

Edgar Filing: AXT INC - Form DEF 14A

AXT INC  
Form DEF 14A  
April 25, 2006  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement  
 o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 x Definitive Proxy Statement  
 o Definitive Additional Materials  
 o Soliciting Material Pursuant to §240.14a-12

**AXT, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.  
 o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- |     |   |
|-----|---|
| (1) | Title of each class of securities to which transaction applies:   |
| (2) | Aggregate number of securities to which transaction applies:  |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
| (4) | Proposed maximum aggregate value of transaction:  |
| (5) | Total fee paid:   |
- o Fee paid previously with preliminary materials.  
 o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- |     |   |
|-----|---|
| (1) | Amount Previously Paid:                       |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party:                                 |
| (4) | Date Filed:                                   |

**AXT, INC.**  
**4281 Technology Drive**  
**Fremont, California 94538**

April 25, 2006

To our stockholders:

You are cordially invited to attend the annual meeting of stockholders of AXT, Inc. on May 23, 2006 at 10:00 a.m. Pacific Daylight Time, at 4281 Technology Drive, Fremont, California 94538.

The matters expected to be acted upon at the meeting are described in detail in the attached Notice of Annual Meeting of Stockholders and Proxy Statement.

It is important that you use this opportunity to take part in the affairs of AXT by voting on the business to come before this meeting. After reading the Proxy Statement, please promptly mark, sign, date and return the enclosed proxy card in the prepaid envelope to ensure that your shares will be represented. We also provide our stockholders the opportunity to receive stockholder communications electronically. If you elected for electronic delivery of the Proxy Statement, you will not be receiving a proxy card and must vote electronically. For more information, see *Electronic Delivery of Stockholder Communications* in the Proxy Statement.

A copy of our Annual Report on Form 10-K for fiscal year 2005 is also enclosed for your information. We look forward to seeing you at the meeting.

Sincerely,

Philip C. S. Yin  
*Chief Executive Officer*

---

**AXT, INC.**  
**4281 Technology Drive**  
**Fremont, California 94538**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD on May 23, 2006**

Dear Stockholder:

You are invited to attend the annual meeting of stockholders of AXT, Inc., which will be held on May 23, 2006 at 10:00 a.m., Pacific Daylight Time, at our principal offices located at 4281 Technology Drive, Fremont, California 94538, for the following purposes:

1. To elect two (2) Class II directors to hold office for a three-year term and until their respective successors are elected and qualified.
2. To ratify the appointment of Burr, Pilger & Mayer LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2006.
3. To approve the restatement of the AXT, Inc. 1997 Stock Option Plan as the AXT, Inc. 2006 Equity Incentive Plan and the terms thereof, and to increase the number of shares authorized under the 2006 Equity Incentive Plan by 1,750,000 additional shares. The following summary of the 2006 Plan is qualified in its entirety by the specific language of the 2006 Plan, a copy of which is available to any stockholder upon request by writing to the Chief Financial Officer, AXT, Inc., 4281 Technology Drive, Fremont, CA 94538, or by facsimile to (510) 353-0668. The 2006 Plan may also be viewed without charge on the SEC website at [www.sec.gov](http://www.sec.gov).
4. To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on April 13, 2006, are entitled to notice of, and to vote at, this meeting and any adjournments or postponements thereof. For ten days prior to the meeting, a complete list of the stockholders entitled to vote at the meeting will be available for examination by any stockholder for any purpose relating to the meeting, during ordinary business hours at our principal offices located at 4281 Technology Drive, Fremont, California 94538.

By order of the Board of Directors,

Wilson W. Cheung  
*Corporate Secretary*

April 25, 2006

Fremont, California

**STOCKHOLDERS ARE REQUESTED TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE. PROXIES ARE REVOCABLE, AND ANY STOCKHOLDER MAY WITHDRAW HIS OR HER PROXY PRIOR TO THE TIME IT IS VOTED BY DELIVERING A LATER DATED PROXY OR BY ATTENDING THE MEETING AND VOTING IN PERSON.**

**AXT, INC.**  
**4281 Technology Drive**  
**Fremont, California 94538**

## **PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS**

The accompanying proxy is solicited by the Board of Directors of AXT, Inc., a Delaware corporation ( AXT or the Company ), for use at the Annual Meeting of Stockholders to be held May 23, 2006, or any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This proxy statement and the accompanying form of proxy card are being mailed to our stockholders on or about April 25, 2006.

## **GENERAL INFORMATION**

*Annual Report.* Our Annual Report on Form 10-K for the year ended December 31, 2005 is enclosed for your information.

*Voting Securities.* Only common stockholders of record as of the close of business on April 13, 2006, will be entitled to vote at the meeting and any adjournment thereof. As of that date, there were 23,053,521 shares of our common stock, par value \$0.001 per share, issued and outstanding, all of which are entitled to vote with respect to all matters to be acted upon at the Annual Meeting. Common stockholders may vote in person or by proxy. Each stockholder of record as of that date is entitled to one vote for each share of common stock held on the proposals presented in this proxy statement. Our bylaws provide that a majority of all of the shares of our capital stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting. Votes for and against, abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum. Our Series A Preferred Stock is not entitled to vote on any matter to be voted on by the stockholders, except as otherwise required by law, and is not entitled to vote at this meeting.

*Abstentions and Broker Non-Votes.* Shares that are voted Withheld or Abstain are treated as being present for purposes of determining the presence of a quorum and as entitled to vote on a particular subject matter at the Annual Meeting. A broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (typically referred to as being held in street name ) but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the election of directors and ratification of the independent registered public accounting firm.

*Solicitation of Proxies.* We will bear the cost of soliciting proxies. We will solicit stockholders by mail, through our regular employees, and will also request banks and brokers, and other custodians, nominees and fiduciaries, to solicit their customers who have our stock registered in the names of such persons, and may reimburse them for their reasonable, out-of-pocket costs. We may use the services of our officers, directors and others to solicit proxies, personally or by telephone, without additional compensation, although we will reimburse these individuals for any out-of-pocket expenses incurred. In addition, we have retained Regan & Associates, Inc., a proxy solicitation firm, for assistance in connection with the Annual Meeting at a cost of approximately \$3,500.

*Voting of Proxies and Changing Your Vote.* All valid and executed proxies received prior to the meeting will be voted in accordance with the instructions made by the stockholder on the proxy. If no instructions are indicated on the proxy, the shares will be voted in favor of each proposal. A stockholder giving a proxy has the power to revoke the proxy, at any time prior to the time it is voted, by delivering to the Secretary of the Company at our principal offices located at 4281 Technology Drive, Fremont, California 94538, a written instrument revoking the proxy or a duly executed proxy with a later date, or by attending the meeting and voting in person. If any matters not described in this Proxy Statement are properly presented at the Annual Meeting, the proxy holder will use their own judgment to determine

how

---

to vote your shares. If the Annual Meeting is adjourned, the proxy holders can vote your shares at the new meeting date as well, unless you have revoked your proxy instructions.

*Voting by Telephone or the Internet.* If you hold shares through a bank or brokerage firm, you may be able to simplify your voting process and save the company expense by voting your shares by telephone or the internet. The bank or brokerage firm through which you hold your shares will provide you with separate instructions on a form you will receive from them. Many such firms make telephone or Internet voting available, but the specific processes available will depend on those firms' individual arrangements. When you vote by phone, your vote is recorded immediately. We encourage our stockholders to vote using this method whenever possible. If you attend the Annual Meeting, you may also submit your vote in person, and any previous votes that you submitted, whether by phone or mail, will be superseded by the vote that you cast at the Annual Meeting.

Telephone voting procedures are valid under Section 212(c)(2) of the Delaware General Corporation Law.

*Electronic Delivery of Stockholder Communications.* This year we are pleased to offer our stockholders the opportunity to receive stockholder communications electronically. By signing up for electronic delivery, you can receive the Annual Report on Form 10-K and the Proxy Statement via email notification as soon as these are available. This will help to reduce the number of paper documents in your personal files, eliminate duplicate mailings, conserve natural resources, and save on our printing and mailing costs. To sign up for electronic delivery, visit <http://www.axt.com/site/index.php?q=node/1> and enter information for all of your AXT stockholdings. Your enrollment will be effective until cancelled. You may access the Notice of Annual Meeting of Stockholders, the Proxy Statement and the Annual Report on Form 10-K on the Internet under the Investors' section of our website at [www.axt.com](http://www.axt.com). If you have questions about electronic delivery, please call the AXT Investor Relations department at: (510) 683-5900.

*How To Obtain A Separate Set of Voting Materials.* To reduce the expense of delivering duplicate voting materials to our stockholders who may have more than one AXT stock account, unless otherwise requested, pursuant to current householding rules, we will deliver only one set of voting materials, which includes the Proxy Statement and proxy card to stockholders who share the same address. The Annual Report to Stockholders on Form 10-K will be sent to you electronically or by mail upon request. If you share an address with another stockholder and have received only one set of voting materials, you may write or call us to request a separate copy of these materials at no cost to you. For future annual meetings, you may request separate voting materials, or request that we send only one set of voting materials to you if you are receiving multiple copies, by calling our Investor Relations department at: (510) 683-5900, or by writing us at: AXT, Inc., 4281 Technology Drive, Fremont, CA 94538, Attention: Investor Relations.

*Deadline for Receipt of Stockholder Proposals.* Stockholders may present proposals for action at a future meeting only if they comply with the requirements of the proxy rules established by the Securities and Exchange Commission (SEC) and our bylaws. For a stockholder proposal to be included in our proxy materials for the 2007 Annual Meeting of Stockholders, the proposal must be received at our principal executive offices, addressed to the Secretary, not later than December 26, 2006. If a stockholder intends to submit a proposal or a nomination for director for our 2007 Annual Meeting of Stockholders that is not to be included in our Proxy Statement and form of Proxy relating to the meeting, the stockholder must give us notice in accordance with the requirements set forth in our bylaws not later than December 26, 2006, addressed to the Corporate Secretary at our principal executive offices. Our bylaws require that certain information with respect to the proposal and the stockholder making the proposal be set forth in the notice. A copy of the relevant bylaw provision is available upon request to AXT, Inc., 4281 Technology Drive, Fremont, CA 94538, attention: Corporate Secretary. You can also access our SEC filings, including our Annual Report on Form 10-K, on our website under the Investors' section at [www.axt.com](http://www.axt.com).



