restricted stock units granted in Fiscal Year 2008 that vest as to 100% of the shares covered thereby on the anniversary of the grant date as follows: Year 1—One Third, Year 2—One Third, Year 3—One Third. In the event of a change in control of the Company, these restricted stock units will vest immediately.
- (3) Represents time-vesting restricted stock units granted in Fiscal Year 2008 that vest as to 100% of the shares covered thereby on the anniversary date of grant as follows: Year 1 - 0%, Year 2 - 25%, Year 3 - 25%, Year 4 - 50%. In the event of a change in control of the Company, these restricted stock units will vest immediately.
- (4) Represents time-vesting restricted stock units granted in Fiscal Year 2007 that vest as to 100% of the shares covered immediately on the third anniversary of the date of grant. In the event of a change in control of the Company, these restricted stock units will vest immediately.
- (5) Represents time-vesting restricted stock units granted in Fiscal Year 2006 that vest as to 100% of the shares covered immediately on the third anniversary of the date of grant. In the event of a change in control of the Company, these restricted stock units will vest immediately.
- (6) Represent performance-based restricted stock units granted in Fiscal Year 2007 that will vest based on the Company's achievement of certain performance goals over a three-year performance period ending July 31, 2009. Amounts shown in the column represent a threshold level payout based on the Company's performance to date with respect to the applicable performance measures.
- (7) Represent performance-based restricted stock units granted in Fiscal Year 2006 that will vest based on the Company's achievement of certain performance goals over a three-year performance period ending July 31, 2008. Amounts shown in the column represent a threshold level payout based on the Company's performance to date with respect to the applicable performance measures.

Options Vesting Schedule

The stock option awards reflected in the table above that were not fully vested as of July 31, 2008 have the following vesting schedules:

Expiration Date as Reflected in Table	Original Grant Date	Vesting Schedule
January 23, 2018	January 23, 2008	25% on each of January 23, 2009, 2010, 2011 and 2012
December 20, 2017	December 20, 2007	25% on each of December 20, 2008, 2009, 2010 and 2011
November 14, 2017	November 14, 2007	25% on each of November 14, 2008, 2009, 2010 and 2011
November 15, 2016	November 15, 2006	25% vested; 25% on each of November 15, 2008, 2009 and 2010
October 16, 2016	October 16, 2006	25% vested; 25% on each of October 16, 2008, 2009 and 2010
September 14, 2016	September 14, 2006	25% vested; 25% on each of September 16, 2008, 2009 and 2010
August 29, 2016	August 29, 2006	25% vested; 25% on each of August 29, 2008, 2009 and 2010
July 24, 2016	July 24, 2006	50% vested; 25% on each of July 24, 2009 and 2010
May 8, 2016	May 8, 2006	50% vested; 25% on each of May 8, 2009 and 2010
March 23, 2016	March 23, 2006	50% vested; 25% on each of March 23, 2009 and 2010
January 23, 2016	January 23, 2006	50% vested; 25% on each of January 23, 2009 and 2010
November 11, 2015	November 11, 2005	50% vested; 25% on each of November 11, 2008 and 2009
September 6, 2015	September 6, 2005	50% vested; 25% on September 6, 2008 and 2009
May 5, 2015	May 5, 2005	75% vested; 25% on May 5, 2009
January 10, 2015	January 10, 2005	75% vested; 25% on January 10, 2009
November 12, 2014	November 12, 2004	75% vested; 25% on November 12, 2008

Options Exercised and Stock Vested in Fiscal Year 2008

This table shows the number and value of stock options exercised by the named executive officers in Fiscal Year 2008 and the shares of restricted stock that vested in Fiscal Year 2008.

Name	Option		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting(1) (\$)
Neal Goldberg	—	\$ —	—	\$—
Rodney Carter	—	\$ —	—	\$—
Theo Killion	—	\$ —	—	\$—
Steve Larkin	—	\$ —	—	\$—
Gilbert Hollander	—	\$ —	—	\$—
Betsy Burton	—	\$ —	—	\$—
Charles Fieramosca	14,904	\$123,154.73	—	\$—
John Zimmermann	47,500	\$165,700.25	—	\$—

- (1) These amounts represent the fair market value of the shares acquired on vesting, based on the closing market price of the Company's Common Stock as reported on the New York Stock Exchange on the applicable vesting date.

Pension Benefits at Fiscal Year-End 2008

Until Fiscal Year 2007, the Company maintained a supplemental executive retirement plan through which eligible Company executives were provided with an opportunity to receive payments each year following retirement. In connection with the termination of the plan, accrued balances under the plan were distributed as cash payments to participating employees in early 2008. Set forth in the tables below are the amounts paid to the named executive officers in connection with the termination of the supplemental executive retirement plan:

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Neal Goldberg	Supplemental Executive Retirement Plan	—	—	—
Rodney Carter	Supplemental Executive Retirement Plan	—	—	—
Theo Killion	Supplemental Executive Retirement Plan	—	—	—
Steve Larkin	Supplemental Executive Retirement Plan	—	—	—
Gilbert Hollander	Supplemental Executive Retirement Plan	3	—	\$25,925
Betsy Burton	Supplemental Executive Retirement Plan	—	—	—
Charlie Fieramosca	Supplemental Executive Retirement Plan	3	—	\$44,141
John Zimmermann	Supplemental Executive Retirement Plan	3	—	\$25,100

