

GLOBAL COMPACT ANNUAL COMMUNICATION ON PROGRESS – SME VERSION

Company Name	Lazare Kaplan International Inc.	Date	December 24, 2009
Unit (if applicable) Address	Headquarters 19 West 44 th Street New York, NY 10036	Membership date	May 1, 2001
Country	USA	Number of employees	50 in New York / 75 globally
Contact name Contact Position	Damian Gagnon Corporate Compliance and Social Responsibility Officer	Sector	Diamond Trading, Cutting, Polishing and Marketing
Contact telephone no.	+1-212-857-7508		

Brief description of nature of business

Since its founding in 1903, Lazare Kaplan International Inc. (LKI) has been an acknowledged leader among the world's diamond cutting and polishing companies. LKI is the only company specializing in diamond manufacturing publicly listed on a major U.S. stock exchange (AMEX) and by virtue of such listing is subject to the fullest oversight of U.S. securities and exchange laws and regulations. No other company in its field worldwide is subject to comparably stringent disclosure and compliance requirements.

LKI has, in addition, taken a leading role in developing self-regulatory industry protocols and procedures to promote ethical conduct.

Every Lazare Diamond[®] is cut to produce the optimal balance of brilliance, scintillation, and fire. Likewise, LKI has consistently set and adhered to the highest ethical and professional standards in the industry. This tradition of excellence gives every LKI stakeholder the confidence that they share in one of the richest and most honorable diamond traditions anywhere.

*****LKI'S CORPORATE SOCIAL RESPONSIBILITY STATEMENT IS APPENDED TO THIS REPORT

Statement of support

"Lazare Kaplan International Inc. is proud to be a founding member of the United Nations Global Compact which was launched in 2000 to "initiate a global compact of shared values and principles which will give a human face to the global market". LKI firmly supports the ten principles of the Global Compact and remains committed to upholding the standards and values of transparency, accountability, and good corporate citizenship in our global business development program."

****FROM 'COMMITMENT TO HIGHER STANDARDS' PAGE AT THE COMPANY'S WEBSITE
WWW.LAZAREDIAMONDS.COM

Maurice Tempelsman
December 23, 2009

Chairman of the Board

PRINCIPLE 1 BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS
PRINCIPLE 2 BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES

Our Commitment and Policies

LKI is committed to the respect of human rights as the basis for its overall approach to business. All of LKI's entities have specific policies that address discrimination, harassment, ethical conduct, confidential complaints and non-retaliation, and fair employment practices, including prohibitions against the use of child labor and forced labor as well as prohibitions

against violence and use of weapons.

LKI protects the fundamental human rights of employees and stakeholders in communities where we operate around the globe as expressed in the Universal Declaration of Human Rights, the UN Global Compact's Principles I and II and in relevant International Labor Organization conventions. In addition, before hiring staff, LKI checks to ensure that each candidate for employment has no previous involvement in human rights abuses.

A brief description of our Processes or Systems

LKI will not tolerate the discrimination or harassment of employees or visitors to company premises. The company defines harassment as negative conduct focused on a person or group of persons including, but not limited to: physical or verbal abuse, unwelcome activity of a sexual nature, retaliation, and any behavior or action which interferes with an individual's ability to perform assignments or which creates a hostile or intimidating work environment.

LKI has provision for reporting work-related human rights abuses and maintains formal channels to encourage communications among all levels of supervisors and employees—without fear of reprisal—on issues that impact working conditions. This “open door policy” entitles all employees to freely discuss with management all matters relating to their welfare, terms and conditions of employment, questions, complaints, grievances and recommendations.

Measurable Results or Outcomes

There have been no reports of failure to support and respect the protection of internationally proclaimed human rights and no instance of human rights abuse at Lazare Kaplan.

PRINCIPLE 3 BUSINESS SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING

Our Commitment and Policy

POLICY ON FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Each company employee has the right to associate, or not associate, with any legally sanctioned representative labor organization. LKI will not issue threats, warnings or orders to refrain from engaging in activities that are protected under Section 8(a)(1) of the National Labor Relations Act of the United States.

A brief description of our Processes or Systems

LKI maintains safe and healthy working conditions. The company actively works to prevent and reduce the risk of accidents and ensures that it has dedicated appropriate resources to identify, avoid and respond to potential health and safety risks and to effectively deal with emergencies and accidents. LKI co-operates fully with employee health and safety representatives and appropriate authorities to monitor existing conditions and to contribute positively to ongoing health and safety improvements. Employees may leave work situations in which they may reasonably judge that there is serious and imminent danger to life or health, without fear of consequence, until the danger has been removed.

The company's Chief Financial Officer is responsible for implementation of health and safety policy. Individual employees are themselves responsible to remain vigilant within their own sphere of operations. Employees undergo training (in the case of first aid this will be nominated individuals) and awareness building with respect to the issues covered in this policy - fostering an awareness of shared responsibility and accountability.

Measurable Results or Outcomes

There have never been reported instances of interference with an employee's right to collective bargaining.