*Communicating with AXT.* You can obtain information about AXT by one of the following methods:

- AXT's home page on the Internet, located at [www.axt.com](http://www.axt.com), gives you access to product and marketing information, in addition to recent press releases, financial information and stock quotes, as well as links to our filings with the Securities and Exchange Commission. Online versions of this Proxy Statement, our 2005 Annual Report to Stockholders on Form 10-K, and our letter to stockholders are located under the Investors section of our website at [www.axt.com](http://www.axt.com).
- To have information such as our latest quarterly earnings release, Form 10-K, Form 10-Q or annual report mailed to you, please contact our Investor Relations at (510) 683-5900 or by email at: [ir@axt.com](mailto:ir@axt.com).

For all other matters, please contact our Investor Relations at (510) 683-5900, or send your correspondence to the following address:

AXT, Inc.  
4281 Technology Drive  
Fremont, CA 94538  
Attention: Investor Relations

**PROPOSAL NUMBER ONE  
ELECTION OF DIRECTORS**

We have a classified Board of Directors, which currently consists of a total of five directors, two of whom are Class I directors, two of whom are Class II directors, and one who is a Class III director. Class I, Class II, and Class III directors serve until the annual meeting of stockholders to be held in 2008, 2006 and 2007, respectively. All directors serve until their respective successors are duly elected and qualified. At each annual meeting of the stockholders, directors in a class are elected for a term of three years to succeed the directors in that class whose terms expire at such annual meeting.

The term of our two Class II directors will expire on the date of the upcoming Annual Meeting of Stockholders. Accordingly, two persons are to be elected to serve as Class II directors. The Nominating and Governance Committee of the Board of Directors selected, and the Board of Directors approved, Messrs. Jesse Chen and Philip C.S. Yin, the current Class II members of the Board of Directors, as nominees for election at the Annual Meeting to Class II of the Board of Directors. If elected, Messrs. Jesse Chen and Philip C.S. Yin will serve as directors until our annual meeting of stockholders in 2009, and until their successors are elected and qualified. If Messrs. Jesse Chen and Philip C.S. Yin decline to serve or become unavailable for any reason, or if a vacancy occurs before the election, the proxies may be voted for substitute nominees as the Board of Directors may designate, although we know of no reason why these nominees would be unable or unwilling to serve as directors.

**Vote Required and Board of Directors Recommendation**

If a quorum is present at the Annual Meeting of Stockholders, the nominees for Class II directors receiving the highest number of votes cast will be elected as Class II directors. Abstentions and broker non-votes will have no effect on the outcome of the vote. Shares of Series A Preferred Stock are not entitled to vote on this matter.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMEND A VOTE FOR THE ELECTION OF JESSE CHEN AND DR. PHILIP C.S. YIN AS CLASS II DIRECTORS OF THE BOARD OF DIRECTORS.**

**Information about the Directors, Director Nominees and Executive Officers**

The table below sets forth the names and certain information about our current directors, including the Class I nominees to be elected at this meeting, as well as our executive officers.

Name	Principal occupation with AXT	Age	Director since
<i>Class I directors whose term expires at the 2008 Annual Meeting of Stockholders:</i>			
Morris S. Young	Chief Technology Officer and Director	61	1989
David C. Chang	Director	64	2000
<i>Class II directors whose term expires at the 2006 Annual Meeting of Stockholders:</i>			
Jesse Chen	Director and Chairman of the Board	48	1998
Philip C. S. Yin	Chief Executive Officer and Director	64	2005
<i>Class III director whose term expires at the 2007 Annual Meeting of Stockholders:</i>			
Leonard J. LeBlanc	Director	65	2003
<i>Non-director executive officers:</i>			
Minsheng Lin	Chief Operating Officer	59	
Davis Zhang	President, Joint Venture Operations	50	
Wilson W. Cheung	Chief Financial Officer and Corporate Secretary	37	

**Members of the Board of Directors**

*Morris S. Young, Ph.D.* co-founded AXT in 1986. He is our chief technology officer, and has served as one of our directors since 1989. Dr. Young has served as our chairman of the Board of Directors from February 1998 to May 2004 and as our president and chief executive officer from 1989 to May 2004. From 1985 to 1989, Dr. Young was a physicist at Lawrence Livermore National Laboratory. Dr. Young has a B.S. degree in metallurgical engineering from National Cheng Kung University, Taiwan, a M.S. degree in metallurgy from Syracuse University, and a Ph.D. in metallurgy from Polytechnic University.

*David C. Chang, Ph.D.* has served as one of our directors since December 14, 2000. Dr. Chang has served as president of Polytechnic University in New York from 1994 to 2005 and chancellor from 2005 to present. Previously, Dr. Chang was dean of the College of Engineering and Applied Sciences at Arizona State University. Dr. Chang served as director of the NSF/Industry Corporate Research Center for Microwave and Millimeter-Wave Computer Aided Design from 1981 to 1989. Dr. Chang is a member of board of directors of Fedders Corporation, a manufacturer of air treatment products, and a member of the board of directors and of the audit committee of Time Warner Cable, a subsidiary of Time Warner, Inc. Dr. Chang has a M.S. degree and a Ph.D. in applied physics from Harvard University and a B.S. degree in electrical engineering from National Cheng Kung University, Taiwan.

*Philip C. S. Yin, Ph.D.* joined AXT as chief executive officer in March 2005 and was appointed to the Board of Directors on April 22, 2005. From 2003 to February 2005, Dr. Yin served as general manager for North America of AIXTRON Inc., the world's leading manufacturer of MOCVD equipment used in the compound semiconductor industry. From 2002 to 2003, Dr. Yin was sole proprietor of Philip S. Yin



Consulting, a consultant of semiconductor materials in areas of epitaxial deposition, silicon wafers and strategic business development. From 1999 to 2002, Dr. Yin was president of ATMI Epitaxial Services. Prior to that, Dr. Yin held positions as senior vice president, sales and marketing of Crystec, and director of sales for Mitsubishi Silicon America. Dr. Yin also held various positions with Monsanto Electronics Materials and IBM Thomas J. Watson Research Center. Dr. Yin holds a B.S. in physics from Villanova University and an M.S. and Ph.D. in material science from Brooklyn Polytechnic University. He is a member of the Electrochemical Society and the American Association for Crystal Growth. He is also a member of the Harley Davidson Advisory Panel.

*Jesse Chen* has served as chairman of the Board of Directors since May 2004 and has served as one of our directors since February 1998. Since May 1997, Mr. Chen has served as a managing director of Maton Venture, an investment company. From 1990 to 1996, Mr. Chen co-founded BusLogic, Inc., a computer peripherals company, and served as its chief executive officer. Mr. Chen serves on the board of directors of several private companies. Mr. Chen has a B.S. degree in aeronautical engineering from National Cheng Kung University, Taiwan and a M.S. degree in electrical engineering from Loyola Marymount University.

*Leonard J. LeBlanc* has served as one of our directors since April 2003. Mr. LeBlanc was the executive vice president and chief financial officer of Vantive Corporation, a customer relationship management software and solution company, from August 1998 to January 2000. Mr. LeBlanc served as the acting chief financial officer and vice president of corporate development for Ebest, Inc., a privately held applications software company from February 2001 to September 2003. From March 1996 to July 1997, Mr. LeBlanc was the executive vice president of finance and administration and chief financial officer at Infoseek Corporation, an internet search and navigation company. From September 1993 to December 1994, Mr. LeBlanc served as senior vice president, finance and administration of GTECH Corporation, a manufacturer of lottery equipment and systems. From May 1987 to December 1992, Mr. LeBlanc served as executive vice president, finance and administration and chief financial officer of Cadence Design Systems, Inc., an electronic design automation software company. Mr. LeBlanc is the chairman of the board of directors and chair of the audit committee of Oplink Communications, Inc., a provider of optical manufacturing solutions and optical networking components. Mr. LeBlanc received his B.S. and M.S. degrees from the College of Holy Cross, and his masters degree in finance from George Washington University.

#### **Non-Director Executive Officers**

*Minsheng Lin* joined AXT in July 2005. From 1998 to June 2005, Mr. Lin was at Wafer Works Inc./Helitek Company Ltd., where he held executive level positions in operations and sales and marketing and was responsible for starting up the company's Taiwan operation and ramping up manufacturing and sales to mass production levels. From 1994 to 1998, Mr. Lin was director of facilities and quality assurance at MEMC Electronic Materials, Inc. In this position, Mr. Lin was involved in designing, constructing and commencing the company's Taiwan facilities on time and within budget. He set up a new quality team through local hiring and intensive training and established a total quality management system. Since 1973, Lin held other senior level operations, quality and engineering positions with MEMC Electronic Materials, Inc., National Semiconductor Corporation (Malaysia) and Nippon Electric Company. Mr. Lin received his undergraduate and masters degrees in electronics engineering from the University of Tokyo.

*Davis Zhang* co-founded AXT in 1986. He is our president, Joint Venture operations, and has served as senior vice president, production from January 1994 until August 1999, as president of the substrate division from August 1999 to 2003 and as senior vice president of production since 2003. From 1987 to 1993, Mr. Zhang served as our senior production manager. Mr. Zhang studied mechanical engineering at Communication University, Beijing, China.