Potential Payments Upon a Termination or Change in Control

Mr. Goldberg has an employment agreement that provides that in the event that the Company terminates Mr. Goldberg's employment (i) in connection with the Company's election of non-renewal of the term under his employment agreement or without "cause" or Mr. Goldberg terminates his employment for a "termination reason," he will be entitled to receive (1) an amount equal to the sum of two times his annual base salary as of the date of termination plus two times the average of the annual incentive bonus amount earned by him with respect to the three fiscal year period preceding the termination, and (2) continued coverage under various Company employee benefit plans for a period of up to 2 years. In the event of a termination of employment in connection with a change in control of the Company, he will be entitled to receive (1) an amount equal to the sum of three times his annual base salary as of the date of termination plus three times the average of the annual incentive bonus amount earned by him with respect to the three fiscal year period preceding the termination, (2) continued coverage under various Company employee benefit plans for a period of up to 3 years, and (3) vesting of all outstanding equity awards held by the employee.

Each of the other named executive officers has an employment security agreement. Under the employment security agreements, if the employment of a participating employee is terminated by the Company without cause or by the employee with good reason, the employee will be entitled to receive (1) a payment of up to two times the employee's current annual base salary and two times the employee's average bonus or average target bonus over the prior three years and (2) continued coverage under various Company employee benefit plans for a period of up to 2 years. In the event of a termination of employment of a participating employee in connection with a change in control of the Company, the employee will be entitled to receive (1) a payment of up to three times the employee's current annual base salary and three times the employee's average bonus for the prior three years, (or target bonus in the case of the named executive officers), (2) continued coverage under various Company employee benefit plans for a period of up to 36 months, and (3) vesting of all outstanding equity awards held by the employee.

Change in control related benefits are paid only in the event of a "double trigger" situation in which the change in control is followed by a qualifying termination of employment, defined to include involuntary termination without "cause" or a "qualifying voluntary termination" (which is labeled "good reason" in Mr. Goldberg's employment agreement). Under Mr. Goldberg's employment agreement, such a termination must occur within 24 months following the change in control. Under the employment security agreements, the termination must occur within the period beginning six months prior to the change in control and ending 24 months after the change in control.

Under Mr. Goldberg's employment agreement, if the payments he would receive upon a termination of employment would result in an excise tax (the "280G excise tax") then the Company will be required to make an additional gross-up payment to Mr. Goldberg. However, if the total payments to Mr. Goldberg would not be subject to the 280G excise tax if they were reduced by an amount that is less than 10% of portion treated as "parachute payments" under Section 280G of the Code, then the total payments to Mr. Goldberg will be reduced to the maximum amount that could be paid without giving rise to the 280G excise tax. Under the employment security agreements, if an officer would receive payments upon termination of employment that would result in a 280G excise tax, the payments to the officer upon termination of employment will be reduced to avoid the imposition of the 280G excise tax.

For these purposes, a "change in control" includes: (1) the acquisition by any person of beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of 30% or more the Company's voting stock; (2) the majority of the Company's Board of Directors consists of individuals other than the Company's current directors or any new director whose election was supported by two-thirds of the directors who then comprise the Board; (3) the adoption of any plan of liquidation providing for a distribution of all or substantially all of the Company's assets; (4) the disposition of all or substantially all of the Company's assets or business through a merger, consolidation or other transaction (unless the stockholders of the

Company immediately prior to such transaction own in substantially the same proportion all of the voting stock of the surviving entity), the Company combines with another company and is the surviving corporation, but immediately after the combination, the stockholders of the Company immediately prior to the combination own 50% or less of the voting stock of the combined company.

For these purposes, “cause” includes: (1) indictment for a felony or a crime involving moral turpitude; (2) commission of an act constituting fraud, deceit or material misrepresentation with respect to the Company; (3) recurrent use of alcohol or prescribed medications at work or otherwise or the use of any illegal substances, in any case resulting in impaired job performance as determined by the Company in its sole discretion; (4) embezzlement of Company assets or funds; or (5) commission of a negligent or willful act or omission, in the case of items (2), (4) or (5), that causes material detriment to the Company.

For these purposes, a “qualifying voluntary termination” in connection with a change in control includes a voluntary termination after any of the following: (1) assignment to the executive officer of duties inconsistent with the executive officer’s position or a reduction in duties; (2) a reduction of the executive officer’s base salary or bonus eligibility; (3) movement of the Company’s executive offices or a required relocation of the executive officer outside of the Dallas/Fort Worth, Texas area; (4) the Company’s failure to continue in effect any Company sponsored 401 (k), incentive compensation or expense reimbursement plan that is in effect on the date of the change in control (or replacement plans that provide the same or more favorable benefits); (5) any material breach by the Company of the employment security agreement or (6) any failure by the Company to obtain the assumption of the employment security agreement by a successor company. In addition, “good reason” following a change in control under Mr. Goldberg’s employment agreement includes: (i) the Company’s failure to maintain certain employee benefit plans following a change in control; or (ii) any failure by a successor to the Company to assume the severance and change in control obligations of the Company following a change in control.

In connection with the receipt of the benefits described above following a termination of employment, a named executive officer will be subject to customary non-competition and non-solicitation for a period of up to three years following termination of employment, as well as continuing confidentiality provisions.

For a further discussion of the Company’s severance and change in control benefits, including a discussion of the Company’s reasons for providing such benefits, see “Compensation Discussion and Analysis—Severance and Change in Control Benefits,” above.