PRINCIPLE 4 BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED

AND COMPULSORY LABOUR

Our Commitment and Policy

There is no forced or compulsory labor in Lazare Kaplan. We do not retain employee documents or money, and we do not use hidden bonds.

A brief description of our Processes or Systems

POLICY ON FORCED LABOR

LKI will not use or support the use of any type of forced or bonded labor, including slavery, prison labor that is required from prisoners without pay or to complete their sentence, labor as a punishment for expressing political views, or labor demanded of workers because of their debt to the company. All workers are free to leave the workplace at the end of the working day.

Measurable Results or Outcomes

There have been no reported instances of forced or compulsory labor in the history of Lazare Kaplan.

PRINCIPLE 5 BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR

Our Commitment or Policy

The company complies with all relevant standards regarding employment of minors under the Federal Fair Labor Standards Act (FLSA). The company will not hire minors under the age of 18 except as permitted under FLSA and New York State standards. There are no children in our labor force.

A brief description of our Processes or Systems

POLICY ON CHILD LABOR

LKI will not use or support the use of child labor as defined in the United Nations International Labor Organization Minimum Age Convention (138). Under no circumstances will LKI employ children below the age of sixteen (16).

Measurable Results or Outcomes

Documents providing proof of age are required of all new employees as a condition of employment. LKI management does not keep deposits or identity papers provided by the workers to the company as part of the recruitment process.

There have been no incidents of child labor at Lazare Kaplan.

PRINCIPLE 6 BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

Our Commitment or Policy

EQUAL OPPORTUNITY EMPLOYMENT

LKI is an equal opportunity employer. We utilize available human resources to the fullest, regardless of race, color, religion, sex, age, national origin, physical or mental handicap, veteran's status, marital status or sexual orientation.

AMERICANS WITH DISABILITIES ACT

Lazare Kaplan fully abides by the Americans with Disabilities Act (ADA) which prohibits discrimination in all employment practices, including job application procedures, hiring, firing, advancement, compensation, training, and other terms, conditions, and privileges of employment.

POLICY AGAINST HARASSMENT

At Lazare Kaplan, harassment is defined as unfavorable conduct that is focused on a person or group of persons that may include, but is not limited to: physical or verbal abuse, unwelcome activity of a sexual nature, and retaliation. In addition, any behavior or action which interferes with an individual's ability to perform assignments or which creates a hostile

or intimidating work environment is considered harassment.

DISCRIMINATION/HARASSMENT COMPLAINT POLICY

Any employee who feels he or she is the victim of discrimination or harassment has a responsibility to immediately report the incident verbally and in writing to the Human Resource Manager and/or the employee’s direct supervisor. A written complaint should include the specific nature of the incident, date and place of incident, names of all parties involved as well as a detailed report of all pertinent facts. Complaints of harassment will be promptly and carefully investigated. Investigations will include interviews with all relevant persons, including the accused and other potential witnesses.

NON-RETALIATION POLICY:

Any employee, who, in good faith, files a complaint of harassment, will be free from any and all reprisal or retaliation as a result of filing the complaint. Investigators will make every effort to between the parties’ desires for privacy and the need to conduct a fair and effective investigation.

A brief description of our Processes or Systems

Proven incidents of harassment shall subject an employee to disciplinary action up to and including termination of employment. Likewise, there will be disciplinary measures if in fact it is determined that the incident and thus the accusation were fabricated.

LKI will not tolerate discrimination against or harassment of employees and/or job applicants or visitors to the premises. Comments, conduct, and innuendoes or off color jokes that may be perceived as offensive or harassing are strictly prohibited and will not be tolerated. In addition, LKI will not tolerate the harassment of LKI personnel by non- LKI personnel on LKI premises.

Measurable Results or Outcomes

We apply these principles to our recruitment, advertising, tenure, layoff, leave, fringe benefits, and all other employment-related activities.

There have been no instances or reports of discrimination or harassment.

30% of LKI's global workforce is female, including 10 engaged at the supervisory or higher level. In New York the directors of human resources, polished diamonds, marketing and hpht departments are all female. In Japan, the administration, finance and polished diamond departments are headed by females as is the administrative department in Belgium. The regional director of LKI’s Far East operations is a female based in Hong Kong.

PRINCIPLE 7	BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES
PRINCIPLE 8	BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY
PRINCIPLE 9	BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Our Commitment or Policy

ENVIRONMENTAL POLICY

LKI conducts our businesses in an environmentally responsible manner. We assess and address any adverse environmental impacts resulting from our business activities, as appropriate. We will seek to contribute to the preservation of the natural environment in which we operate, as appropriate.

Measurable Results or Outcomes

There have been on incidents of non-compliance with environmentally friendly policies at Lazare Kaplan.

PRINCIPLE 10 BUSINESS SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

Our Commitment and Policies

ETHICS IN CONDUCT OF THE COMPANY'S BUSINESS

LKI's distinguished reputation has been earned through many years of observance of applicable law and adherence to ethical business standards. Each LKI employee is committed to these standards in the conduct of all aspects of LKI's business. In view of widespread public concern about best business practices, the Board of Directors has adopted a formal company ethics policy to reaffirm for all concerned LKI's standards of conduct for its global business.

