

ZALE CORPORATION AND SUBSIDIARIES
NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

Impact on GAAP Information from Special Items for Fiscal 2009, Diluted:				
	Three Months Ended July 31, 2009		Twelve Months Ended July 31, 2009	
	Amount	Per Share	Amount	Per Share
Net Loss	\$ (89,799)	\$ (2.81)	\$ (189,503)	\$ (5.94)
Store Impairments - (a)	4,072	0.13	9,075	0.28
Bailey Banks & Biddle Lease Reserve - (b)	14,125	0.44	14,125	0.44
Closed Store Charges - (c)	16,498	0.52	16,498	0.52
Inventory Impairment Charge - (d)	8,256	0.26	8,256	0.26
Goodwill Impairment - (e)	-	-	5,020	0.16
Tax Adjustments (f)	27,891	0.87	39,587	1.24
Total Before Change in Deferred Revenue, as Adjusted	(18,957)	(0.59)	(96,942)	(3.04)
Change in Deferred Revenue	3,622	0.11	25,235	0.79
Net Loss, as Adjusted	<u>\$ (15,335)</u>	<u>\$ (0.48)</u>	<u>\$ (71,707)</u>	<u>\$ (2.25)</u>

Impact on GAAP Information from Special Items for Fiscal 2008, Diluted:				
	As Restated Three Months Ended July 31, 2008		As Restated Twelve Months Ended July 31, 2008	
	Amount	Per Share	Amount	Per Share
Net (Loss) / Earnings from Continuing Operations	\$ (9,977)	\$ (0.30)	\$ (6,453)	\$ (0.15)
Gain on Sale of Diamond - (g)	(3,500)	(0.10)	(3,500)	(0.08)
Store Impairments - (a)	170	(0.00)	1,164	0.03
Vacation Adjustment - (h)	(7,691)	(0.23)	(7,691)	(0.19)
Total Before Change in Deferred Revenue, as Adjusted	(20,998)	(0.63)	(16,480)	(0.39)
Change in Deferred Revenue	9,191	0.28	48,335	1.14
Net (Loss) / Earnings from Continuing Operations, as Adjusted	<u>\$ (11,807)</u>	<u>\$ (0.35)</u>	<u>\$ 31,855</u>	<u>\$ 0.75</u>

- (a) Impairments on long-lived assets associated with underperforming stores.
- (b) Lease reserves related to preliminary agreements with landlords to settle Bailey Banks & Biddle lease guarantees for 38 of 45 stores. The lease reserve also includes accruals for estimated payments that we believe will be required to settle the guarantees for the remaining 7 stores.
- (c) Charges related to lease termination and other costs associated with closing 119 locations for the quarter ended July 31, 2009.
- (d) Inventory impairment charge associated with our decision to accelerate the sale of certain clearance merchandise in fiscal 2010.
- (e) Charges related to goodwill impairments.
- (f) Tax adjustments for the year ended July 31, 2009 include a net charge totaling \$18.0 million associated with our decision to revoke our election under APB 23 during the second quarter and a \$21.5 million charge related to uncertainties surrounding the utilization of net operating loss carryforwards. Tax adjustments for the three months ended July 31, 2009 include a charge totaling \$6.4 million related to a change in the estimated impact associated with the revocation of our APB 23 election and a \$21.5 million charge related to the previously noted net operating loss carryforwards.
- (g) Gain on the sale of our interest in the 'Incomparable Diamond'.
- (h) Benefit associated with a change in our vacation policy.

Reconciliation of GAAP Information to Non-GAAP basis for fiscal 2009:				
	Three Months Ended July 31, 2009		Twelve Months Ended July 31, 2009	
	Amount	%	Amount	%
Gross Margin	\$ 165,751	46.4%	\$ 831,172	46.7%
Inventory Impairment Charge - (d)	13,534	3.8%	13,534	0.8%
Gross Margin, as Adjusted	<u>\$ 179,285</u>	<u>50.2%</u>	<u>\$ 844,706</u>	<u>47.5%</u>

Reconciliation of GAAP Information to Non-GAAP basis for fiscal 2009:		
	Three Months Ended July 31, 2009	Twelve Months Ended July 31, 2009
Net cash provided by operating activities	\$ 32,112	\$ 2,695
Payments for property and equipment	(3,221)	(28,357)
Free cash flow	<u>\$ 28,891</u>	<u>\$ (25,662)</u>