*Wilson W. Cheung* joined AXT as vice president, corporate controller in May 2004 and was promoted that same month to chief financial officer. From February 2001 to April 2004, Mr. Cheung was corporate controller of interWAVE Communications International Ltd. (now Alvarion, Ltd.), a publicly traded manufacturer of wireless voice and data communications systems. From 2000 to 2001, Mr. Cheung was senior finance manager of Yahoo! Inc., a global Internet products and services provider. Mr. Cheung spent more than eight years, from 1991 to 1999, in public accounting with KPMG and Deloitte & Touche, and served as a senior manager in Deloitte's San Francisco office from 1997 to 1999. From 1999 to 2000, Mr. Cheung served on the Board of Directors of the Hong Kong Association of Northern California. Mr. Cheung is a California certified public accountant, and a member of the AICPA, California Society of CPAs and the Financial Executives International. In May 2005, Mr. Cheung was certified as director of corporate governance by UCLA's Anderson School of Management. Mr. Cheung holds a B.A. in Economics/Business from the University of California, Los Angeles.

#### **Board of Directors Committees and Meetings**

During the fiscal year ended December 31, 2005, the Board of Directors held nine (9) meetings, the Audit Committee of the Board held eight (8) meetings, the Compensation Committee of the Board held seven (7) meetings, and the Nominating and Governance Committee held one (1) meeting. The functions of each committee are described below. Each of these committees operates under a written charter approved by the Board. A copy of each charter can be found under the Investors section of our website at [www.axt.com/site/index.php?q=node/1](http://www.axt.com/site/index.php?q=node/1). No director attended fewer than 75 percent of the total number of meetings of the Board, or of any committee of the Board of which he was a member.

The Board of Directors has determined that a majority of the Directors of the Board are independent, as the term is defined by applicable Nasdaq listing standards and SEC rules. Dr. Yin and Dr. Young are non-independent directors because of their current employment as senior executive officers of AXT.

#### **Audit Committee**

The members of the Audit Committee during 2005 were David C. Chang, Jesse Chen and Leonard LeBlanc. The Board has determined that all Audit Committee members are independent as defined under the applicable Nasdaq listing standards and SEC rules and regulations and as such rules apply to audit committee members. The Board of Directors has determined that Mr. Leonard LeBlanc is an audit committee financial expert as defined by the rules and regulations of the SEC. The Audit Committee's functions include:

- overseeing the accounting, financial reporting and audit processes;
- reviewing the qualifications, independence and performance, and approving the terms of engagement, of the independent registered public accounting firm;
- reviewing the results and scope of audit and other services provided by the independent registered public accounting firm;
- reviewing the accounting principles and auditing practices and procedures to be used in preparing our financial statements; and
- reviewing our internal controls.

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific

budget. The Audit Committee meets at least quarterly with our management and representatives of our independent registered public accounting firm to, among other things, review the results of the annual audit and quarterly reviews and discuss the financial statements, review the adequacy of accounting and financial controls, review the Company's critical accounting policies, and review and approve any related party transactions. The Audit Committee meets separately, at least once each quarter, with the independent registered public accounting firm and with the Chief Executive Officer. We maintain procedures for the receipt, retention, and handling of complaints, including complaints made anonymously, which the Audit Committee oversees.

For additional information concerning the Audit Committee, see [Report of the Audit Committee](#) and [Principal Accounting Firm Fees](#).

### **Compensation Committee**

The members of our Compensation Committee during 2005 were David C. Chang, Jesse Chen, and Leonard LeBlanc. The Board has determined that all members of the Compensation Committee are independent as the term is defined by applicable Nasdaq listing standards and SEC rules. The Compensation Committee reviews and determines the salary and bonuses and other compensation paid to, and stock option grants made to, our directors and all executive officers of the Company, including the Chief Executive Officer. The Compensation Committee also establishes the criteria upon which bonuses and other incentive compensation is paid, reviews and evaluates the performance of the Chief Executive Officer, approves all severance, retention, change of control or similar agreements between the Company and an executive officer, and performs such other functions regarding compensation as the Board may delegate. For additional information concerning the Compensation Committee, see [Report of the Compensation Committee of the Board of Directors on Executive Compensation](#).

### **Nominating and Governance Committee**

The members of our Nominating and Governance Committee during 2005 were David C. Chang, Jesse Chen, and Leonard LeBlanc. The Board has determined that all members of the Nominating and Governance Committee are independent as the term is defined by applicable Nasdaq listing standards and SEC rules. The Nominating and Governance Committee is responsible for evaluating and selecting director nominees, determining criteria for selecting new directors, developing and reviewing on an ongoing basis, the adequacy of the corporate governance principles applicable to the Company, overseeing the evaluation of the Board of Directors and committees of the Board, and adopting and approving a Code of Business Conduct and Ethics.

*Director Qualifications.* The Nominating and Governance Committee considers properly submitted stockholder recommendations for candidates for membership on the Board of Directors as described below under [Identification and Evaluation of Nominees for Directors](#). In evaluating such recommendations, the Nominating and Governance Committee considers the following factors in reviewing possible candidates for nomination as director:

- the appropriate size of the Company's Board of Directors and its Committees;
- the perceived needs of the Board for particular skills, background and business experience;
- the skills, background, reputation, and business experience of nominees compared to the skills, background, reputation, and business experience already possessed by other members of the Board;
- nominees' independence from management;
- applicable regulatory and listing requirements, including independence requirements and legal considerations, such as antitrust compliance;

- the benefits of a constructive working relationship among directors; and
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Nominating and Governance Committee's goal is to assemble a board of directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating and Governance Committee may also consider such other factors as it may deem, from time to time, are in the best interests of the Company and its stockholders. The Nominating and Governance Committee believes that it is preferable that at least one member of the Board of Directors should meet the criteria for an audit committee financial expert as defined by SEC rules. Under applicable listing requirements at least a majority of the members of the Board must meet the definition of independent director. The Nominating and Governance Committee also believes it appropriate for one or more key members of the Company's management to participate as members of the Board.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating and Governance Committee may also consider such other factors as it may deem, from time to time, are in the best interests of the Company and its stockholders.

*Identification and Evaluation of Nominees for Director.* The Nominating and Governance Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Nominating and Governance Committee or the Board decides not to re-nominate a member for re-election, the Nominating and Governance Committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Governance Committee and Board of Directors are polled for suggestions as to individuals meeting the criteria of the Nominating and Governance Committee. Research may also be performed to identify qualified individuals.

The Nominating and Governance Committee will evaluate any recommendation for director nominee proposed by a stockholder. In order to be evaluated in connection with the Nominating and Governance Committee's established procedures for evaluating potential director nominees, any recommendation for director nominee submitted by a stockholder must be sent in writing to the Corporate Secretary, 4281 Technology Drive, Fremont, CA 94538, 120 days prior to the anniversary of the date proxy statements were mailed to stockholders in connection with the prior year's annual meeting of stockholders and must contain the following information:

- the candidate's name, age, contact information and present principal occupation or employment;
- a description of the candidate's qualifications, skills, background, and business experience during, at a minimum, the last five years, including his/her principal occupation and employment and the name and principal business of any corporation or other organization in which the candidate was employed or served as a director; and
- a statement signed by the candidate that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

The Nominating and Governance Committee will evaluate incumbent directors, as well as candidates for director nominee submitted by directors, management, and stockholders consistently using the criteria

stated in this policy and will select the nominees that in the Committee's judgment best suit the needs of the Board at that time.

#### **Compensation Committee Interlocks and Insider Participation**

During fiscal 2005, none of our executive officers and no member of our Compensation Committee served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee. For additional information concerning the Compensation Committee, see Report of the Compensation Committee of the Board of Directors on Executive Compensation.

#### **Annual Meeting Attendance**

The Company's policy is to encourage attendance by members of the Board of Directors at our annual meetings of stockholders. Except for David C. Chang, all of our Directors attended our 2005 Annual Meeting of Stockholders.

#### **Communications with the Board of Directors**

Stockholders may communicate with the Board of Directors by writing to us at AXT, Inc., 4281 Technology Drive, Fremont, CA 94538, attention: Corporate Secretary. Your letter should indicate that you are an AXT stockholder. Stockholders who would like their submission directed to a member of the Board of Directors may so specify, and the communication will be forwarded, as appropriate. Depending on the subject matter, management will forward the communication to the Director or Directors to whom it is addressed; attempt to handle the inquiry directly, for example where it is a request for information about the Company or it is a stock related matter; or not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

#### **Code of Business Conduct and Ethics**

The Board of Directors has adopted a Code of Business Conduct and Ethics applicable to all of our employees and directors, our Chief Executive Officer, Chief Financial Officer, and Corporate Controller, which is available on our website under the Investors section at [www.axt.com/site/index.php?q=node/1](http://www.axt.com/site/index.php?q=node/1). In addition, we will provide a copy of the Code of Business Conduct and Ethics upon request made in writing to us at AXT, Inc., 4281 Technology Drive, Fremont, CA 94538, attention: Corporate Secretary. We will disclose any amendment to the Code of Business Conduct and Ethics applicable to an executive officer or director on our website at [www.axt.com/site/index.php?q=node/1](http://www.axt.com/site/index.php?q=node/1) in the Investors section.

**PROPOSAL NUMBER TWO  
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

The Board of Directors has selected Burr, Pilger & Mayer LLP as the independent registered public accounting firm to audit our financial statements for the fiscal year ending December 31, 2006. The decision of the Board of Directors was based on the recommendation of the Audit Committee. Burr, Pilger & Mayer LLP has acted in such capacity since its appointment during the fiscal year ended December 31, 2004. A representative of Burr, Pilger & Mayer LLP is expected to be present at the Annual Meeting of Stockholders with the opportunity to make a statement if the representative desires to do so, and is expected to be available to respond to appropriate questions.

**Vote Required and Board of Directors Recommendation**

Although ratification by stockholders is not required by law, the Board of Directors has determined that it is desirable to request approval of this selection by the stockholders. Notwithstanding its selection, the Board of Directors, in its discretion, may appoint a new independent registered public accounting firm at any time during the year if the Board of Directors believes that such a change would be in the best interests of AXT and its stockholders. If the stockholders do not ratify the appointment of Burr, Pilger & Mayer LLP, the Board of Directors may reconsider its selection.

