

AXT INC
Form DEF 14A
April 20, 2004

Table of Contents

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
 Definitive
Proxy
Statement
Confidential, for
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240.14a-11(c) or
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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):

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(1) Amount Previously Paid:

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Schedule or
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Statement No.:

(3) Filing Party:

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Table of Contents

AXT, INC.

**4281 Technology Drive
Fremont, California 94538**

April 20, 2004

To our stockholders:

You are cordially invited to attend the annual meeting of stockholders of AXT, Inc. on May 18, 2004 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. Also enclosed is a copy of the 2003 AXT, Inc. Annual Report, which includes audited financial statements and certain other information.

It is important that you use this opportunity to take part in the affairs of AXT, Inc. by voting on the business to come before this meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE.** Returning the proxy card does not deprive you of your right to attend the meeting and vote your shares in person.

We look forward to seeing you at the meeting.

Sincerely,

MORRIS S. YOUNG
President and Chief Executive Officer

Table of Contents

AXT, INC.

4281 Technology Drive
Fremont, California 94538

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 18, 2004

Dear Stockholder:

You are invited to attend the annual meeting of stockholders of AXT, Inc., which will be held on May 18, 2004 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 one Class III director to hold office for a three-year term and until his successor is elected and qualified.
2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2004.
3. To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on April 8, 2004, 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,

DONALD L. TATZIN
Secretary

April 20, 2004
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.

TABLE OF CONTENTS

GENERAL INFORMATION

PROPOSAL NUMBER ONE ELECTION OF DIRECTORS

PROPOSAL NUMBER TWO RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

PRINCIPAL ACCOUNTING FIRM FEES

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

EQUITY COMPENSATION PLAN INFORMATION

EXECUTIVE COMPENSATION AND OTHER MATTERS

AGGREGATE OPTION EXERCISES FOR FISCAL 2003 AND FISCAL 2003 YEAR-END VALUES

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

COMPARISON OF STOCKHOLDER RETURN

TRANSACTION OF OTHER BUSINESS

Table of Contents

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 18, 2004, 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 20, 2004.

GENERAL INFORMATION

Annual Report. Our annual report for the year ended December 31, 2003, is enclosed with this proxy statement.

Voting Securities. Only common stockholders of record as of the close of business on April 8, 2004, will be entitled to vote at the meeting and any adjournment thereof. As of that date, there were 23,042,982 shares of our common stock, par value \$.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.

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. 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.

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. If you hold your common stock through a bank, broker or other nominee, the broker may be prevented from voting shares held in your account on some proposals (a broker non-vote) unless you have given voting instructions to the bank, broker or nominee. Shares that are subject to a broker

Table of Contents

non-vote are counted for purposes of determining whether a quorum exists but not for purposes of determining whether a proposal has passed.

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 2005 Annual Meeting of Stockholders, the proposal must be received at our principal executive offices, addressed to the Secretary, not later than December 21, 2004. If a stockholder intends to submit a proposal or a nomination for director for our 2005 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 no later than December 21, 2004, 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 at www.axt.com.

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 III, Class I, and Class II directors serve until the annual meeting of stockholders to be held in 2004, 2005 and 2006, 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 one Class III director will expire on the date of the upcoming annual meeting of stockholders. Accordingly, one person is to be elected to serve as Class III director. The Nominating and Governance Committee of the Board of Directors selected, and the Board of Directors approved, Mr. Leonard J. LeBlanc, the current Class III member of the Board of Directors, as nominee for election at the annual meeting to Class III of the Board of Directors. If elected, Mr. LeBlanc will serve as a director until our annual meeting of stockholders in 2007, and until his successor is elected and qualified. If Mr. LeBlanc declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election, the proxies may be voted for a substitute nominee as the Board of Directors may designate, although we know of no reason why this nominee would be unable or unwilling to serve as a director.

Vote Required and Board of Directors Recommendation

If a quorum is present at the annual meeting of stockholders, the nominee for Class III director receiving the highest number of votes cast will be elected as a Class III director. 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 RECOMMENDS A VOTE FOR THE ELECTION OF MR. LEONARD LEBLANC TO THE BOARD OF DIRECTORS.