The following tables provide the potential payouts to each of Messrs. Goldberg, Carter, Killion, Hollander and Larkin under various termination of employment scenarios, assuming each such officer's employment was terminated on July 31, 2008.

Neal Goldberg

Benefits and Payments	Termination For Cause	Voluntary Termination	Death	Disability	Termination without Cause or Qualifying Voluntary Termination	Change in Control Termination
Cash Severance	—	—	\$925,000	\$925,000	\$1,850,000	\$ 6,243,750
Accelerated vesting of:						
Stock Options	—	—	—	—	—	\$ 1,785,000
Time-Vesting RSUs	—	—	—	—	—	\$ 5,530,000
Continuation of Benefits	—	—	—	\$ 5,380	\$ 10,760	\$ 16,140
280G Gross-Up	—	—	—	—	—	\$ 3,080,306
Total:	—	—	\$925,000	\$930,380	\$1,860,760	\$16,655,196

Theo Killion

Benefits and Payments	Termination For Cause	Voluntary Termination	Death	Disability	Termination without Cause or Qualifying Voluntary Termination	Change in Control Termination
Cash Severance	—	—	\$550,000	\$550,000	\$825,000	\$1,650,000
Accelerated vesting of:						
Stock Options	—	—	—	—	—	\$ 643,000
Time-Vesting RSUs	—	—	—	—	—	\$ 663,600
Continuation of Benefits	—	—	—	—	\$ 6,222	\$ 12,444
Total:	—	—	\$550,000	\$550,000	\$831,222	\$2,969,044

Rodney Carter

Benefits and Payments	Termination For Cause	Voluntary Termination	Death	Disability	Termination without Cause or Qualifying Voluntary Termination	Change in Control Termination
Cash Severance	—	—	\$435,000	\$435,000	\$932,429	\$2,088,000
Accelerated vesting of:						
Stock Options	—	—	—	—	—	\$ 45,650
Time-Vesting RSUs	—	—	—	—	—	\$ 265,440
Performance-Based RSUs	—	—	—	—	—	\$ 132,720
Continuation of Benefits	—	—	—	\$ 6,935	\$ 13,870	\$ 20,805
Total:	—	—	\$435,000	\$441,935	\$946,299	\$2,552,615

Gilbert Hollander

Benefits and Payments	Termination For Cause	Voluntary Termination	Death	Disability	Termination without Cause or Qualifying Voluntary Termination	Change in Control Termination
Cash Severance	—	—	\$400,000	\$400,000	\$876,871	\$1,920,000
Accelerated vesting of:						
Stock Options	—	—	—	—	—	\$ 45,650
Time-Vesting RSUs	—	—	—	—	—	\$ 210,140
Performance-Based RSUs	—	—	—	—	—	\$ 77,420
Continuation of Benefits	—	—	—	\$ 5,711	\$ 11,422	\$ 17,133
Total:	—	—	\$400,000	\$405,711	\$888,293	\$2,270,343

Steve Larkin

Benefits and Payments	Termination For Cause	Voluntary Termination	Death	Disability	Termination without Cause or Qualifying Voluntary Termination	Change in Control Termination
Cash Severance	—	—	—	—	\$659,029	\$1,318,056
Accelerated vesting of:						
Stock Options	—	—	—	—	—	\$ 16,600
Time-Vesting RSUs	—	—	—	—	—	\$ 132,720
Performance-Based RSUs	—	—	—	—	—	\$ 33,180
Continuation of Benefits	—	—	—	—	\$ 7,073	\$ 14,146
Total:	—	—	—	—	\$666,102	\$1,514,702

Other Compensation

On December 19, 2007, Mary E. Burton resigned as President and Chief Executive Officer of the Company. On April 15, 2008, the Company entered into a Consulting Agreement with Ms. Burton, which was dated as of April 15, 2008 and was effective as of December 19, 2007. Under the terms of the Consulting Agreement, Ms. Burton will provide certain consulting services as required by the Company from time to time and shall receive an annual fee of \$150,000, payable in monthly installments. Unless earlier terminated in accordance with its terms, the Consulting Agreement will remain in effect until December 19, 2009. Under the Consulting Agreement, Ms. Burton agreed to certain non-competition, non-solicitation and confidentiality provisions for a period of time following her termination of employment. Ms. Burton received no additional severance compensation in connection with her resignation.

On March 3, 2008, the Company entered into a Settlement and Release Agreement with John A. Zimmermann, a former executive officer of the Company. As provided in Mr. Zimmermann's employment agreement, (1) he was entitled to continue to receive eighteen months of his base salary as in effect at the time of his termination of employment (August 2007), subject to offset or mitigation, (2) until August 6, 2008, he was eligible to continue medical insurance coverage at the same employee rates that he previously paid, and thereafter was eligible to continue medical insurance coverage in accordance with COBRA, and (3) he received \$210,240.75 in cash, representing his accrued vacation, vested benefits under the SERP, and accrued bonus. Under the Settlement and Release Agreement, Mr. Zimmermann agreed to certain non-competition, non-solicitation and confidentiality provisions for a period of time following his termination of employment. On April 11, 2008, the Company entered into an agreement with Mr. Zimmermann and Claire's Stores, Inc. ("Claire's") under which the Company agreed to amend the

terms of the Settlement and Release Agreement solely to allow Mr. Zimmermann to be employed with Claire's. Under the terms of the agreement, the Company received a payment of \$125,000 from Claire's. In addition, Mr. Zimmermann's employment with Claire's offset the Company's obligation to make continued base salary payments to Mr. Zimmermann during Fiscal Year 2008 for so long as Mr. Zimmerman was employed with Claire's.