Compliance with Laws

LKI shall conduct its affairs in accordance with all applicable laws and in adherence to the highest ethical business standards. The use of LKI's funds, services and assets for any unlawful or improper purpose is strictly prohibited. This prohibition covers, among other things, the purchase of privileges or special benefits through improper concessions or payments, such as bribes or pay-offs.

Political Contributions

LKI has not contributed and will not contribute to political parties or candidates for office. The prohibitions cover not only direct contributions but also indirect support of candidates or political parties as for instance, the purchase of tickets for fund raising events, the loan of employees to political parties or committees, or the furnishing of transportation or other services. These prohibitions relate only to the use of corporate funds and facilities and are not in any way intended to discourage employees from making personal contributions to candidates or political parties of their choice. Employees must not, however, be influenced by LKI to do so nor may they be reimbursed by LKI for such personal contributions.

Relationships with Public Officials

LKI's relationship with public officials should in all respects be of such a nature that neither the official's nor LKI's integrity or reputation would be impugned by public knowledge of the full details of the relationship.

Conflict Diamonds -- Zero Tolerance Policy

LKI has a "zero tolerance" policy regarding the trade in conflict diamonds. LKI requires that all employees undertake to help prevent the trade in conflict diamonds and, as a condition of continued employment, be bound

- Not to buy any diamonds from firms that do not include the Statement of Warranty on their invoices (see WDC, below);
- Not to buy any diamonds from suspect or unknown sources of supply and/or that originate in countries that have not implemented the Kimberley Process Certification Scheme;
- Not to buy diamonds from any source that after a legally binding due process system has been found to have violated government regulations restricting the trade in conflict diamonds;
- Not to buy diamonds in or from any region that is subject to an advisory by a governmental authority that conflict diamonds are emanating from or available for sale in such region unless such diamonds has been exported from such region in compliance with Kimberley Process requirements;
- Not to knowingly buy or sell or assist others to buy or sell conflict diamonds;

POLICY REGARDING CONFIDENTIAL INTERNAL ACCOUNTING AND AUDITING COMPLAINTS

As part of our ongoing effort to ensure compliance with all lawful and ethical business practices consistent with recently passed securities reform and legislation, LKI has adopted a Policy and Procedure for reporting complaints and concerns regarding its accounting, internal accounting controls and auditing matters and encourages employees to promptly report all such complaints or concerns.

NON-RETALIATION POLICY:

While complaints and concerns regarding questionable accounting or auditing matters may be made on an anonymous basis, employees are encouraged to give their identity so that

LKI can contact the employee in the event further information is needed to pursue an investigation. In any case, the identity of the employee making a report will be maintained in confidence in accordance with applicable legal requirements. LKI will not allow any form of harassment or retaliation to be made against any employee for any such reports made in good faith.

SECTOR SPECIFIC INITIATIVES

1. Kimberley Process Certification Scheme

Compliance with Kimberly Process Protocols recognizing that the trade in diamonds that originate from areas controlled by forces or factions opposed to legitimate and internationally recognized governments (Conflict Diamonds) is a matter of serious international concern being addressed by governments, industry and civil society in the Kimberley Process. LKI is committed to doing its part to prevent suspect diamonds from entering into legitimate diamond trading channels.

2. World Diamond Council (WDC) Industry System of Self Regulation

The Company has adopted the World Diamond Council's voluntary system of industry self-regulation to help prevent the trade of conflict diamonds. As a consequence, the Company will not purchase rough diamonds, polished diamonds, or diamond jewelry unless the supplier is able to credibly warrant those diamonds to be conflict free, and all Company invoices for sale of rough diamonds, polished diamonds, and jewelry containing diamonds must include our own warranty consistent with the World Diamond Council's Statement of Warranty (SOW). The Company requires that all employees undertake to help prevent the trade of conflict diamonds and, as a condition of continued employment, be bound not to buy any diamonds from firms that do not include the WDC's SOW on their invoices, and not to buy any diamonds from suspect or unknown sources of supply and/or that originate in countries that have not implemented the Kimberley Process International Certification Scheme or that have not been exported in compliance with Kimberley Process requirements.

Statement of Warranty

To the best of seller's knowledge, the diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. Accordingly, seller hereby guarantees that to the best of its knowledge these diamonds are conflict free. With respect to diamonds herein invoiced, which were acquired by seller after December 31, 2002, seller guarantees them to be conflict free based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.

3. USA PATRIOT Act

Under Financial Crimes Enforcement Network (FinCEN) of the United States Treasury Department rules, diamond dealers are required to establish Anti-Money Laundering (AML) programs under the USA PATRIOT Act. The regulations ensure that relevant provisions of the Bank Secrecy Act is applied appropriately to the diamond industry.

At a minimum, the AML program must include the following four elements:

- Written policies, procedures and internal controls, based on the dealer's assessment of the money laundering and terrorist financing risk associated with its business;
- Appointment of a compliance officer who is responsible for ensuring that the program is implemented effectively;
- Provision for ongoing training of relevant persons concerning their responsibilities under the program; and
- Independent testing to monitor and maintain an adequate program.