The affirmative vote of a majority of the votes cast at the Annual Meeting of Stockholders, at which a quorum representing a majority of all outstanding shares of our common stock is present and voting, either in person or by proxy, will be required to ratify the appointment of Burr, Pilger & Mayer LLP as our independent registered public accounting firm. Shares of Series A Preferred Stock shall not be entitled to vote on this matter. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum, but will not have any effect on the outcome of the proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPOINTMENT OF BURR, PILGER & MAYER LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.**

**PRINCIPAL ACCOUNTING FIRM FEES**

The following table sets forth the aggregate fees billed or to be billed to AXT for the last two fiscal years ended December 31, 2005 and 2004, by our principal accounting firm, Burr, Pilger & Mayer LLP:

	2005	2004
Audit Fees	\$268,420	\$ 236,975
Tax Fees	\$	\$
All Other Fees	\$	\$

Audit Fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. This category includes work performed to certify elements of our financial statements for a report we were required to submit to an environmental regulatory agency.

**Review of Auditor Independence**

The Audit Committee has determined that none of the services rendered by Burr, Pilger & Mayer LLP is incompatible with maintaining Burr, Pilger & Mayer LLP's independence as our independent registered public accounting firm.

**PROPOSAL NUMBER THREE  
APPROVAL OF THE RESTATEMENT OF THE 1997 STOCK OPTION PLAN  
AS THE 2006 EQUITY INCENTIVE PLAN**

On April 17, 2006, the Board of Directors adopted, subject to stockholder approval, the Company's 2006 Equity Incentive Plan (the "2006 Plan"). The 2006 Plan is intended to be a restatement of the 1997 Stock Option Plan (the "Prior Plan") which is scheduled to expire in 2007. If the Stockholders approve the restatement of the Prior Plan, the share reserve of the Prior Plan will become the reserve of the 2006 Plan, and 1,750,000 shares will be reserved under the 2006 Plan, in addition to the 5,800,000 shares that were originally available for grant under the Prior Plan, most of which have since been granted, exercised or cancelled. With the addition of the new 1,750,000 shares to the 2006 Plan, and the 2,060,125 shares remaining available for grant under the Prior Plan, there will be a total of 3,810,125 shares available for grant under the 2006 Plan.

The Company believes that appropriate equity incentives are critical to attracting and retaining the best employees in its industry. The approval of this proposal will enable the Company to continue to provide such incentives. The Company believes its use of stock options in the employee compensation process has been a material factor in its success to date, and the Company intends to continue the appropriate use of stock options in the future.

The Board has full discretion to determine the number of awards to be granted to employees under the 2006 Plan, subject to an annual limitation on the total number of awards that may be granted to any employee. Prior to the Annual Meeting of Stockholders, the Company will not grant any awards under the terms of the 2006 Plan.

**Key Features of the 2006 Equity Incentive Plan:**

- An independent committee of the Board of Directors administers the plan;
- 1,750,000 new shares are authorized for grant under the Plan, in addition to the 2,060,125 shares still available as of April 17, 2006 for grant under the Prior Plan;
- Awards may not be granted later than 10 years from the Effective Date;
- Awards may be stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred compensation awards and other stock-based awards;
- Stock options and stock appreciation rights may not be repriced without stockholder approval;
- Stock options and stock appreciation rights may not be granted below fair market value;
- Awards other than stock options and stock appreciation rights will be charged against the 2006 Plan share reserve at the rate of 2 shares for each share actually granted;
- Shares tendered in payment of a stock option, shares withheld for taxes and shares repurchased by the Company using stock option proceeds will not be available again for grant;
- The 2006 Plan reserve also will be reduced by the full amount of shares granted as stock appreciation rights, regardless of the number of shares upon which payment is made; and
- The Company's policy has been to make all full-time employees eligible to receive stock options.

**Summary of the 2006 Plan**

The following is a summary of the material terms of the 2006 Plan. It is qualified in its entirety by the specific language of the 2006 Plan, a copy of which is available to any stockholder upon request.



## **General**

The 2006 Plan provides for the grant of incentive and nonstatutory stock options as well as stock appreciation rights, restricted stock, restricted stock units, performance units and shares and other stock-based awards. Incentive stock options granted under the 2006 Plan are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code). Nonstatutory stock options granted under the 2006 Plan are not intended to qualify as incentive stock options under the Code. The Company presently intends to grant nonstatutory stock options under the Plan and to use the Plan as a source of ERMCP shares.

## **Purpose**

The purpose of the 2006 Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract and retain persons eligible to receive options under the 2006 Plan and by motivating such persons to contribute to the growth and profitability of the Company.

## **Administration**

The 2006 Plan is administered by the Board of Directors and its designees. The Board has the power to construe and interpret the 2006 Plan and, subject to the provisions of the 2006 Plan, to determine the persons to whom and the dates on which awards will be granted, the number of shares to be subject to each award, the time or times during the term of each award within which all or a portion of such award may be exercised, the exercise price, the type of consideration to be paid upon exercise of an award, and other terms of the award. The Board of Directors is authorized to delegate administration of the 2006 Plan to a committee of outside directors. The Board has delegated administration of the 2006 Plan to the Compensation Committee of the Board. As used herein with respect to the 2006 Plan, the Board refers to the Compensation Committee as well as to the Board of Directors.

## **Stock Subject to the 2006 Plan**

The share reserve under the 2006 Plan will be equal to the shares available for future grant under the Prior Plan on the date the 2006 Plan is approved by the Company's stockholders, plus an additional 1,750,000 shares for a total of 7,550,000 shares reserved. As of March 31, 2006, of the total shares available under the Prior Plan, 2,835,402 shares were subject to outstanding options and 2,060,125 shares were available for future grants, for a combined total of 4,895,527 shares. If awards granted under the 2006 Plan expire, are cancelled or otherwise terminate without being exercised, the shares of Common Stock subject to such expired, cancelled or terminated awards will then be available for grant under the 2006 Plan.

Shares subject to stock options and stock appreciation rights will be charged against the 2006 Plan share reserve on the basis of one (1) share for each one (1) share granted. All other types of awards will be charged against the 2006 Plan share reserve on the basis of two (2) shares for each one (1) share granted. Any shares returned to the reserve as described above will be returned on the same basis as they are charged.

## **Eligibility**

Awards other than incentive stock options generally may be granted only to employees, directors and consultants of the Company, or certain related entities or designated affiliates. An incentive stock option can only be granted to a person who, on the effective date of grant, is an employee of the Company, a parent corporation or a subsidiary corporation. As of March 31, 2006, approximately 600 persons (all full time employees of the Company, and the non-employee directors) would have been eligible to receive grants under the 2006 Plan.

No incentive stock options may be granted under the 2006 Plan to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of the Company, or any of its parent or subsidiary corporations, unless the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant, and the term of the option does not exceed 5 years from the date of grant. The aggregate fair market value, determined at the time of grant, of the shares of Common Stock with respect to which incentive stock options granted under the 2006 Plan are exercisable for the first time by an optionee during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) may not exceed \$100,000. In order to permit awards to qualify as performance based compensation under Code Section 162(m) no employee may be granted awards in excess of the following in each fiscal year of the Company:

- Stock options and stock appreciation rights: No more than 500,000 shares.
- Restricted stock and restricted stock unit awards having vesting based upon the attainment of performance goals: No more than 300,000 shares.
- Performance share awards: No more than 300,000 shares for each full fiscal year contained in the performance period of the award.
- Performance unit awards: No more than \$2,000,000 for each full fiscal year contained in the performance period of the award.

#### **Options and Stock Appreciation Rights**

The following is a description of the general terms of options and stock appreciation rights under the 2006 Plan. Individual grants may have terms that differ from those described below.

*Exercise Price; Payment.* The exercise price of incentive stock options under the 2006 Plan may not be less than the fair market value of the Common Stock subject to the option on the date of the option grant, and in some cases (see Eligibility above), may not be less than 110% of such fair market value. The exercise price of nonstatutory stock options and stock appreciation rights may not be less than the fair market value of the stock subject to the award on the date of the option grant. On March 31, 2006, the closing price of the Company's Common Stock as reported on the Nasdaq National Market was \$3.87 per share. The exercise price of options granted under the 2006 Plan must be paid: (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership of shares of Common Stock of the Company owned by the optionee having a fair market value not less than the exercise price, (iii) for optionees who are employees but not executive officers, in the Company's sole and absolute discretion, by delivery of a promissory note, (iv) in any other form of legal consideration acceptable to the Board, or (v) any combination of the above.

*No Repricing.* The 2006 Plan does not permit the Company to lower the exercise price of options or stock appreciation rights without further stockholder approval.

*Exercise.* Options and stock appreciation rights granted under the 2006 Plan may become exercisable ( vest ) in cumulative increments as determined by the Board provided that the holder's employment by, or service as a director or consultant to the Company or certain related entities or designated affiliates ( service ) continues from the date of grant until the applicable vesting date. Shares covered by awards granted under the 2006 Plan may be subject to different vesting terms. The Board has the power to accelerate the time during which an award may be exercised.

*Term.* The maximum term of options and stock appreciation rights under the 2006 Plan is ten years, except that in certain cases (see Eligibility above) the maximum term is five years. The 2006 Plan provides for earlier termination of an award due to the holder's cessation of service.



### **Restrictions on Transfer**

Incentive stock options granted under the 2006 Plan may not be transferred except by will or by the laws of descent and distribution, and may be exercised during the lifetime of the person to whom the option is granted only by such person. A nonstatutory stock option or stock appreciation right is not transferable in any manner other than (i) by will or by the laws of descent and distribution, (ii) by written designation of a beneficiary taking effect upon the death of the optionee, (iii) by delivering written notice to the Company that the optionee will be gifting to certain family members or other specific entities controlled by or for the benefit of such family members.