Table of Contents**Information About the Directors and Nominees**

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

Name	Principal Occupation with AXT	Age	Director Since
<i>Class I directors whose term expires at the 2005 annual meeting of stockholders:</i>			
Morris S. Young	Chairman of the Board of Directors, President and Chief Executive Officer	59	1989
David C. Chang	Director	62	2000
<i>Class II directors whose term expires at the 2006 annual meeting of stockholders:</i>			
Jesse Chen	Director	45	1998
Donald L. Tatzin	Chief Financial Officer and Director	52	1998
<i>Class III director nominated for election at the 2004 annual meeting of stockholders:</i>			
Leonard J. LeBlanc	Director	63	2003
<i>Non-director executive officer:</i>			
Davis Zhang	Senior Vice President, Production	46	

Members of the Board of Directors

Morris S. Young, Ph.D. co-founded AXT in 1986 and has served as our chairman of the Board of Directors since February 1998 and as our president, chief executive officer and a director since 1989. 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 Chengkung 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 since 1994. Previously, Dr. Chang was dean of the College of Engineering and Applied Sciences at Arizona State University. Dr. Chang served as a founder and director of the NSF/Industry Corporate Research Center for Microwave and Millimeter-Wave Computer Aided Design from 1988 to 1992. Dr. Chang served as chair of the Electrical and Computer Engineering Department 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 Cheung-Kung University in Taiwan.

Jesse Chen 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 Chenkung 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 has 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. He continues to serve on the company's board of directors. 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

Table of Contents

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 a member 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.

Donald L. Tatzin has served as one of our directors since February 1998 and as our chief financial officer since August 2000. From April 2000 to August 2000, Mr. Tatzin served as our interim chief financial officer. From 1993 to 1998, Mr. Tatzin served as executive vice president of Showboat, a gaming company. In addition, from April 1995 to October 1996, Mr. Tatzin served as a director for Sydney Harbour Casino, an Australian gaming company and from April 1996 to October 1996, as its chief executive officer. From 1976 to 1993, Mr. Tatzin was a director and consultant with Arthur D. Little. Mr. Tatzin has a B.S. degree in economics and B.S. and M.S. degrees in city planning from the Massachusetts Institute of Technology and a M.S. degree in economics from Australian National University.

Non-Director Executive Officer

Davis Zhang co-founded AXT in 1986 and 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 holds a bachelor of science degree in mechanical engineering from Northern Communication University, Beijing, China.

Board of Directors Committees and Meetings

During the fiscal year ended December 31, 2003, the Board of Directors held twelve (12) meetings, the Audit Committee of the board held nine (9) meetings, and the Compensation Committee of the board held three (3) meetings. In February 2003, the Board of Directors formed a Nominating and Governance Committee. The functions of each committee are described below. Each of these committees has 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. No director attended fewer than 75 percent of the total number of meetings of the board. No director other than David Chang attended fewer than 75 percent of the meetings of the audit and compensation committees.

The Board of Directors has determined that all of the Directors other than Dr. Young and Mr. Tatzin, including those who serve on these committees, are independent, as the term is defined by applicable Nasdaq listing standards and SEC rules. Dr. Young and Mr. Tatzin are non-independent directors because of their employment as senior executive officers of AXT.

Audit Committee

The members of the Audit Committee during 2003 were David C. Chang, Jesse Chen and Leonard LeBlanc, who served following his appointment to the Board on April 21, 2003. Mr. B.J. Moore was a member of the Audit Committee until his resignation on February 4, 2003. All Audit Committee members are independent as defined under the applicable Nasdaq listing standards and SEC rules and regulations. The Board of Directors has determined that Mr. Leonard LeBlanc and Mr. Jesse Chen are audit committee financial experts 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 auditors;

reviewing the results and scope of audit and other services provided by the independent auditors;

Table of Contents

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 auditors. 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 independent accountants 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 auditors and with the Chief Executive Officer. We maintain procedures for the receipt, retention, and handling of complaints, 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 2003 were David C. Chang, Jesse Chen, and Leonard LeBlanc, who served following his appointment to the Board on April 21, 2003. Mr. B.J. Moore was a member of the compensation committee until his resignation on February 4, 2003. The compensation committee reviews and determines the salary and bonus criteria of and stock option grants to all executive officers of the Company including the Chief Executive Officer, and of the Directors, 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

In February 2003, the board of directors formed a Nominating and Governance Committee. The members of our nominating and governance committee during 2003 were David Chang, Jesse Chen, and Leonard LeBlanc, who served following his appointment to the Board on April 21, 2003. 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.

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

Table of Contents

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 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.

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. To date, the Company has not engaged third parties to identify or evaluate or assist in identifying potential nominees, although the Company reserves the right in the future to retain a third party search firm, if necessary.