LKI is defined as a dealer under these rules and is required to implement these provisions of the USA PATRIOT Act.

4. Diamond Assurance Program Best Practice Principles (BPPs)

Lazare Kaplan International Inc. has been a Sightholder (client) of the Diamond Trading Company (DTC) since 1946. The DTC is the rough diamond sales and distribution arm of the De Beers group and is the world's largest supplier of rough diamonds, handling more than 40% of the world's supply by value. As a DTC client, LKI is required to abide by a strict

ethical code of conduct known as the Best Practice Principles and to use our best endeavors to ensure that our customers and suppliers adhere to these principles.

The BPPs define standards of conduct for Sightholders in three critical areas:

- Best Business Responsibilities require Sightholders to prove that their every operation and every employee abide by the highest ethical and legal compliance standards in their overall business relationships including sourcing of diamonds, supply chain management, sales transactions and general management practices.
- Best Social Practices require Sightholders to develop practices and policies to provide value to their employees and the communities where they do business.
- Best Environmental Principles require Sightholders to ensure sustainability by operating under the highest standards required by law to minimize their impact on the natural environment.

The Best Practice Principles are supported by an 'Assurance Programme' to assess Sightholder compliance with the BPPs. In the first instance, the Sightholder's "self-assessment" is reported in the form of a workbook submission to the DTC's independent third party "verifier", Swiss-based multinational Société Générale de Surveillance (SGS), on an annual basis. Sightholder compliance is audited by the verifier through monitoring and annual onsite verification visits to one or more of the Sightholder's world-wide operating locations. Compliance is measured, instances of breach are noted, and a compliance report submitted by the verifier to the DTC. Infringements must be immediately corrected in order for a Sightholder to remain in good standing, and material breaches of the Principles may lead to termination of the Sightholder relationship.

A brief description of our Processes or Systems

COMPLIANCE OFFICERS

LKI has appointed a compliance officer, Mr. Damian Gagnon, as per applicable provisions of the USA Patriot Act, who reports directly to the Chairman and Vice Chairman of the Board of Directors and has access to the Audit Committee of the Board. In addition to assuring compliance with the USA PATRIOT Act, Mr. Gagnon is responsible for ensuring LKI compliance with the sector-specific initiatives outlined in the previous section of this report.

As a publicly traded United States company, Lazare Kaplan is also subject to the "Company Accounting Reform and Investor Protection Act" (Sarbanes-Oxley Act of 2002). In accordance with provisions thereof, a separate compliance officer/internal auditor, Mr. Lennard Boodhoo, has been appointed for the purpose of ensuring compliance with Sarbanes-Oxley regulations.

KNOW YOUR CUSTOMER/KNOW YOUR SUPPLIER

The company runs a complete identification and credit check on all suppliers and clients before establishing business relationships and again before significantly expanding the relationship or before recommencing business after a 24 month period without activity on the account. No transaction can be conducted unless the Corporate Credit Manager gives his approval to the transaction. A file is kept on each business partner, and we demand a Statement of Warranty guaranteeing conflict-free origin of every diamond purchased.

MONITORING CASH TRANSACTIONS

As a general rule, LKI discourages all cash transactions. All personnel involved in buying, selling and accounting for diamond transactions are trained to recognize suspicious transactions, and in the event that a cash transaction is proposed by a prospective client, LKI sales representatives know how to deal with the situation. In the event such a transaction is ultimately approved by the Compliance Officer, they know how to complete IRS Form 8300 for reporting cash transactions and to submit the completed form to the Corporate Credit Manager for onward transmission to the IRS.

Actions implemented in the last year / planned for next year

TRAINING OF RELEVANT EMPLOYEES

The rules of the KPCS and USA PATRIOT Act are effectively communicated to all relevant

personnel on an on-going and recurrent (at least annual) basis. All new employees destined to be involved in the buying, selling, shipping, receiving and or accounting for diamond transactions are trained in these matters before they are permitted to take up their responsibilities. In September and October of 2009, Mr. Gagnon trained 37 members of staff in Corporate Responsibility, including the AML and CFT provisions of the USA PATRIOT Act

Measurable Results or Outcomes

AML/CFT

Lazare Kaplan International Inc. is fully compliant with the AML/CFT provisions of the USA PATRIOT Act.

LKI has comprehensive, written Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) policies that were approved by the Board of Directors in compliance with relevant provisions of the USA Patriot Act. These policies contain procedures for addressing and dealing with suspicious transactions. All LKI employees have certified that they have received a copy and read these policies and procedures, and each employee involved in the buying, selling and/or accounting for diamonds and diamond jewelry transactions is trained and periodically retrained in these AML and CFT policies and procedures.

***** A COPY OF THE 2009 AML/CFT AUDIT REPORT IS ATTACHED TO THIS COP.

SOCIAL ACCOUNTABILITY

July 7, 2005 Lazare Kaplan International Inc.'s Puerto Rico Factory is the First Diamond Factory Worldwide to be Certified to the Highest International Workplace Standards by Social Accountability International.