### **Restricted Stock Units**

The Board may grant restricted stock units under the 2006 Plan, which represent a right to receive shares of our common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to the company. The Board may grant restricted stock unit awards subject to the attainment of one or more performance goals similar to those described below in connection with performance awards, or may make the awards subject to vesting conditions similar to those applicable to restricted stock awards. Unless otherwise provided by the Board, a participant will forfeit any restricted stock units which have not vested prior to the participant's termination of service. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the Board may grant restricted stock units that entitle their holders to receive dividend equivalents, which are rights to receive additional restricted stock units for a number of shares whose value is equal to any cash dividends we pay.

### **Restricted Stock Awards**

The Board may grant restricted stock awards under the 2006 Plan either in the form of a restricted stock purchase right, giving a participant an immediate right to purchase common stock, or in the form of a restricted stock bonus, for which the participant furnishes consideration in the form of services to the company. The Board determines the purchase price payable under restricted stock purchase awards, which may be less than the then current fair market value of our common stock. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as the Board specifies, including the attainment of one or more performance goals similar to those described below in connection with performance awards. Shares acquired pursuant to a restricted stock award may not be transferred by the participant until vested. Unless otherwise provided by the Board, a participant will forfeit any shares of restricted stock as to which the restrictions have not lapsed prior to the participant's termination of service. Participants holding restricted stock will generally have the right to vote the shares and to receive any dividends paid, except that dividends or other distributions paid in shares will be subject to the same restrictions as the original award.

### **Performance Awards**

The Board may grant performance awards subject to such conditions and the attainment of such performance goals over such periods as the determines in writing and sets forth in a written agreement between the company and the participant. To the extent compliance with Section 162(m) of the Code is desired, a committee comprised solely of outside directors under Section 162(m) shall act with respect to performance awards, and Board as used in this section shall mean this committee. These awards may be designated as performance shares or performance units. Performance shares and performance units are unfunded bookkeeping entries generally having initial values, respectively, equal to the fair market value determined on the grant date of a share of common stock and a value set by the Board. Performance

awards will specify a predetermined amount of performance shares or performance units that may be earned by the participant to the extent that one or more predetermined performance goals are attained within a predetermined performance period. To the extent earned, performance awards may be settled in cash, shares of common stock (including shares of restricted stock) or any combination thereof.

Prior to the beginning of the applicable performance period or such later date as permitted under Section 162(m) of the Code, the Board will establish one or more performance goals applicable to the award. Performance goals will be based on the attainment of specified target levels with respect to one or more measures of business or financial performance of the company and each subsidiary corporation consolidated with the company for financial reporting purposes, or such division or business unit of the company as may be selected by the Board. The Board, in its discretion, may base performance goals on one or more of the following such measures: sales revenue, gross margin, operating margin, operating income, pre-tax profit, earnings before stock-based compensation expense, interest, taxes, depreciation and amortization, net income, expenses, the market price of our common stock, earnings per share, return on stockholder equity, return on capital, return on net assets, economic value added, market share, customer service, customer satisfaction, safety, total stockholder return, free cash flow, net operating income, operating cash flow, return on investment, employee satisfaction, employee retention, balance of cash, cash equivalents and marketable securities, product development, research and development expenses, completing of an identified special project, completion of a joint venture or other corporate transaction, inventory balance, inventory turnover ratio, or other measures as determined by the Board. The target levels with respect to these performance measures may be expressed on an absolute basis or relative to a standard specified by the Board. The degree of attainment of performance measures will be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any performance award for the same performance period, and, according to criteria established by the Board, excluding the effect (whether positive or negative) of changes in accounting standards or any extraordinary, unusual or nonrecurring item occurring after the establishment of the performance goals applicable to a performance award.

Following completion of the applicable performance period, the Board will certify in writing the extent to which the applicable performance goals have been attained and the resulting value to be paid to the participant. The Board retains the discretion to eliminate or reduce, but not increase, the amount that would otherwise be payable on the basis of the performance goals attained to a participant who is a covered employee within the meaning of Section 162(m) of the Code. However, no such reduction may increase the amount paid to any other participant. The Board may make positive or negative adjustments to performance award payments to participants other than covered employees to reflect the participant's individual job performance or other factors determined by the Board. In its discretion, the Board may provide for the payment to a participant awarded performance shares of dividend equivalents with respect to cash dividends paid on the company's common stock. The Board may provide for performance award payments in lump sums or installments. If any payment is to be made on a deferred basis, the Board may provide for the payment of dividend equivalents or interest during the deferral period.

Unless otherwise provided by the Board, if a participant's service terminates due to the participant's death or disability prior to completion of the applicable performance period, the final award value will be determined at the end of the performance period on the basis of the performance goals attained during the entire performance period but will be prorated for the number of months of the participant's service during the performance period. If a participant's service terminates prior to completion of the applicable performance period for any other reason, the 2006 Plan provides that, unless otherwise determined by the Board, the performance award will be forfeited. No performance award may be sold or transferred other than by will or the laws of descent and distribution prior to the end of the applicable performance period.

### **Deferred Compensation Awards**

The 2006 Plan authorizes the Board to establish a deferred compensation award program. If and when implemented, participants designated by the Board who are officers, directors or members of a select group of highly compensated employees may elect to receive, in lieu of compensation otherwise payable in cash or in lieu of cash or shares of common stock issuable upon the exercise or settlement of stock options, stock appreciation rights or performance share or performance unit awards, an award of deferred stock units. Each such stock unit represents a right to receive one share of our common stock at a future date determined in accordance with the participant's award agreement. Deferred stock units are fully vested upon grant and will be settled by distribution to the participant of a number of whole shares of common stock equal to the number of stock units subject to the award as soon as practicable following the earlier of the date on which the participant's service terminates or a settlement date elected by the participant at the time of his or her election to receive the deferred stock unit award. Participants are not required to pay any additional consideration in connection with the settlement of deferred stock units. A holder of deferred stock units has no voting rights or other rights as a stockholder until shares of common stock are issued to the participant in settlement of the stock units. However, participants holding deferred stock units will be entitled to receive dividend equivalents with respect to any payment of cash dividends on an equivalent number of shares of common stock. Such dividend equivalents will be credited in the form of additional whole and fractional stock units determined in accordance with a method specified by the Board in the participant's award agreement. Prior to settlement, deferred stock units may not be assigned or transferred other than by will or the laws of descent and distribution.

### **Other Stock-Based Awards**

The Plan permits the Board to grant other awards based on the Company's stock or on dividends on the Company's stock.

### **Effect of Certain Corporate Events**

In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments will be made in the number and class of shares subject to the 2006 Plan and to any outstanding awards, in the Section 162(m) per employee grant limit (see Federal Income Tax Information Potential Limitation on Company Deductions, below), and in the exercise price per share of any outstanding awards. Any fractional share resulting from an adjustment will be rounded down to the nearest whole number, and at no time will the exercise price of any option or stock appreciation right be decreased to an amount less than par value of the stock subject to the award.

If a Change in Control occurs, the surviving, continuing, successor or purchasing corporation or parent corporation thereof may either assume the Company's rights and obligations under the outstanding awards or substitute substantially equivalent awards for such corporation's stock. Awards that are not assumed, replaced or exercised prior to the Change in Control will terminate. The acceleration of an award in the event of an acquisition or similar corporate event may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of the Company.

*Change in Control.* The 2006 Plan defines a Change in Control of the Company as any of the following events upon which the stockholders of the Company immediately before the event do not retain immediately after the event, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the event, direct or indirect beneficial ownership of more than 50% of the total combined voting power of the stock of the Company, its successor or the corporation to which the assets of the Company were transferred: (i) a sale or exchange by the stockholders in a single or

series of related transactions of more than 50% of the Company's voting stock; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

#### **Duration, Amendment and Termination**

The Board may amend or terminate the 2006 Plan at any time. If not earlier terminated, the 2006 Plan will expire on the tenth anniversary of stockholder approval.

The Board may also amend the 2006 Plan at any time or from time to time. However, no amendment authorized by the Board will be effective unless approved by the stockholders of the Company if the amendment would: (i) increase the number of shares reserved for options under the 2006 Plan; (ii) change the class of persons eligible to receive incentive stock options; (iii) remove the stockholder approval requirement for options or SAR repricing; or (iv) modify the 2006 Plan in any other way if such modification requires stockholder approval under applicable law, regulation or rule.

#### **Awards Granted to Certain Persons**

The aggregate numbers of shares of common stock subject to awards granted to certain persons under the Prior Plan that will become the 2006 Plan in the last completed fiscal year are as follows: (i) Phillip C.S. Yin, Chief Executive Officer, 270,000 shares; (ii) Minsheng Lin, Chief Operating Officer, 104,000 shares, (iii) Morris S. Young, Chief Technology Officer, 50,000 shares, (iv) Davis Zhang, President, Joint Venture Operations, 50,000 shares, (v) Wilson W. Cheung, Chief Financial Officer, 50,000 shares and (vi) all current executive officers as a group, an aggregate of 524,000 shares; (viii) all current directors who are not executive officers as a group, an aggregate of zero shares; and (ix) all employees, including current officers who are not executive officers, as a group, an aggregate of 342,000 shares.

#### **Federal Income Tax Information**

*Incentive Stock Options.* An optionee recognizes no taxable income for regular income tax purposes as the result of the grant or exercise of an incentive stock option. Optionees who do not dispose of their shares for two years following the date the incentive stock option was granted or within one year following the exercise of the option will normally recognize a long-term capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionee satisfies both such holding periods upon a sale of the shares, the Company will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares either within two years after the date of grant or within one year from the date of exercise (referred to as a "disqualifying disposition"), the difference between the fair market value of the shares on the exercise date and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. A capital gain or loss will be long-term if the optionee's holding period is more than 12 months. Any ordinary income recognized by the optionee upon the disqualifying disposition of the shares generally should be deductible by the Company for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code or the regulations thereunder. The difference between the option exercise price and the fair market value of the shares on the exercise date of an incentive stock option is an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

*Nonstatutory Stock Options and Stock Appreciation Rights.* Nonstatutory stock options and stock appreciation rights have no special tax status. A holder of these awards generally does not recognize taxable income as the result of the grant of such award. Upon exercise of a nonstatutory stock option or stock appreciation right, the holder normally recognizes ordinary income in an amount equal to the difference between the exercise price and the fair market value of the shares on the exercise date. If the holder is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option or stock appreciation right, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. A capital gain or loss will be long-term if the holding period of the shares is more than 12 months. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of a nonstatutory stock option or stock appreciation right, except to the extent such deduction is limited by applicable provisions of the Code or the regulations thereunder. No tax deduction is available to the Company with respect to the grant of a nonstatutory stock option or stock appreciation right or the sale of the stock acquired pursuant to such grant.