On April 28, 2008, the Company entered into a Separation and Release Agreement with Charles E. Fieramosca, a former executive officer of the Company. Under the terms of the agreement, Mr. Fieramosca (1) received a severance payment in the amount of \$359,750, (2) for a period of up to approximately one year from the date of his termination of employment (January 2008), will be eligible to continue medical insurance coverage at the same rates paid by similarly situated executives of the Company, and thereafter will be eligible to continue medical insurance coverage in accordance with COBRA, and (3) received a payment of \$44,141, representing the unpaid portion of his vested benefits under the SERP. Under the agreement, Mr. Fieramosca agreed to certain non-competition, non-solicitation and confidentiality provisions for a period of time following his termination of employment.

Equity Compensation Plan Information

The following table provides information about common stock that may be issued upon the exercise of options and rights under all existing equity compensation plans as of July 31, 2008.

Equity Compensation Plan Information

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options(1),(3)	Weighted-average exercise price of outstanding options	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in 1 st column)(2),(3)
Equity compensation plans approved by stockholders	2,716,237	\$23.69	3,143,271
Equity compensation plans not approved by stockholders	—	—	—
Total	2,716,237	\$23.69	3,143,271

- (1) Includes shares of common stock to be issued upon the exercise of outstanding options under the Zale Corporation Omnibus Stock Incentive Plan, the 2003 Incentive Plan, the Zale Corporation Outside Directors' 1995 Stock Option Plan, and the Outside Directors' 2005 Stock Incentive Plan, each as amended.
- (2) Includes shares of common stock available for future issuance under the 2003 Incentive Plan, and the Outside Directors' 2005 Stock Incentive Plan.
- (3) The number of shares to be issued upon exercise of outstanding options and the number of securities available for future issuance under the equity compensation plans were proportionally adjusted to give effect to the Company's two-for-one stock split completed on June 8, 2004.

DIRECTOR COMPENSATION

The following table summarizes total compensation awarded to, earned by or paid to each of the Company's directors during Fiscal Year 2008, other than Ms. Burton and Mr. Goldberg, whose compensation is included in the Summary Compensation Table above.

Name	Fees Earned or Paid In Cash (\$)	Stock Awards(1) (\$)	Option Awards(2) (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
J. Glen Adams	\$125,917	\$35,604	\$45,504	—	—	—	\$207,025
Yuval Braverman(3)	\$ 6,167	\$ 1,640	\$ 355	—	—	—	\$ 8,162
Richard C. Breeden(4)	\$ 30,113	\$ 8,072	\$ 1,853	—	—	—	\$ 40,038
James M. Cotter(4)	\$ 37,613	\$ 8,072	\$ 1,853	—	—	—	\$ 47,538
John B. Lowe, Jr.	\$180,500	\$35,604	\$41,295	—	—	—	\$257,399
Thomas C. Shull	\$118,000	\$35,604	\$36,888	—	—	—	\$190,492
Charles M. Sonsteby	\$119,250	\$35,604	\$13,965	—	—	—	\$168,819
David M. Szymanski	\$132,000	\$35,604	\$35,148	—	—	—	\$202,752
Richard C. Marcus(5)	\$ 32,333	\$12,893	\$16,676	—	—	—	\$ 61,902
George R. Mihalko,(5)	\$ 37,333	\$12,893	\$ 1,100	—	—	—	\$ 51,326

- (1) Represents amounts recognized for financial reporting purposes in the Company's consolidated financial statements for Fiscal Year 2008 in accordance with SFAS 123R with respect to shares of restricted stock granted beginning November 2006 through June 2008. Each restricted stock grant vests as to 100% of the shares covered thereby on the first anniversary of the date of grant. See "Capital Stock—Incentive Stock Plan" in the notes to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended July 31, 2008 for a description of assumptions made by the Company in valuing the restricted stock. In accordance with SFAS 123R, the grant date fair value for the Fiscal Year 2008 awards to Messrs. Adams, Lowe, Shull, Sonsteby, and Szymanski was \$31,935.
- (2) Represents amounts recognized for financial reporting purposes in the Company's consolidated financial statements for Fiscal Year 2008 in accordance with SFAS 123R with respect to stock options granted beginning November 2003 through June 2008. Stock options have a term of 10 years and become exercisable in equal increments of 25% per year beginning one year from the grant date. See "Capital Stock—Incentive Stock Plan" in the notes to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended July 31, 2008 for a description of assumptions made by the Company in valuing the stock options. In accordance with SFAS 123R, the grant date fair value for the Fiscal Year 2008 awards to Messrs. Adams, Lowe, Shull, Sonsteby, and Szymanski was \$25,571.
- (3) Mr. Braverman was elected as a director in June 2008. The amounts included in the table for Mr. Braverman reflect compensation received from June 2008 through July 2008. In accordance with SFAS 123R, the grant date fair value of the restricted stock award was \$13,962; and the grant date fair value of the option award was \$12,078.
- (4) Messrs. Breeden and Cotter were elected as directors in January 2008. The amounts included in the table for Messrs. Breeden and Cotter reflect compensation received from January 2008 through July 2008. Under the governing documents of Breeden Partners and related investment funds, compensation received by Messrs. Breeden and Cotter for service as directors of the Company is turned over to the investment funds. Messrs. Breeden and Cotter have no interest in such compensation other than to the extent of their pro rata ownership interest in the investment funds. In accordance with SFAS 123R, the grant date fair value of the restricted stock award was \$15,038; and the grant date fair value of the option award was \$13,748.
- (5) Mr. Marcus resigned from the Board of Directors effective November 14, 2007 and Mr. Mihalko resigned from the Board of Directors effective December 5, 2007. There were no grants of restricted stock or stock options to Mr. Marcus in Fiscal Year 2008. The grant of restricted stock and stock options to Mr. Mihalko in Fiscal Year 2008 was forfeited upon his resignation from the Board of Directors.