LKI's diamond cutting and polishing facility in Caguas, Puerto Rico, the largest diamond cutting and polishing factory in the Americas, was the first such factory in the world to be certified by Social Accountability International (SAI), for compliance with the highest standard of workplace norms as measured by SAI's internationally recognized social accountability measuring system (SA 8000). The SA 8000 standard and verification system provides a credible, comprehensive and efficient measure of humane workplace practices and public responsibility.

***** A COPY THE COMPANY'S RECENTLY RENEWED CERTIFICATE AND ORIGINAL PRESS RELAEASE IS ATTACHED

BEST PRACTICE PRINCIPLES

Lazare Kaplan International Inc. is 100% Compliant with Best Practice Principles

In the 2008/2009 Global Compact reporting period, LKI submitted BPP self-assessments on all 26 of its global entities and facilities. SGS, the independent BPP verifier, monitored the assessments and conducted onsite verification visits at LKI's world headquarters in New York and at Lazare Kaplan Hong Kong.

In its BPP Assurance Program report issued in March 2009, the independent verifier - SGS, on behalf of De Beers, rated the overall compliance of Lazare Kaplan International Inc and its subsidiary operations to be **"Compliant, another strong workbook submission from The Sightholder (LKI) and an ongoing commitment to the BPPs. All workbooks were submitted within the deadline and those reviewed were completed to a high standard with a good level of supporting commentary. The ongoing SA8000certification of the Puerto Rico facility meant limited questioning was required however when it was the Sightholder responded promptly and in full."** No Minor, Major, or Material breaches were found.

***** A LETTER FROM SGS, THE INDEPENDENT BPP VERIFIER, IS ATTACHED TO THIS COP

WDC INDUSTRY SYSTEM OF SELF REGULATION

Lazare Kaplan is 100% Compliant with the Industry System of Self Regulation

All relevant staff (those staff members who are involved in buying, selling or accounting for rough diamond transactions) are trained to ensure that no exports or imports of rough diamonds are made without an accompanying KP Certificate, and all imports of rough diamonds are reported to the KP authority in the exporting country and to the US Bureau of

the Census within 15 days of receipt. All documents related to rough diamond imports and exports, including the original KP Certificate, are kept together on file for a period of five years as per KP protocols. Relevant staff is well trained in these matters. The Company is audited on an annual basis by an independent third party for compliance with KP and WDC guidelines. Last year's audit revealed no abnormalities.

******* A COPY OF THE AUDITOR'S LETTER IS ATTACHED**

[Attachments](#)



LAZARE KAPLAN INTERNATIONAL INC. Corporate Social Responsibility Statement

Since its founding in 1903, Lazare Kaplan International Inc. (LKI) has become an acknowledged leader among the world's diamond cutting and polishing companies. Every Lazare Diamond® is cut to produce the optimal balance of brilliance, scintillation, and fire. Likewise, LKI has consistently set and adhered to the highest ethical and professional standards in the industry. This tradition of excellence gives every LKI stakeholder the confidence that they share in one of the richest and most honorable diamond traditions anywhere.

LKI is the only company specializing in diamond manufacturing publicly listed on a major stock exchange (AMEX), and by virtue of such listing is subject to the fullest oversight of U.S. law and regulation. No other company in its field worldwide is subject to comparably stringent disclosure and compliance requirements. LKI has, in addition, taken a leading role in developing self-regulatory industry protocols and procedures to promote ethical conduct.

LKI has been a committed partner of the people in those countries on five continents where it does business, pursuing policies and projects that yield tangible local benefits. The consistency of the company's commitment to local communities reflects LKI's operating philosophy of long-term dedication to its partners, within and without the industry.

LKI is proud of its record of leadership in promoting ethical, social, and environmental accountability in today's global diamond market place.

GOOD CORPORATE GOVERNANCE

Public Disclosure - Founded more than 100 years ago, LKI went public in 1972, becoming the first U.S. diamond-cutting firm to become a publicly listed corporation. U.S. public listing entails adherence to high reporting and ethical requirements, as well as maintenance of the institutional infrastructure necessary to meet these requirements.

Financial Transparency and Auditing – Being publicly listed, LKI is required by the Securities and Exchange Commission (SEC) to submit quarterly financial statements and to publish fully audited accounts every year. The requirement that auditors be independent, and the rule that audit staff be rotated every five years, yields further confidence in the transparency and probity of LKI's business.

Independent Board – To ensure transparency and integrity in their business activities, publicly listed U.S. companies must have boards containing a significant number of independent directors, who are neither employed by the company nor related to other board members.

Fair Trade and Practice Laws – Although much of American securities law is designed to protect the investor, an increasing body of U.S. legislation regulates the conduct of American corporations vis-à-vis other stakeholders such as employees, consumers and local communities. LKI fully supports, complies with, and routinely exceeds the standards set by legislation in all these areas.