Compensation Committee Interlocks and Insider Participation

During fiscal 2003, 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

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meetings of stockholders, Directors are encouraged to attend annual meetings. All of our Directors except for Mr. Chang attended our 2003 annual meeting. The Nominating and Governance Committee will consider, during the upcoming year, adopting a formal policy on director attendance at annual meetings of stockholders.

Communications with the Board of Directors

Although we do not have a formal policy regarding 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.

Table of Contents**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, including a Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer, Controller and any other principal accounting officer. We will provide a copy of the Code of 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 Ethics or a waiver of a provision of the Code of Ethics applicable to an executive officer or director on our website at www.axt.com, on the Investor Relations page.

PROPOSAL NUMBER TWO**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Board of Directors has selected PricewaterhouseCoopers LLP as independent auditors to audit our financial statements for the fiscal year ending December 31, 2004. The decision of the Board of Directors was based on the recommendation of the Audit Committee. PricewaterhouseCoopers LLP has acted in such capacity since its appointment during the fiscal year ended December 31, 1997. A representative of PricewaterhouseCoopers 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 new independent auditors 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 PricewaterhouseCoopers 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 PricewaterhouseCoopers LLP as our independent auditors. 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 PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004.

PRINCIPAL ACCOUNTING FIRM FEES

The following table sets forth the aggregate fees billed to AXT for the last two fiscal years ended December 31, 2002 and December 31, 2003, by our principal auditing firm, PricewaterhouseCoopers LLP:

	2003	2002
Audit Fees	\$312,100	\$302,000
Audit-Related Fees	\$ 2,700	\$ 10,328
Tax Fees	\$ 0	\$ 0
All Other Fees	\$ 9,000	\$ 12,000

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements

Table of Contents

included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

- (2) 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 the Company's 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.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning, none of which were provided by PricewaterhouseCoopers LLP to us during 2002 or 2003.
- (4) All Other Fees consist of fees for products and services other than the services reported above. In fiscal 2003, this category included fees related to a subpoena issued to PricewaterhouseCoopers LLP in a legal proceeding involving AXT.

Review Of Auditor Independence

The Audit Committee has considered with the auditor the non-compatibility of non-audit services and determined that the provision of such services rendered by PricewaterhouseCoopers LLP is compatible with maintaining PricewaterhouseCooper's independence as our independent auditor.

Fees billed to us by PricewaterhouseCoopers LLP during the year ended December 31, 2003 for all other non-audit services included accounting advice, tax services, and litigation support. Our audit committee has considered the role of PricewaterhouseCoopers LLP in providing non-audit services to us and has concluded that such services provided by PricewaterhouseCoopers LLP are compatible with maintaining its independence as our auditors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information, as of March 31, 2004, 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, 2004, including upon exercise of stock options; however, such common stock shall not be

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Table of Contents

deemed outstanding for the purpose of completing the percentage owned by any other person. Percentages of beneficial ownership is based upon 23,032,190 shares of common stock outstanding on March 31, 2004.

Name and Address of Beneficial Owners	Shares Owned	
	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
State of Wisconsin Investment Board P.O. Box 7842 Madison, WI 53707(1)	3,225,000	14.00%
Morris S. Young(2)	1,741,319	7.56%
Davis Zhang(3)	289,152	1.26%
Donald L. Tatzin(4)	76,150	*
Jesse Chen(5)	73,084	*
David Chang(6)	38,916	*
Leonard LeBlanc(7)	16,458	*
Gordon Liu(8)	0	*
All directors and executive officers as a group (6 persons)(9)	5,460,079	23.71%

* Less than 1%

- (1) Information based on Schedule 13G filed by the stockholder with the Securities and Exchange Commission on February 16, 2004, the State of Wisconsin Investment Board beneficially owns 3,225,000 shares of common stock.
- (2) Includes 678,869 shares held by the Morris & Vicke Young Trust, 975,200 shares held by the Morris Young Family Ltd. Partnership, and 67,250 shares subject to options exercisable within 60 days of March 31, 2004. 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.
- (3) Includes 42,352 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 130,500 shares subject to options exercisable within 60 days of March 31, 2004.
- (4) Includes 27,000 shares subject to options exercisable within 60 days of March 31, 2004.
- (5) Includes 54,750 shares subject to options exercisable within 60 days of March 31, 2004 and 8,334 shares of restricted stock to be issued to independent directors within 60 days of March 31, 2004.
- (6) Includes 30,583 shares subject to options exercisable within 60 days of March 31, 2004 and 8,333 shares of restricted stock to be issued to independent directors within 60 days of March 31, 2004.
- (7) Includes 8,125 shares subject to options exercisable within 60 days of March 31, 2004 and 8,333 shares of restricted stock to be issued to independent directors within 60 days of March 31, 2004.
- (8) Mr. Liu's employment with AXT terminated effective September 25, 2003. He had no options outstanding as of March 31, 2004.
- (9) Includes 318,208 shares subject to options exercisable within 60 days of March 31, 2004 and 25,000 shares of restricted stock to be issued to independent directors within 60 days of March 31, 2004.