Summary of Director Compensation

During Fiscal Year 2008, each non-employee director of the Company received an annual retainer fee of \$40,000. Through March 6, 2008, the Chairman of the Board received an annualized retainer fee of \$200,000, which thereafter was reduced to an annualized annual retainer of \$75,000. Through March 6, 2008, the Chairman of the Audit Committee of the Board of Directors received an additional annualized retainer fee of \$25,000 which thereafter was reduced to an annualized retainer fee of \$20,000. All other

Committee Chairmen received an additional retainer fee of \$10,000. Through March 6, 2008, each non-employee director received a \$3,000 fee for each Board of Directors meeting attended in person and a \$1,000 fee for each Board of Directors meeting attended by telephone. Also, through March 6, 2008, each Committee member received \$2,000 for each Committee meeting attended in person and \$1,000 for each Committee meeting attended by telephone. Thereafter, each non-employee director received a \$1,500 fee for each Board of Directors meeting attended in person and a \$1,000 fee for each Board of Directors meeting attended by telephone. Also thereafter, each Committee member received \$1,500 for each Committee meeting attended in person and \$1,000 for each Committee meeting attended by telephone. Non-employee directors also received annual grants of options to purchase 3,800 shares of Common Stock and an annual award of 1,500 shares of restricted stock under the Outside Directors' 2005 Stock Incentive Plan.

Director Indemnification Arrangements

The Company has entered into indemnification agreements with each of the directors of the Company, agreeing to indemnify such persons against expenses, judgments, fines and amounts paid in settlement of, or incurred in connection with, any threatened, pending or completed action, suit or proceeding in which the director was or is, or is threatened to be made, a party by reason of his or her service as a director, officer, employee or agent of the Company, provided that the director acted in good faith and in a manner he or she reasonably believed to be in the best interest of the Company and, with respect to any criminal action or proceeding, provided he or she had reasonable cause to believe such actions were lawful. Each indemnification agreement also provides for the advance of expenses incurred by the director in defending any proceeding. The Company expects to enter into similar agreements with new directors elected in the future.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company's Compensation Committee is made up of non-employee directors who have neither served as officers of nor been employed by the Company or any of its subsidiaries or affiliates. None of the Company's executive officers serve on the board of directors of any company of which any director of the Company serves as executive officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who beneficially own more than ten percent (10%) of any class of the Company's equity securities, to file with the SEC initial reports ("Form 3") of beneficial ownership and reports of changes ("Form 4" and "Form 5") in beneficial ownership of Common Stock and other equity securities of the Company. Executive officers, directors and beneficial owners of greater than ten percent (10%) of the outstanding Common Stock are required to furnish the Company with copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations from the Company's directors and executive officers that no other reports were required, all of the Company's executive officers, directors and beneficial owners of greater than ten percent (10%) of the outstanding Common Stock complied with the Section 16(a) filing requirements for Fiscal Year 2008.

AUDIT COMMITTEE REPORT

The members of the Audit Committee are Charles M. Sonstebly, J. Glen Adams and John B. Lowe, Jr. The Board of Directors has determined that during Fiscal Year 2008, each member of the Audit Committee was independent under the rules of the NYSE and that each current member is independent. The Audit Committee acts under a written charter adopted by the Board of Directors that sets forth its responsibilities and duties as well as requirements for the Audit Committee's composition and meetings. A copy of the charter is attached hereto as *Appendix A* and is available on the Company's corporate web site at www.zalecorp.com under the heading "Corporate and Social Responsibility."

The Audit Committee has reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended July 31, 2008.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, and issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ("AICPA"), and as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T.

The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended, and issued by the Independence Standards Board of the AICPA, which has been adopted by the PCAOB in Rule 3600T, and has discussed with the auditors their independence. The Audit Committee has also considered the fees billed by Ernst & Young LLP during the last fiscal year for audit and non-audit services to the Company, which are set forth below, and has determined that the provision of the non-audit services are compatible with the firm's independence.

Based on the reviews and the discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2008, for filing with the SEC.

The foregoing report is furnished by the members of the Audit Committee:

Charles M. Sonstebly, Chairman
J. Glen Adams
John B. Lowe, Jr.

The information contained in the Audit Committee Report shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference in such filing.

Change of Independent Registered Public Accounting Firm

On May 1, 2008, the Company engaged Ernst & Young to serve as the Company's independent public accountants for the fiscal year ending July 31, 2008, following KPMG LLP's ("KPMG") completion of its review of the Company's interim financial information as of and for the three-month and nine-month periods ended April 30, 2008, which review was completed on June 6, 2008. The decision to change accountants was approved by the Audit Committee of the Board of Directors.

During the two fiscal years ended July 31, 2007 and July 31, 2006, and the subsequent interim period through June 12, 2008, there were no (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) except as noted below, reportable events (as defined in Item 304(01)(v) of Regulation S-K).