Ethical Standards in All Commercial Relationships – A number of multinationals have faced intense public scrutiny in recent years because of sub-par standards in some of their offshore operations. By contrast, LKI's close involvement with its own operations outside America ensures that the highest ethical standards are maintained in all its commercial relationships, irrespective of where located.

Code of Ethics – LKI's Board has adopted and enforced a Code of Ethics for senior company officers, mandating adherence to a rigorous set of substantive and procedural safeguards.

PROMOTION OF DIAMOND INDUSTRY BEST PRACTICE

As a concerned leader of the global diamond industry, LKI has helped develop and fully supports policies which prohibit the trade in conflict diamonds, prevent money laundering, combat the financing of terrorism, and promote transparency, fair dealing and disclosure throughout the diamond pipeline. It is LKI's strict policy to clearly identify its prospective suppliers and its customers before entering into any business transaction.

Zero Tolerance For Conflict Diamonds - LKI rough diamond traders are trained to recognize conflict diamonds as defined by UN Resolution 55/56 of 2001. The LKI system of controls was instituted even before the existence of this UN Resolution, and received special commendation from the UN for its contribution to stemming the flow of conflict diamonds. All of LKI's rough diamond buyers are required to sign and abide by a written code of ethical diamond trading conduct as a condition of continued employment.

Kimberley Process Certification Scheme (KPCS) - LKI actively participated in the inaugural meeting of diamond industry stakeholders in Kimberley, South Africa in May 2000 and participated in all subsequent deliberations that led to the January 2003 adoption of the KPCS and its system of controls over rough diamond trading. With over 70 participating countries, the KPCS has proved to be a significant tool for combating the trade in conflict diamonds, contributing to peace and security, and protecting the legitimate diamond industry. LKI will not import or export rough diamonds without an accompanying Kimberley Process Certificate of origin.

World Diamond Council (WDC) Industry Self-Regulation – Established in conjunction with the KPCS, the WDC has established a system of buyer-seller warranties to extend the reach and effectiveness of the KPCS throughout the entire diamond pipeline. LKI trades only with companies that provide such warranties, guaranteeing the conflict-free origin of the diamonds on their invoices. All sales and consignments of LKI diamonds are themselves accompanied by LKI's own warranty statement. This flow of warranties in and warranties out is audited and reconciled on an annual basis by LKI's financial auditors.

Leadership in Disclosure – Just as LKI has been an industry leader in technological breakthroughs relating to diamond enhancement, it has been the first to insist on full disclosure of all such treatments.

Corporate Compliance Officer - LKI has appointed a senior executive with full-time oversight responsibility in the areas of corporate social responsibility and KPCS/WDC/AML compliance. Under this executive's oversight, each of the company's employees engaged in buying, selling and/or accounting for diamonds and precious minerals has been trained, among other things, to recognize, prevent and report any attempt by prospective business partners to use LKI to further or engage in criminal activity, including illicit diamond trading.

Trade Association Membership – LKI and its officers are members of a wide variety of diamond and jewelry industry associations including, but not limited to, the American Gem Society, the Gemological Institute of America, the Jewelers Vigilance Committee, the Jewelers Board of Trade, the Diamond Manufacturers and Importers Association, the Jewelers Credit Interchange Group, the Jewelers Security Alliance, the New York Diamond Dealers Club, and the Council for Responsible Jewelry Practices.

Best Practice Principles Assurance Program - LKI fully subscribes to and is compliant with the DTC's BPP Assurance Program developed to demonstrate to supply chain partners, consumers and other interested stakeholders that the exploration, extraction, sorting, cutting and polishing of diamonds, and the manufacture and sale of diamond jewelry is undertaken in a professionally, ethically, socially and environmentally friendly and accountable way.

GOOD CORPORATE CITIZENSHIP

LKI is committed to embracing, supporting and implementing, within the scope of its influence, a set of core values in the areas of human rights, development, labor standards and environmental sustainability.

Social Accountability International - LKI's diamond cutting and polishing facility in Caguas, Puerto Rico, the largest diamond cutting and polishing factory in the Americas, was the first such factory in the world to be certified by Social Accountability International (SAI), for compliance with the highest standard of workplace norms as measured by SAI's internationally recognized social accountability measuring system (SA 8000). The SA 8000 standard and verification system provides a credible,

comprehensive and efficient measure of humane workplace practices and public responsibility.

The UN Global Compact - In 1999, UN Secretary-General Kofi Annan challenged business leaders to join an international initiative – the Global Compact – that would bring companies together with UN agencies, labor and civil society to support universal environmental and social principles. In 2000, LKI became a founding member of the Global Compact, which has today grown to 3,000 members, including over 2,500 private sector participants.