*Restricted Stock.* A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the determination date. The determination date is the date on which the participant acquires the shares unless the shares are subject to a substantial risk of forfeiture and are not transferable, in which case the determination date is the earlier of (i) the date on which the shares become transferable or (ii) the date on which the shares are no longer subject to a substantial risk of forfeiture. If the determination date is after the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to have the date of acquisition be the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date on which the shares are acquired. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Performance and Restricted Stock Unit Awards.* A participant generally will recognize no income upon the receipt of a performance share, performance unit or restricted stock unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any substantially vested shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of restricted stock, the participant generally will be taxed in the same manner as described above (see discussion under *Restricted Stock* ). Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the determination date (as defined above under *Restricted Stock* ), will be taxed as capital gain or loss. The company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Deferred Compensation Awards.* A participant generally will recognize no income upon the receipt of deferred compensation awards. Upon the settlement of the awards, the participant normally will recognize ordinary income in the year of settlement in an amount equal to the fair market value of the shares received. Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the date they are transferred to the participant, will be taxed as capital gain or loss. The Company generally should be entitled to a deduction equal to the amount



of ordinary income recognized by the participant, except to the extent such deduction is limited by applicable provisions of the Internal Revenue Code.

*Potential Limitation on Company Deductions.* Code Section 162(m) denies a deduction to the Company for compensation paid to certain employees in a taxable year to the extent that compensation exceeds \$1 million for a covered employee. It is possible that compensation attributable to stock options, when combined with all other types of compensation received by a covered employee from the Company, may cause this limitation to be exceeded in any particular year. Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with applicable regulations issued under Section 162(m), compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation, provided that: (i) the option plan contains a per-employee limitation on the number of shares for which options or stock appreciation rights may be granted during a specified period, (ii) the per-employee limitation is approved by the stockholders, (iii) the option is granted by a Compensation Committee comprised solely of outside directors (as defined in Section 162(m)) and (iv) the exercise price of the option or right is no less than the fair market value of the stock on the date of grant.

For the aforementioned reasons, the Company's 2006 Plan provides for an annual per employee limitation as required under Section 162(m) and the Company's Compensation Committee is comprised solely of outside directors. Accordingly, options or stock appreciation rights granted by the Compensation Committee qualify as performance-based compensation, and the other awards subject to performance goals may qualify.

*Other Tax Consequences.* The foregoing discussion is intended to be a general summary only of the federal income tax aspects of awards granted under the 2006 Plan; tax consequences may vary depending on the particular circumstances at hand. In addition, administrative and judicial interpretations of the application of the federal income tax laws are subject to change. Furthermore, no information is given with respect to state or local taxes that may be applicable. Participants in the 2006 Plan who are residents of or are employed in a country other than the United States may be subject to taxation in accordance with the tax laws of that particular country in addition to or in lieu of United States federal income taxes.

#### **Required Vote and Board of Directors Recommendation**

The affirmative vote of a majority of the votes cast at the meeting, at which a quorum is present, either in person or by proxy, is required to approve the 2006 Plan. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have no effect on the vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have the authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

Should such stockholder approval not be obtained, then the 2006 Plan, which is the subject of this proposal, will not be implemented and no additional awards will be granted on the basis of this increase. However, in that event the Prior Plan will remain in effect, and awards may continue to be made pursuant to the provisions of the plan until the earlier of the depletion of its share reserve or its expiration in 2007.

The Board believes that the 2006 Plan is in the best interests of the Company and its stockholders for the reasons stated above. **THEREFORE, THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE RESTATEMENT OF THE COMPANY'S 1997 STOCK OPTION PLAN AS THE 2006 EQUITY INCENTIVE PLAN.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 31, 2006, certain information with respect to the beneficial ownership of the Company's common stock by:

- each stockholder known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors and director nominees;
- each of our executive officers named in the Summary Compensation Table below; and
- all executive officers and directors of AXT as a group.

Except as otherwise indicated, the address of each beneficial owner is c/o AXT, Inc., 4281 Technology Drive, Fremont, California 94538.

Except as indicated in the footnotes to the table, we believe that the persons named in the table have sole voting and dispositive power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws, where applicable. For each named person, this percentage includes common stock of which such person has the right to acquire beneficial ownership either currently or within 60 days of March 31, 2006, including upon exercise of stock options; however, such common stock shall not be deemed outstanding for the purpose of completing the percentage owned by any other person. Percentages of beneficial ownership are based upon 23,053,521 shares of common stock outstanding on March 31, 2006.

Name and Address of Beneficial Owners	Shares Owned		Percentage of Shares Beneficially Owned	
	Number of Shares Beneficially Owned			
State of Wisconsin Investment Board	3,225,000		13.99	%
P.O. Box 7842 Madison, WI 53707(1)				
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401(2)	1,166,441		5.06	%
Morris S. Young(3)	1,763,667		7.55	%
Davis Zhang(4)	500,923		2.14	%
Jesse Chen(5)	119,659		*	
Philip Yin(6)	82,500		*	
David Chang(7)	76,916		*	
Wilson W. Cheung(8)	48,063		*	
Leonard LeBlanc(9)	47,458		*	
Minsheng Lin				
All directors and executive officers as a group (8 persons) (10)	2,639,186		11.00	%

\* Less than 1%

- (1) Based on a Schedule 13G filed by State of Wisconsin Investment Board, a public pension fund, with the SEC on February 10, 2006. State of Wisconsin Investment Board has sole voting power and sole dispositive power over all of the shares.
- (2) Based on a Schedule 13G/A filed by Dimensional Fund Advisors Inc. with the SEC on February 1, 2006. Includes 1,166,441 shares beneficially owned by Dimensional Fund Advisors Inc., an investment advisor, as a result of its serving as an investment advisor to four investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (the Funds). According to the Schedule 13G/A, in its roles as investment advisor or manager, Dimensional Fund Advisors Inc. possesses investment and/or voting power over the securities of AXT that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of AXT held by the Funds. However, all such shares of AXT are owned by the Funds. Dimensional Fund Advisors Inc. disclaims beneficial ownership of all such shares of AXT.
- (3) Includes 473,071 shares held by the Morris & Vicke Young Trust, 975,200 shares held by the Morris Young Family Ltd. Partnership, and 295,396 shares subject to options exercisable within 60 days of March 31, 2006. Also includes 20,000 shares held jointly by George Liu, Morris Young's father-in-law, and Vicke Young, Morris Young's spouse, of which Morris Young disclaims beneficial ownership.
- (4) Includes 12,552 shares directly held by Davis Zhang, 100,300 shares held jointly by Davis Zhang and Christina Li, Mr. Zhang's spouse, 16,000 shares held by Mr. Zhang's minor children and 372,071 shares subject to options exercisable within 60 days of March 31, 2006.
- (5) Includes 81,500 shares subject to options exercisable within 60 days of March 31, 2006.
- (6) Includes 70,000 shares subject to options exercisable within 60 days of March 31, 2006.
- (7) Includes 58,583 shares subject to options exercisable within 60 days of March 31, 2006.
- (8) Includes 48,063 shares subject to options exercisable within 60 days of March 31, 2006.
- (9) Includes 23,125 shares subject to options exercisable within 60 days of March 31, 2006.
- (10) Includes 948,738 shares subject to options exercisable within 60 days of March 31, 2006.

**EQUITY COMPENSATION PLAN INFORMATION**

We currently maintain three compensation plans that provide for the issuance of common stock to officers and other employees, directors, and consultants. These consist of the 1993 Stock Option Plan, the 1997 Stock Option Plan and the 1998 Employee Stock Purchase Plan, all of which have been approved by stockholders. The 1993 Stock Option Plan expired in 1998, and no options have been granted under that plan since 1998. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2005:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)			Weighted-average exercise price of outstanding options, warrants, and rights (b)			Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)		
Equity compensation plans approved by stockholders									
1993 Stock Option Plan		30,000			\$	7.00			None
1997 Stock Option Plan		2,805,402			\$	2.08			2,060,125
1998 Employee Stock Purchase Plan		N/A				N/A			54,647
Equity compensation plans not approved by stockholders; none		N/A				N/A			N/A
Total		2,835,402							2,114,772

**EXECUTIVE COMPENSATION AND OTHER MATTERS**

The following table sets forth information for the last three fiscal years concerning the total compensation of our chief executive officer and our other executive officers (the Named Executive Officers ) for services rendered in all capacities during the last fiscal year:

**Summary Compensation Table**

Name and principal position	Year	Annual Compensation		Long term compensation awards Securities Underlying Options(2)	All Other Compensation(3)
		Salary	Bonus(1)		
Philip C.S. Yin Chief Executive Officer(4)	2005	\$ 187,954	\$	270,000	\$ 10,772
	2004				
	2003				
Minsheng Lin Chief Operating Officer(5)	2005	\$ 87,887	\$	104,000	\$ 5,831
	2004				
	2003				
Morris S. Young Chief Technology Officer	2005	\$ 223,909	\$ 11,908 (6)	50,000	\$ 9,026
	2004	212,761	3,375	50,000	10,075
	2003	212,001		149,500	9,214
Davis Zhang President, Joint Venture Operations	2005	\$ 248,408	\$ 7,350 (7)	50,000	\$ 9,495
	2004	219,102	8,250	50,000	8,690
	2003	197,870		172,900	8,535
Wilson W. Cheung Chief Financial Officer & Corporate Secretary(9)	2005	\$ 184,746	\$ 18,045 (8)	50,000	\$ 7,575
	2004	103,112	2,700	97,000	2,630
	2003				

(1) Bonuses are based on performance of the Company as well as each executive's individual contribution. See Report of the Compensation Committee on Executive Compensation.