The audit reports of KPMG on the consolidated financial statements of the Company as of and for the years ended July 31, 2007, and 2006, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The audit reports of KPMG on the effectiveness of internal control over financial reporting as of July 31, 2007, and on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of July 31, 2006, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that KPMG's report indicates that the Company did not maintain effective internal control over financial reporting as of July 31, 2006, because of the effect of a material weakness on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states the Company did not maintain effective policies and procedures to ensure the accounting for certain derivative financial instrument was in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. Specifically, the Company had inadequate policies and procedures in place to ensure compliance with the documentation requirements of SFAS 133 at inception of the hedge relationship and failed to properly assess effectiveness and measure ineffectiveness at inception and on a quarterly basis. In addition, the Company did not have resources with sufficient technical experience related to the application of the provisions of SFAS 133. These deficiencies resulted in errors related to the recognition and classification of gains and losses on certain derivative financial instruments in the Company's financial statements. These deficiencies also resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected. The Company confirms that KPMG discussed the material weakness with the Audit Committee and that the Company authorized KPMG to discuss the material weakness with Ernst & Young.

During the fiscal years ended July 31, 2007 and July 31, 2006, and prior to engaging Ernst & Young, the Company did not consult Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's Consolidated Financial Statements, or any matter that was either the subject of a "disagreement" (as defined in Item 304(a)(1)(iv) and the related instructions of Regulation S-K) or a "reportable event."

KPMG was provided with a copy of the above disclosures, also set forth in the Company's Current Report on Form 8-K, as amended and filed with the SEC on June 12, 2008, and was requested to furnish the Company with a letter addressed to the SEC stating whether it agreed with the above statements and, if not, stating the respects in which it did not agree. KPMG's letter was filed as an Exhibit 16.2 to the Form 8-K, as amended.

Independent Registered Public Accounting Firm

Audit Fees. Audit fees billed by Ernst & Young totaled \$1,256,500 in Fiscal Year 2008. Audit fees of Ernst & Young include fees associated with the audit of the Company's consolidated financial statements for Fiscal Year 2008 and the statutory audits of the Company's insurance subsidiaries in Fiscal Year 2008.

Audit fees billed by KPMG totaled \$1,844,000 in Fiscal Year 2007. Audit fees of KPMG include fees associated with the audit of the Company's consolidated financial statements in Fiscal Year 2007, reviews of the Company's quarterly reports on Form 10-Q during Fiscal Year 2007 and the statutory audits of the financial statements of the Company's insurance subsidiaries in Fiscal Year 2007.

Audit-Related Fees. Audit-related fees billed by Ernst & Young totaled \$248,442 in Fiscal Year 2008. Audit-related fees of Ernst & Young include fees associated with the audits of certain employee benefit plans in Fiscal Year 2008.

Audit-related fees billed by KPMG totaled \$102,000 in Fiscal Year 2007. Audit-related fees include fees associated with the audits of the financial statements of certain employee benefit plans.

Tax Fees. Fees billed by Ernst & Young for tax services were \$83,071 for Fiscal Year 2008 and related to tax compliance.

Fees billed by KPMG for tax services, including \$105,192 for tax compliance and \$61,516 for tax advice and tax planning, totaled approximately \$209,280 in Fiscal Year 2007.

All Other Fees. No other fees were billed by either Ernst & Young or KPMG for other services not included above in Fiscal Year 2008 or Fiscal Year 2007.

In addition to retaining Ernst & Young to audit the Company's consolidated financial statements in Fiscal Year 2008, the Company retained Ernst & Young and other accounting and consulting firms to provide advisory, auditing and consulting services in Fiscal Year 2008. The Company's Audit Committee pre-approves all non-audit work performed by Ernst & Young on an item-by-item basis, except that the Audit Committee has pre-approved up to \$75,000 for certain specifically identified tax services, with a limitation of no more than \$25,000 for any particular service, such as assistance with day-to-day federal, state and international tax issues, as well as compensation and employee benefit issues. In the case of such pre-approved tax-related services, those members of the Company's management team responsible for engaging Ernst & Young to perform pre-approved services must report specific engagements to the Audit Committee at each meeting of the Audit Committee.

PROPOSAL NO. 2:

APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE GOALS FOR PERFORMANCE-BASED COMPENSATION

Zale Corporation provides annual cash-based incentive compensation that is based on pre-established objective performance goals of the Company that are approved annually by the Compensation Committee of the Board of Directors (the “Annual Bonus Plan”). Payouts under the Annual Bonus Plan are dependent upon the Company’s success in meeting these pre-established objectives. In addition, the Company provides equity-based awards through the Zale Corporation 2003 Incentive Plan (the “2003 Incentive Plan” and, together with the Annual Bonus Plan, the “Plans”), including stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, stock bonuses and phantom stock.

The Board of Directors is asking the Company’s stockholders to approve the material terms of the performance goals under the Plans, including the group of eligible employees under the Plans, the criteria upon which objective performance goals may be established by the Compensation Committee under the Plans and the maximum amount of incentive compensation that may be paid to any employee under the Plans. Shareholder approval of the material terms of the performance goals is necessary to permit the grant of performance-based compensation that is deductible under Section 162(m) of the Code. Section 162(m) of the Code provides that for any given taxable year, we are limited to a \$1 million deduction for compensation paid to executive officers who are “covered employees” as defined under Section 162(m). Covered employees include the Company’s Chief Executive Officer and the three other highest paid executive officers who appear in the Company’s Annual Proxy Statement, other than the Chief Financial Officer. However, compensation that qualifies as “performance-based compensation,” as defined under Section 162(m) of the Code, does not count against the \$1 million deductible compensation limit. In order for compensation under the Plans to qualify as “performance-based compensation” under Section 162(m) of the Code, the material terms of the performance goals under the Plans must be approved by the Company’s stockholders at least once every five years.