Leadership on Africa – LKI pioneered diamond beneficiation outside of apartheid South Africa, and apart from investing heavily in the continent the company and its principal shareholders have over the past half-century played a leading role in launching and sustaining numerous organizations and initiatives that have built bridges between Africa and the US, to Africa’s developmental benefit. Prominent examples include

- **The Corporate Council on Africa**, on which LKI’s Chairman serves as Chairman *Emeritus* and member of the Executive Committee of this leading organization dedicated to enhancing United States investment in Africa;
- **The Business Council for International Understanding (BCIU)**, which LKI’s longstanding support (LKI’s Chairman has served on BCIU’s board since the 1960s) has helped become a principal forum for public-private partnership initiatives, particularly focused on Africa;
- **The Africa-America Institute (AAI)**, which over the years has promoted and financed higher education programs for more than 20,000 African students and of which LKI has been a leading sponsor, as symbolized by the five decades of service on AAI’s Board by LKI’s Chairman;
- **The National Democratic Institute (NDI)**, which works to strengthen and expand democracy around the globe and has acquired a special legitimacy in Africa due to its effective investments in peace and stability on the continent, with LKI’s Chairman having served as Chair of NDI’s Africa Subcommittee for over 20 years;
- **The Harvard AIDS Institute**, of which LKI’s Chairman was a founder, and which has been introduced to Botswana and other African countries by LKI, resulting in the case of Botswana in establishment of a state-of-the-art medical research facility (the Botswana-Harvard AIDS Institute HIV Reference Laboratory) of a caliber and scale unmatched on the continent;

LAZARE KAPLAN INTERNATIONAL INC.

USA PATRIOT Act

Re: Results Letter- AML Compliance Testing

Ref: USA Pat. 01

01 30 2009

Damian Gagnon

Corporate Compliance and Social Responsibilities Officer

Lazare Kaplan Incorporated.

19 West 44th Street

New York, NY 10036

This document summarizes the results of testing procedures undertaken by The Internal Audit Department of Lazare Kaplan International on January 20th 2009, to evaluate the degree of adherence by various levels of LKI’s officers and employees located at 19 West 44th Street New York, NY 10036, to procedures formulated to address applicable provisions of the USA Patriot ACT with reference to the Anti-Money Laundering and Financing of Terrorism Program.

Money laundering is described as “Conducts/Acts designed in whole or in part to conceal or disguise the nature, location, source, ownership or control of money, (currency or its equivalents [checks, electronic transfers]) to avoid a transaction reporting requirement under state or federal law, or to disguise the fact that the money was acquired by illegal means.”

AML Testing Procedures necessitated the interview of Company personnel, examination of company documents, and observation of system routine.

The following were noted:

1) Compliance Officer

- a) Approved by senior management and BOD
- b) Has requisite knowledge and authority in AML matters
- c) Has access to necessary information and personnel
- d) Performs the necessary documentation as follows:
 - I) Record of duties and responsibilities maintained
 - II) CO authority approved by senior management
 - III) Records maintained at (LKI) of risk assessment performed
 - IV) Records maintained at (LKI) of employee training
 - V) Written communications regarding AML compliance of customers and suppliers, copies maintained
 - VI) For instances of suspicious activity, it is the policy of LKI to document action taken- no such instances have occurred in the period tested

2) Customer and supplier identification program

- a) Computer system incorporates customers and suppliers identification information and procedures.
- b) The required identification information has been acquired.
 - All required identification information incorporated in required credit application for customers- information must be complete before any transaction is initiated. Written responses to LKI's solicitation of identification information are maintained in paper form and on the computer system. If information is not acquired, no transactions are made.
 - For suppliers, all contacted and identification information solicited. Responses maintained in the system and in written form. If identification information not provided, no purchases are made.
- c) Identification information has been verified (including all third parties) any internal inconsistency is noted and resolved and all information is updated as necessary.
- d) If a customer or supplier has failed to provide the required information, it has been noted and risk assessment made.
 - Appropriate action taken, including but not limited to, refusal to engage in the transaction.
- e) Identification records for customers and suppliers (including check of JBT report, bank reference) have been maintained via. Records, computer data system, and internal credit information. In instances where the information is not acquired, follow up is undertaken, and if not adequate, deletion from the system if necessary.

New Policy: CO will periodically check response rate for identification information from those customers and suppliers solicited.

3) Transaction monitoring

- a) Process is in place to identify red flag transactions on both receivable and payable transactions. Red flags are reported to the Compliance Officer along with actions taken and resolutions.
- b) Red flag transactions are investigated and resolved in a timely manner, including, but not limited to inquiries to banks and customers. All third parties to transactions are subject to reasonable inquiries including but not limited to identification, and reasons for involvement in the transaction. All invoices are matched to purchases routinely. Cash receivables are discouraged, but in instances inquiries are reported to the Compliance Officer, and resolutions recorded.
- c) Consideration of filing Suspicious Activity Reports is undertaken when appropriate. No SARs filed during the period being reviewed.
- d) LKI's AML policy requires the filing of 8300's for cash transactions.

New Policy: Periodic monitoring by Compliance Officer of bank statements for potential

red flags.

- 4) Employee training
 - a) All relevant employees are trained regarding AML program, including new hires. Training of employees of subsidiaries located abroad has been undertaken and documented electronically and work books maintained at the locations.
 - b) All relevant employees are trained to recognize red flag transactions or other AML program violations (including failures of identification program requirements, unusual requests for secrecy, etc)
 - c) All relevant employees trained in information sharing policies, including reporting suspicious incidents to the head of their departments or Compliance Officer.
 - d) The Compliance Officer of LKI maintains records of employee training.