(2) During the first three months of 2004 Dr. Young voluntarily canceled 230,000 unexercised options granted to him during 1999, 2000 and 2001, and Mr. Zhang voluntarily canceled 266,000 unexercised options granted to him during 1999, 2000 and 2001.

(3) Represents premiums paid by us for life insurance coverage and 401(k) matching contributions.

(4) Dr. Yin joined AXT, Inc. in March 2005 as chief executive officer.

(5) Mr. Lin joined AXT, Inc. in July 2005 as chief operating officer.

(6) \$11,908 bonus granted in the fourth quarter of 2004 but not paid until March 2005.

(7) \$7,350 bonus granted in the fourth quarter of 2004 but not paid until March 2005.

(8) \$18,045 bonus granted in the fourth quarter of 2004 but not paid until March 2005.

(9) Mr. Cheung joined AXT, Inc. in May 2004 as vice president, corporate controller and was promoted to chief financial officer in the same month. Mr. Cheung was appointed Corporate Secretary in February 2006.



**OPTION GRANTS IN LAST FISCAL YEAR**

The following table provides the specified information concerning grants of options to purchase our common stock made during the fiscal year ended December 31, 2005 to the Named Executive Officers. All of these options were granted under our 1997 Stock Option Plan and have a term of ten years:

Name	Individual Grants		Percent of Total Options Granted to Employees in Fiscal Year(4)	Exercise Price Per Share(5)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
	Number of Shares Underlying Options Granted(2)(3)					5%	10%
Philip C.S. Yin	240,000		27.71 %	\$ 1.17	3/28/15	\$ 176,594	\$ 447,523
	30,000		3.46 %	\$ 1.33	9/2/15	\$ 25,093	\$ 63,590
Minsheng Lin	100,000		11.54 %	\$ 1.21	7/11/15	\$ 76,096	\$ 192,843
	4,000		0.46 %	\$ 1.33	9/2/15	\$ 3,346	\$ 8,479
Morris S. Young	50,000		5.77 %	\$ 1.33	9/2/15	\$ 41,821	\$ 105,984
Davis Zhang	50,000		5.77 %	\$ 1.33	9/2/15	\$ 41,821	\$ 105,984
Wilson W. Cheung	50,000		5.77 %	\$ 1.33	9/2/15	\$ 41,821	\$ 105,984

(1) Potential realizable values are net of exercise price, but before taxes associated with exercise, and are based upon the assumption that our common stock appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration of the ten-year option term. These amounts represent hypothetical gains that could be achieved for the respective options if exercised at the exercise price and sold at the end of the option term, at the appreciated price. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Securities and Exchange Commission and do not represent our estimate or projection of the future common stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock, overall market conditions and the option holders' continued employment through the vesting period. This table does not take into account any appreciation in the price of the common stock from the date of grant to the current date.

(2) Shares subject to options generally vest and become exercisable in installments, subject to the optionee's continued employment or service. Under the terms of our 1997 Stock Option Plan, the administrator retains discretion, subject to limits, to modify the terms of outstanding options and to re-price outstanding options.

(3) Options vest 25% on the one year anniversary of the date of grant and then in equal monthly installments over the following 36 months.

(4) Based on total options to purchase 866,100 shares of our common stock granted to all employees during the fiscal year ended December 31, 2005.

(5) All options were granted at an exercise price equal to the fair market value of our common stock on the date of grant, as determined by reference to the closing sales price as reported on the Nasdaq National Market on the date of grant.

**AGGREGATE OPTION EXERCISES FOR FISCAL 2005 AND FISCAL 2005 YEAR-END VALUES**

The following table provides specified information concerning exercises of options to purchase our common stock during fiscal 2005, and unexercised options held as of December 31, 2005, by the Named Executive Officers:

						Number of Securities					
						Underlying Unexercised		Value of Unexercised in-the-			
		Shares				Options as of		Money Options as of			
		Acquired on		Value		12/31/05		12/31/05(1)			
Name		Exercise	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable	Exercisable	Unexercisable	Exercisable	Unexercisable
Philip C.S. Yin							270,000	\$		\$	257,100
Minsheng Lin							104,000	\$		\$	96,240
Morris S. Young				261,490			134,010	\$	113,051	\$	202,120
Davis Zhang				337,602			133,298	\$	128,241	\$	219,904
Wilson W. Cheung				37,958			109,042	\$	2,240	\$	47,220

(1) Calculated on the basis of the fair market value of the underlying securities as of December 31, 2005 of \$2.14 per share, as reported as the closing price of our common stock on the Nasdaq National Market, less the aggregate exercise price. The value of Unexercised in-the-Money Options is calculated by multiplying the difference between the market value (closing market price) and exercise price at fiscal year end by the number of options held at fiscal year end.

No compensation intended to serve as incentive for performance to occur over a period longer than one fiscal year was paid pursuant to a long-term incentive plan during fiscal 2005 to any Named Executive Officer. We do not have any defined benefit or actuarial plan under which benefits are determined primarily by final compensation or average final compensation and years of service with any Named Executive Officer.

**Compensation of Non-Employee Directors**

During 2005, each of our non-employee directors received an annual retainer of \$25,000 which covers fees for board and committee meeting attendance. In lieu of making grants of stock options to non-employee directors, in 2005 we paid each non-employee director the sum of \$10,000. In addition, each non-employee director was reimbursed for reasonable expenses incurred.

Although no options were granted to non-employee directors in 2005, the non-employee directors are eligible to receive option grants pursuant to our 1997 Stock Option Plan and will be eligible to receive awards under the 2006 Plan. Options granted to non-employee directors are not intended to qualify as incentive stock options under the Internal Revenue Code.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These persons are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms that they file.

Based solely on our review of the forms furnished to us and written representations from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and persons who beneficially own more than 10% of our common stock were complied with in fiscal 2005.

### **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

On November 22, 2002, the Board of Directors, on the recommendation of the Compensation Committee, adopted a second form of standard stock option agreement for use in connection with grants of stock options made to employees pursuant to our 1997 Stock Option Plan. This form of standard agreement provides that in the event of a change in control, as defined therein, and termination of employment or resignation for good reason as defined therein, of the individual's employment, within twelve months after the change in control, the vesting and exercisability of the option will accelerate such that the option will become immediately exercisable and vested in full as of the date of termination or resignation. Options granted to all of our employees during 2002, 2003 and 2004, including options granted to our executive officers and directors, include these provisions which provide for acceleration in full upon a change of control event in which the employee is terminated or constructively dismissed within 12 months after the change in control. Options granted to our directors accelerate in full upon the change in control event, whether or not there is a termination of their service to the Company. All options so accelerated remain exercisable for the earlier of the term of the option or six months after the effective date of the termination. On September 2, 2005, our executive officers, Messrs. Yin, Lin, Young, Zhang and Cheung were granted stock options for 30,000, 4,000, 50,000, 50,000 and 50,000 shares, respectively, under our 1997 Stock Option Plan and subject to a stock option agreement that includes this acceleration provision. On March 28, and July 11, 2005, our Chief Executive Officer, Dr. Yin and Chief Operating Officer, Mr. Lin were granted stock options for 240,000 and 100,000, respectively, under our 1997 Stock Option Plan and subject to a stock option agreement that includes this acceleration provision.

On June 28, 2005, the Company entered into an employment agreement with Mr. Wilson W. Cheung, Chief Financial Officer. If Mr. Cheung's employment with the Company is terminated without cause, or if Mr. Cheung terminates his employment as a result of a defined constructive termination, he shall be eligible to receive continuing payment of his last base salary and COBRA benefits for one year after such termination. If, a change in the Company's control, Mr. Cheung's employment is terminated without cause or as a result of a defined constructive termination within twelve months following such change in control, the balance of any unvested portion of his Options become immediately vested in full.

On January 10, 2006, the Company entered into an employment agreement with Mr. Davis Zhang, President, Joint Venture Operations. In the event that Zhang is terminated without cause, the Company shall pay Zhang an amount equal to twenty-four (24) months of his then current salary and reimbursement of health benefits.

Effective March 29, 2005, the Compensation Committee approved an Agreement Respecting Severance Payment (the Severance Agreement) between the Company and Morris S. Young, chief technology officer of the Company. The Severance Agreement provides that if Dr. Young is terminated by the Company without Cause (as defined therein) on or before December 31, 2006, he shall receive a separation bonus in the gross amount of two times his salary. If Dr. Young resigns or is terminated by the Company without Cause on or after January 1, 2007, he shall receive a separation bonus in the gross amount of two times his salary, as well as any other separation payments that the Company may make available to other management employees.

In connection with the appointment of Dr. Philip C.S. Yin as chief executive officer in March 2005, the Company entered into an agreement with Dr. Yin providing that if his employment with the Company is terminated without cause, or if Dr. Yin terminates his employment as a result of a defined constructive termination, he shall be eligible to receive continuing payment of his last base salary and COBRA benefits for one year after such termination. If, after a change in the Company's control, Dr. Yin's employment is terminated without cause or as a result of a defined constructive termination, the balance of any unvested portion of outstanding options held by him shall become immediately vested in full.

**REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION**

During fiscal year 2005, the Compensation Committee was comprised of David C. Chang, Jesse Chen (Chair), and Leonard LeBlanc, each a non-employee member of the Board of Directors. The Compensation Committee is responsible for setting and monitoring policies governing the compensation of executive officers. The Compensation Committee reviews the performance and compensation levels for executive officers, sets salary and bonus levels for executive officers and approves option grants to executive officers under our 1997 Stock Option Plan. The objectives of the Compensation Committee are to correlate executive compensation with our business objectives and performance, and to enable us to attract, retain and reward executive officers who contribute to our long-term success.