A summary of the material terms of the performance goals under the Plans is set forth below. See “Compensation Discussion and Analysis” above for a summary of the material terms of the awards available under the Annual Bonus Plan and the 2003 Incentive Plan.

The Company’s Board of Directors unanimously recommends that you vote **FOR** the approval of the material terms of the performance goals under the Plans.

Material Terms of the Performance Goals under the Plans

Eligibility. The persons who are eligible to receive bonus awards pursuant to the Annual Bonus Plan are the employees designated by the Compensation Committee as senior management. At August 1, 2008, approximately 609 employees of the Company and its subsidiaries were eligible to participate in the Annual Bonus Plan. The persons who are eligible to receive awards under the 2003 Incentive Plan are those officers and employees of the Company and its subsidiaries designated by the Compensation Committee from time to time. At August 1, 2008, approximately 160 employees of the Company were eligible to participate in the 2003 Incentive Plan.

Performance Goals. The Compensation Committee will establish measurable performance objectives that are to be achieved with respect to bonus awards under the Annual Bonus Plan and performance awards under the 2003 Incentive Plan. The performance goals may be described in terms of Company-wide objectives or in terms of objectives that are related to performance of a division, department or function within the Company in which the participant is employed or on which the participant’s efforts have the most influence. Performance goals established by the Compensation Committee under the Plans for any

performance period may consist of one or more of the following, which may be in relation to target objectives or in terms of relative performance to peer companies or an external index or indices:

- Earnings per share (“EPS”) and/or growth in EPS;
- Earnings before interest, taxes, depreciation and amortization (“EBITDA”) and/or growth in EBITDA;
- Operating cash flow and/or growth in operating cash flow;
- Free cash flow or other cash flow measures and/or growth in such cash flow;
- Cash available;
- Net income and/or growth in net income;
- Operating income and/or growth in operating income;
- Revenues and/or growth in revenues;
- Total shareholder return (measured as the total of the appreciation of and dividends declared on the Common Stock);
- Return on invested capital;
- Return on stockholder equity;
- Return on assets;
- Return on common book equity;
- Economic value added (relative or absolute); and
- Working capital targets.

Performance goals may be based on any of the foregoing measures, adjusted to include or exclude the effect of special items identified by the Compensation Committee.

Maximum Performance-Based Compensation. The Plans are administered by the Compensation Committee of the Board of Directors, which consists solely of two or more “outside directors” within the meaning of Section 162(m) of the Code. The Compensation Committee has the sole authority to determine the amounts payable under the Annual Bonus Plan and to adjust bonus awards to reflect special or unusual circumstances. However, no employee shall be entitled to receive a bonus award under the Annual Bonus Plan that is in excess of \$3,000,000 in any fiscal year. In addition, with respect to the 2003 Incentive Plan, no employee may be granted (1) stock options, stand-alone SARs or tandem SARs with respect to more than 1,200,000 shares of the Company’s common stock during any fiscal year and (2) to the extent such compensation is intended to qualify as performance-based compensation under Section 162(m) of the Code, restricted stock units, restricted stock or phantom stock awards with respect to more than 300,000 shares of the Company’s common stock during any period of three fiscal years (collectively, the “Share Limitations”). Further, the maximum dollar value of cash-denominated awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code that may be granted to any employee in any fiscal year under the 2003 Incentive Plan is \$3,000,000.

If any award under the 2003 Incentive Plan is cancelled, the cancelled award will continue to be counted against the Share Limitations. The Share Limitations are subject to proportionate adjustment in the event of a stock split, stock dividend, recapitalization, combination or other corporate reorganization.

Additional Information Regarding New Plan Benefits. Payouts under the Plans are based upon the Company’s performance relative to the established performance goals. Accordingly, the future payouts under the Plans are not determinable at this time.

The Board of Directors recommends a vote “**FOR**” approval of the material terms of the performance goals.

PROPOSAL NO. 3:

APPROVAL OF AN ADVISORY PROPOSAL ON THE COMPANY'S PAY-FOR-PERFORMANCE POLICIES AND PROCEDURES

The Board of Directors believes that the Company's compensation policies and procedures are centered on a pay-for-performance culture and are strongly aligned with the long-term interests of shareholders. The Board of Directors also believes that both the Company and shareholders benefit from responsive corporate governance policies and constructive and consistent dialogue. Thus, the Board of Directors has decided to voluntarily provide shareholders with the right to cast an advisory vote on the Company's compensation program at the Annual Meeting.

This proposal, commonly known as a "say-on-pay" proposal, gives you as a shareholder the opportunity to endorse or not endorse our executive pay program through the following resolution:

"Resolved, that the shareholders approve the overall executive pay-for-performance compensation policies and procedures employed by the Company (together with the accompanying narrative disclosure), as described in the Compensation Discussion and Analysis and the tabular disclosure contained in the Company's Proxy Statement for its 2008 Annual Meeting regarding named executive officer compensation."

Because your vote is advisory, it will not be binding upon the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors recommends a vote **"FOR"** approval of this resolution.