- 5) Special Measures
 - a) All participants in AML compliance at LKI are aware of responsibilities to report, to whom to report, and what action is required and authorized.
 - b) The Compliance Officer documents all actions taken pursuant to LKI's AML policy.
 - c) All contacts with government agencies relevant to AML program will be documented when they occur.

There have been no contacts with government agencies regarding matters during the period under review.
 - d) "Watch lists" are appropriately periodically consulted and reviewed.

- 6) Documentation and Record keeping
 - a) Record retention policies are in place
 - b) Files are readily available upon request
 - c) AML Compliance documents are available in LKI's offices.

Lennard Boodhoo

Internal Audit Director
Lazare Kaplan International Inc.
19 West 44th Street, New York 10036

Intertek

Certificate of Registration

Certificate No.: LA-3/2008-13519

LAZARE KAPLAN PUERTO RICO
(A DIVISION OF LAZARE KAPLAN INTERNATIONAL INC)

The Social Accountability System of the above Company has been assessed and is verified to be in compliance with:

SA8000: 2001

The Social Accountability System of the above Company is applicable to:
Diamond cutting and polishing

Initial Certificate Date: 23 April 2008

Certificate Renewal Date: 24 April 2011



Authorized Signature

Title

SA80000 GLOBAL DIRECTOR

Date

23 April 2008

Intertek Central Office



Accredited by Social
Accountability Accreditation
Services

The approval is valid for three years from the initial certificate date to the certificate renewal date and subject to the organization maintaining their system in accordance with Intertek Testing Services' rules and regulations for certification.

PRESS RELEASE

CONTACT: LKI

**Marcee Feinberg
212-857-7610**

Lazare Kaplan International Inc.'s Puerto Rico Factory is the First Diamond Factory Worldwide to be Certified to the Highest International Workplace Standards by Social Accountability International.

New York – July 7, 2005 - Lazare Kaplan International Inc. (AMEX:LKI) announced today that its state of the art diamond cutting and polishing facility in Caguas, Puerto Rico has been certified by Social Accountability International (SAI) to be compliant with the highest international workplace standards.

SAI's first social accountability system, SA8000, offers retailers, brand companies, suppliers and other organizations an internationally recognized means to measure and maintain just and decent working conditions throughout the supply chain. The SA8000 standard and verification system is a credible, comprehensive and efficient tool for assuring humane workplaces and public reporting. SA8000 certified facilities are posted on the Social Accountability International (SAI) Web site.

Leon Tempelsman, Vice-Chairman of LKI, said, "Certification of our Puerto Rico factory to the highest standard of international workplace norms demonstrates the company's commitment to putting our values into action. SA 8000 is based on International Labor Organization conventions, the UN's Universal Declaration of Human Rights and Convention on Rights of the Child. This is in line with LKI's long standing leadership position in the diamond industry. It offers further assurance to our customers of LKI's commitment to implementing the very best workplace practices at a time when transparency and best practices play a welcome and increasingly important part in the transformation of the industry. We congratulate our management and workforce in Puerto Rico and share their pride in this achievement."

Lazare Kaplan International Inc. sells its diamonds and jewelry products through a worldwide distribution network. The Company is noted for its ideal cut diamonds which it markets internationally under the brand name, Lazare Diamonds®.



BDO Seldman, LLP
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September 9, 2008



To the Board of Directors and Management
of Lazare Kaplan International Inc.
New York, NY

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of Lazare Kaplan International Inc. ("LKI" or the "Company"). This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We examined the rough diamond transactions processed in the LKI New York office during the fiscal year ended May 31, 2008, which consisted of 4 export invoices and 1 import invoice, to ensure that they include Kimberley Process Warranties.

We noted no exceptions.

2. We have examined the Company's program change control log for the year ending May 31, 2008, relating to the company's invoicing system to ensure that the required language of the World Diamond Council System of Warranties is printed on all invoices.

We noted no exceptions

In addition, we examined, on a test basis, 14 sales invoices generated in the LKI New York office during the fiscal year ended May 31, 2008 to ensure that they include the required language of the World Diamond Council System of Warranties. The 14 invoices were selected at random from the total invoices generated by LKI New York during the months of July 2007, October 2007 and January 2008.

We noted no exceptions.

3. We examined, on a test basis, 40 purchase invoices processed by the LKI New York office during the fiscal year ended May 31, 2008 to ensure that they include the required language of the World Diamond Council System of Warranties. The 40 purchase invoices were selected at random from the purchases related to the Company's remaining inventory at May 31, 2008.

We noted no exceptions.

We were not engaged to, and did not, conduct an examination or a review, the objectives of which would be the expression of an opinion or limited assurance on the specified elements, accounts, or items. Accordingly,



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we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and Management of Lazare Kaplan International Inc. and is not intended to and should not be used by anyone other than these specified parties.

BDO Seldman, LLP

September 9, 2008

How do you intend to make this COP available to your stakeholders?

Annual Report, LKI Web Site, BPP Extranet