As the industry in which the Company operates can be extremely competitive, the Compensation Committee believes that the compensation programs for executive officers should be designed to retain and motivate talented executives responsible for the success of the Company, determined within the competitive environment in which the Company is situated, and should be based on the achievement of business objectives, individual contribution, and financial performance. The Compensation Committee's goals are to provide a total compensation package that considers the compensation practices of companies with which the Company competes for executive officers, provides variable compensation that is linked to achievement of financial, division, and individual performance goals, and aligns the interests of the executive officers with those of the company by providing them with an equity stake in the Company. The components of the Company's compensation policies for executive officers consist of base salary and benefits, cash bonuses and long-term stock option incentives.

**Salary**

The Compensation Committee annually assesses the performance of the Company's chief executive officer and the Company's other executive officers, and sets the salary for such officers. Base salaries are typically established by the Board of Directors at the beginning and midpoint of the fiscal year based on competitive compensation data, an evaluation of the executive's job responsibilities, experience, individual performance and contributions to the business, as well as the financial results and performance of the Company for the current fiscal year and projected performance in the future fiscal year.

Phillip C.S. Yin became chief executive officer on March 28, 2005. The Board's decision with regard to the compensation of Dr. Yin was based in part on compensation paid to chief executive officers of comparably sized companies, as well as advice from the independent search firm Schweichler, Price and Partners which was retained to aid in the identification and evaluation of candidates for chief executive officer. In addition, the Compensation Committee considered certain incentive objectives based on the Company's performance with respect to revenue levels and earnings per share. Dr. Yin's salary was ultimately determined through arm's length negotiations with Dr. Yin when he joined the Company.

In determining the salaries for the Company's other executive officers, the Compensation Committee reviews recommendations from the chief executive officer, which includes information from salary surveys, performance evaluations and the financial condition of the Company. The Compensation Committee also establishes both financial and operational-based objectives and goals in determining executive officer salaries. These goals and objectives include sales and spending forecasts for the upcoming year and published executive compensation literature for comparably sized companies.

For more information regarding the compensation and employment arrangements of the chief executive officer and other executive officers, see EXECUTIVE COMPENSATION AND OTHER MATTERS.

## **Bonuses**

Incentive bonuses are intended to reflect the Board's belief that a significant portion of the compensation of each executive officer should be contingent on the performance of the Company, as well as the individual contribution of each executive officer. The Compensation Committee believes that this type of bonus program, in which bonuses are based on AXT attaining strategic and financial goals and other corporate and individual objectives set by the Compensation Committee, properly aligns the interests of the executive officer with the interests of our stockholders. We administer a bonus program by which each of our executive officers can earn a cash bonus, determined by the Compensation Committee and payable quarterly. Under this program, the Compensation Committee sets a level of performance for AXT based on the above measures, which must be attained before any bonuses are awarded. In consultation with the chief executive officer, the Compensation Committee semi-annually determines the total amount of cash bonuses available for executive officers and certain other management employees. In 2005, approximately \$44,087 of cash bonuses were paid to executive officers with respect to fiscal 2004. Because Company objectives were not achieved in 2005, no cash bonuses were awarded to executive officers with respect to 2005.

## **Stock Options**

The Compensation Committee believes that employee equity ownership provides significant motivation to executive officers to maximize value for our stockholders and, therefore, periodically grants stock options under our stock option plan. Stock options are granted at the current market price and will only have value if our stock price increases over the exercise price. It is the belief of the Board that stock options directly motivate an executive to maximize long-term stockholder value.

The Compensation Committee determines the size and frequency of option grants for executive officers, after consideration of recommendations from the interim chief executive officer. Recommendations for options are based upon the relative position and responsibilities of each executive officer, previous and expected contributions of each officer to the Company and previous option grants to each executive officer. Option grants vest in accordance with vesting schedules determined for each grant as appropriate to assist in retaining and motivating key employees, although they generally vest 25% on the one year anniversary of the date of grant and in equal monthly installments over the next three years. During fiscal 2005, the Compensation Committee approved option grants to Messrs. Yin, Lin, Young, Zhang and Cheung for 270,000 shares, 104,000 shares, 50,000 shares, 50,000 shares and 50,000 shares, respectively.

## **Compensation of Chief Executive Officer**

The Compensation of Dr. Philip C.S. Yin, who was appointed chief executive officer in March 2005, was determined in accordance with the criteria described above. Dr. Yin's annual salary is \$220,000. Dr. Yin also receives a housing and car allowance valued at \$25,200 on an annualized basis. Dr. Yin is also eligible to participate in the executive bonus plan approved by the Compensation Committee at a target annual bonus of \$100,000, although Dr. Yin was not awarded a bonus with respect to 2005. Dr. Yin was granted options to purchase 270,000 shares of common stock upon joining the Company. These options vest over four years at the rate of 25% on the one year anniversary of the date of grant, and thereafter in equal monthly installments at the rate of 1/48th per month over the remaining 36 months. See also Employment Contracts and Termination of Employment and Change-in-Control Arrangements for a discussion of the employment agreement with Dr. Yin.

**Section 162(m) of the Internal Revenue Code**

The Company has considered the provisions of Section 162(m) of the Internal Revenue Code and related Treasury Department regulations which restrict deductibility of executive compensation paid to the Company's interim chief executive officer and each of the four other most highly compensated executive officers holding office at the end of any year to the extent such compensation exceeds \$1,000,000 for any of such officers in any year and does not qualify for an exception under the statute or regulations. Income from options granted under the 1997 Option Plan would generally qualify for an exemption from these restrictions so long as the options are granted by a committee whose members are non-employee directors. The Company expects that the Compensation Committee will generally be comprised of non-employee directors, and that to the extent such committee is not so constituted for any period of time, the options granted during such period will not be likely to result in compensation exceeding \$1,000,000 in any year.

Respectfully submitted by the Compensation Committee  
Jesse Chen, Chair  
David C. Chang  
Leonard J. LeBlanc

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee oversees the quality of our financial statements and our financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, maintaining appropriate accounting and financial reporting principles and policies and the reporting process, including internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Burr, Pilger & Mayer LLP, our independent registered public accounting firm, is responsible for expressing an opinion as to the conformity of our audited financial statements with accounting principles generally accepted in the United States of America. It is not the duty or responsibility of the Audit Committee or its members to conduct any type of auditing or accounting review or procedure.

The Audit Committee consists of three directors, each of whom, in the judgment of the Board of Directors, is an independent director as defined in the listing standards for The Nasdaq Stock Market. In addition, Mr. LeBlanc and Mr. Chen are audit committee financial experts as such term is defined in the rules of the Securities and Exchange Commission. A copy of the charter for the Audit Committee is posted on the Company's website at [www.axt.com/site/index.php?q=node/1](http://www.axt.com/site/index.php?q=node/1) under the Investor Relations section.

The Audit Committee has reviewed and discussed the audited financial statements with management and has discussed and reviewed with the independent registered public accounting firm all matters required to be discussed by Statement on Auditing Standards No. 61 (*Communication with Audit Committees*). The Audit Committee has met with Burr, Pilger & Mayer LLP, with and without management present, to discuss the overall scope of Burr, Pilger & Mayer LLP's audit, the results of its examinations, its evaluations of the Company's internal controls and the overall quality of its financial reporting.

The Audit Committee has received from the independent registered public accounting firm a formal written statement describing all relationships between the auditors and the Company that might bear on the independent registered public accounting firm's independence consistent with Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), discussed with the independent registered public accounting firm any relationships that may impact their objectivity and independence, including a review of both audit and non-audit fees, and satisfied itself as to the independent registered public accounting firm's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Respectfully submitted by the Audit Committee  
Leonard J. LeBlanc, Chair  
David C. Chang  
Jesse Chen

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Since January 2002, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$60,000, and in which any director, executive officer or holder of more than 5% of any class of our voting securities or members of that person's immediate family had or will have a direct or indirect material interest other than the transactions described below.

We entered into an operating lease in July 2001 for warehouse space in Fremont, CA with 4160 Business Center, LLC, a real estate holding company, in which Davis Zhang, the president of our China operations, is the sole shareholder. Lease payments to 4160 Business Center, LLC were approximately \$121,000 for the three months ended March 31, 2003. In April of 2003, Mr. Zhang sold this warehouse to a party unrelated to the Company. We began leasing this warehouse from the new owner on the date of sale, and this lease expires in July, 2006. Mr. Zhang continues to hold a \$3.7 million note on the property as of March 31, 2006.

See also the discussion under **Employment Contracts and Termination of Employment and Change-in-Control Arrangements** above.

32

---

**COMPARISON OF STOCKHOLDER RETURN**

Set forth below is a line graph comparing the annual percentage change in the cumulative total return to the stockholders of the Company on our common stock with the CRSP Total Return Index for the Nasdaq Stock Market (U.S. Companies) and the Nasdaq Electronic Components Index for the period commencing December 31, 2000, and ending December 31, 2005.

The information contained above under the captions Report of the Compensation Committee on Executive Compensation, Report of the Audit Committee of the Board of Directors, and Comparison of Stockholder Return shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.



**TRANSACTION OF OTHER BUSINESS**

At the date of this proxy statement, the only business which the Board of Directors intends to present or knows that others will present at the meeting is as set forth above. If any other matter or matters are properly brought before the meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

By order of the Board of Directors

Wilson W. Cheung  
Corporate Secretary

April 25, 2006

**Whether or not you expect to attend the Annual Meeting, please complete, date, sign and promptly return the accompanying proxy in the enclosed postage paid envelope or complete the proxy electronically or by phone as described in any materials provided to you by your bank or brokerage firm so that your shares may be represented at the Annual Meeting.**

34

---

Appendix A

**AXT, Inc.**

**2006 Equity Incentive Plan**

---

**TABLE OF CONTENTS**

		<b>Page</b>
<u>1.</u>	<u>Establishment, Purpose and Term of Plan</u>	
	<u>1.1</u>	A-1
	<u>1.2</u>	A-1
	<u>1.3</u>	A-1
<u>2.</u>	<u>Definitions and Construction</u>	A-1
	<u>2.1</u>	A-1
	<u>2.2</u>	A-1