Table of Contents**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, 2003:

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	2,558,836	\$ 7.03	1,956,246
1998 Employee Stock Purchase Plan	N/A	N/A	217,000
Equity compensation plans not approved by stockholders; none	N/A	N/A	N/A

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	Annual Compensation			Long Term Compensation Awards	All Other Compensation(3)
	Year	Salary	Bonus(1)	Securities Underlying Options(2)	
Morris S. Young President and Chief Executive Officer	2003	\$212,001	None	149,500	\$9,214
	2002	180,224	None	126,000	7,884
	2001	192,946	\$ 14,000	120,000	7,620
Davis Zhang President, Substrate Division	2003	\$ 197,870	None	172,900	\$8,535
	2002	168,077	None	108,000	7,868
	2001	184,260	\$20,000	160,000	7,534
Donald L. Tatzin Senior Vice President, Chief Financial Officer	2003	\$155,545	None	110,500	\$6,688
	2002	134,880	None	72,000	6,214
	2001	144,187	\$ 7,000	80,000	4,076
Gordon Liu(4) President, Opto-electronics Division	2003	\$169,491	None	69,810	\$6,346
	2002	141,893	None	90,000	6,315
	2001	155,085	\$11,000	80,000	6,179

(1)

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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 Mr. Young voluntarily canceled 230,000 unexercised options granted to him during 1999, 2000 and 2001, Mr. Zhang voluntarily canceled 266,000 unexercised options granted to him during 1999, 2000 and 2001 and Mr. Tatzin voluntarily canceled 175,000 unexercised options granted to him during 2000 and 2001.

10

Table of Contents

- (3) Represents premiums paid by us for life insurance coverage and 401(k) matching contributions.
- (4) Mr. Liu resigned as an employee of the Company effective September 25, 2003.

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, 2003 to the persons named in the Summary Compensation Table. All of these options were granted under our 1997 Stock Option Plan and have a term of ten years. All options are subject to early termination in the event the optionee's services to the Company cease:

Name	Individual Grants			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)	Percent of Total Options Granted to Employees in Fiscal Year(4)	Exercise Price Per Share(5)		5%	10%
Morris S. Young	149,500	12.39%	\$ 1.38	7/21/13	\$ 129,747	\$ 328,805
Davis Zhang	172,900	14.33%	\$ 1.38	7/21/13	\$ 150,056	\$ 380,270
Donald L. Tatzin	110,500	9.16%	\$ 1.38	7/21/13	\$ 95,900	\$ 243,030
Gordon Liu(6)	69,810	5.79%	\$ 1.38	7/21/13	\$ 60,586	\$ 153,538

- (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 reprice outstanding options.
- (3) Options vest over 36 months beginning July 21, 2004.
- (4) Based on total options to purchase 1,206,367 shares of our common stock granted to all employees and consultants during the fiscal year ended December 31, 2003, of which 522,754 were granted in December 2003 in accordance with a voluntary stock option exchange program that was offered to all employees other than executive officers. Under the voluntary stock option exchange program, employees surrendered stock options representing an aggregate of approximately 738,027 shares of common stock.
- (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.
- (6) Mr. Liu resigned from AXT on September 25, 2003. None of these options issued to him during 2003 were vested at the time of his resignation, and all such options were subsequently cancelled.

Table of Contents

AGGREGATE OPTION EXERCISES FOR FISCAL 2003 AND FISCAL 2003 YEAR-END VALUES

The following table provides specified information concerning exercises of options to purchase our common stock during fiscal 2003, and unexercised options held at December 31, 2003, by the persons named in the Summary Compensation Table:

Shares Acquired	Number of Securities Underlying Unexercised Options at 12/31/03(2)	Value of Unexercised In-the-Money Options at 12/31/03(2)
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