PROPOSAL NO. 4:

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP has served as the Company's independent public accounting firm since May 2008, and has been reappointed by the Audit Committee to serve as the Company's independent registered public accounting firm for the upcoming fiscal year. The Company has been advised that no member of Ernst & Young LLP or any of its associates has any financial interest in the Company or its affiliates. A representative of Ernst & Young LLP is expected to attend the Annual Meeting and will be available at the Annual Meeting to respond to appropriate questions and will be given an opportunity to make a statement on behalf of Ernst & Young LLP, if desired.

Although not formally required, the appointment of the independent registered public accounting firm has been directed by the Audit Committee and the Board of Directors to be submitted to the stockholders for ratification as a matter of sound corporate practice. If the stockholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider the appointment of the independent registered public accounting firm. If the stockholders ratify the appointment, the Audit Committee, in its sole discretion, may still direct the appointment of a new independent registered public accounting firm at any time during the upcoming fiscal year if the Audit Committee believes that such a change would be in the best interests of the Company and its stockholders.

The Board of Directors recommends that stockholders vote **"FOR"** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2009.

OTHER MATTERS

The Board of Directors knows of no other matters to be brought before the stockholders at the Annual Meeting. However, if any other matters are properly brought before the Annual Meeting, it is the intention of the named proxies in the accompanying proxy card to vote in accordance with their judgment on such matters.

STOCKHOLDER NOMINATION OF DIRECTOR CANDIDATES

The Bylaws of the Company provide that any stockholder of record who is entitled to vote for the election of directors at a meeting called for that purpose may nominate persons for election to the Board of Directors subject to the following notice requirements.

As described more fully in the Company's Bylaws, a stockholder desiring to nominate a person for election to the Board of Directors must send a written notice to the Secretary of the Company setting forth (i) as to each person who the stockholder proposes to nominate, all information required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice (A) the name and address of such stockholder as it appears on the Company's books and (B) the class and number of shares of the Company that are owned of record by such stockholder. See "Stockholder Proposals" below for additional requirements. In lieu of directly nominating a candidate for consideration by stockholders at an annual meeting, stockholders may recommend individuals to the Nominating and Corporate Governance Committee for inclusion in the Board of Directors slate of nominees. See "Nominating Procedures" above.

STOCKHOLDER PROPOSALS

Pursuant to Rule 14a-8(e) promulgated under the Exchange Act, stockholder proposals to be included in the Company's proxy statement relating to the 2009 Annual Meeting of Stockholders of the Company must be a subject for proper inclusion therein and must be received by no later than June 19, 2009, at the Company's principal executive offices, 901 West Walnut Hill Lane, Irving, Texas 75038-1003, Attention: Legal Department. Any proposal submitted after this date will be considered untimely.

Pursuant to the Company's Bylaws, to be timely, notice of business to be brought before an annual or special meeting of stockholders or notice by a stockholder of nominations for election of a director at a meeting of stockholders must be delivered to the principal executive offices of the Company not less than 60 days and not more than 90 days prior to the meeting. If less than 70 days notice or prior public disclosure is provided for an annual meeting of stockholders, notice of business or notice of a director nomination for such meeting must be provided at least 60 days prior to the first anniversary of the prior year's annual meeting of stockholders. The obligation of stockholders to comply with the foregoing Bylaw provision is in addition to the requirements of the proxy rules. Stockholders of the Company who intend to nominate candidates for election as a director or to bring business before a meeting of stockholders must also comply with other applicable procedures set forth in the Company's Bylaws. See "Stockholder Nomination of Director Candidates." The Company will furnish copies of such Bylaw provisions upon written request to the Secretary of the Company at the aforementioned address.

AVAILABILITY OF ANNUAL REPORT ON FORM 10-K

The Company will provide to any stockholder, free of charge, upon written request of such stockholder, a copy of the Annual Report on Form 10-K for the fiscal year ended July 31, 2008, as filed with the SEC. Such requests should be addressed to Zale Corporation, 901 West Walnut Hill Lane, Irving, Texas 75038-1003, Attention: Investor Relations. The Company's Form 10-K and Annual Report is available online at www.zalecorp.com under "Shareholder Information" then "SEC Filings," or at

www.sec.gov under “Filings and Forms (EDGAR).” The Form 10-K and Annual Report is being delivered with this Proxy Statement as well.

HOUSEHOLDING

As permitted under the Exchange Act, only one (1) copy of this Proxy Statement and the Annual Report is being delivered to stockholders residing at the same address, unless such stockholders have notified the Company of their desire to receive multiple copies of this Proxy Statement.

The Company will promptly deliver, upon oral or written request, a separate copy of this Proxy Statement and the Annual Report to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies should be directed to Investor Relations, by phone at (972) 580-5047 or by mail to Zale Corporation, Investor Relations, 901 West Walnut Hill Lane, Irving, Texas 75038-1003, or by e-mail to *ir@zalecorp.com*. Stockholders residing at the same address and currently receiving only one copy of the Proxy Statement may contact Investor Relations at the address, telephone number and e-mail address above to request multiple copies of the Proxy Statement in the future. Stockholders residing at the same address and currently receiving multiple copies of the Proxy Statement may contact Investor Relations at the address, telephone number and e-mail address above to request that only a single copy of the Proxy Statement be mailed in the future.

The foregoing Notice of Annual Meeting of Stockholders and Proxy Statement are sent by order of the Board of Directors.

Hilary Molay
Senior Vice President, General Counsel and Secretary

