



**AXT, INC.**

## **CORPORATE GOVERNANCE GUIDELINES**

### **Role of Board and Management**

The Board of Directors, which is elected by the stockholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the stockholders. It selects the senior management team, which is charged with the conduct of the Company's business. Having selected the senior management team, the Board acts as an advisor and counselor to senior management and ultimately monitors its performance.

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its stockholders. In fulfilling that responsibility the directors may reasonably rely on the honesty and integrity of the Company's senior management and expert legal, accounting, financial and other advisors.

### **Director Qualifications**

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of our stockholders. In fulfilling its responsibilities, the Nominating 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;
- The 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.

In determining whether to recommend a director for re-election, the Governance and Nominating Committee also considers the director's past attendance at meetings, participation in and contributions to the activities of the Board, and the results of the most recent Board self-evaluation. The Nominating 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. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the best interests of our stockholders. They must also have an inquisitive and objective perspective and mature judgment. Director candidates must have sufficient time available in the judgment of the Nominating Committee to perform all Board and Committee responsibilities.

The Nominating 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 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 Committee also believes it appropriate for one or more key members of the Company's management to participate as members of the Board.

Board members are expected to prepare for, attend, and participate in all Board and applicable Committee meetings.

### **Director Independence**

The Board believes that, as a matter of policy and consistent with applicable laws, rules and regulations, the Board should consist of a substantial majority of independent directors. In no event will the Board consist of less than a majority of independent directors.

In making a determination regarding a director's independence, the Board shall consider all relevant facts and circumstances, including the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, and such other criteria as the Board may, in its discretion, determine relevant. A director will not be considered independent if he or she:

- Is currently an employee of the Company;
- Has been an employee of the Company within the past three years;
- Has accepted any compensation from the company in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
  - Compensation for board or board committee service;
  - Compensation paid to a family member who is an employee (other than an executive officer) of the company; or
  - Benefits under a tax-qualified retirement plan, or non-discretionary compensation.
- Is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;

- Is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
  - Payments arising solely from investments in the company's securities; or
  - Payments under non-discretionary charitable contribution matching programs.
- Is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company served on the compensation committee of such other entity; or
- Is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years; or
- Has any immediate family members (as defined by applicable NASDAQ rules) who would be covered under any of the above provisions during the past three years.

In addition to satisfying all of the independence criteria set forth above, no member of the Audit Committee may

- Receive any consulting, advisory or other compensatory fees from the Company or any of its subsidiaries (other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), or
- Be an "affiliated person" of the Company or any of its subsidiaries (as defined by the Securities and Exchange Commission), except as a director of the Company.

### **Limits on Director Outside Activities**

Directors must be willing to devote sufficient time to carry out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Each Board member is expected to ensure that other existing and planned future commitments do not conflict with or materially interfere with the member's service as a director. Directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or gives the appearance of a conflict.

Directors who also serve as CEOs or in equivalent positions should not serve on more than two boards of public companies in addition to the Board, and other directors should not serve on more than four other boards of public companies in addition to the Company's board.

### **Change in Director Responsibilities**

Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities.

### **Retirement Age**

The Board does not believe that a fixed retirement age for directors is appropriate.

### **Term Limits**

The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

### **Size of Board**

The Board currently has four members. The Board reviews from time to time the appropriate size of the Board. The Board will consider changing its size to accommodate outstanding candidates or to satisfy specific governance needs.

### **Presiding Director; Lead Director Concept**

When the positions of Chairman and Chief Executive Officer are held by the same person, the independent directors shall designate a Lead Independent Director. The CEO/Chairman, with the Lead Independent Director, schedules and sets the agenda for meetings of the Board, and the CEO/Chairman chairs such meetings. The Lead Independent Director chairs Board meetings when the CEO/Chairman is not present, including all executive sessions.

The Lead Director's duties will include:

- Consult with the Chairman regarding Board meeting schedules, seeking to ensure that the independent directors can perform their duties responsibly and with sufficient time for discussion of all agenda items.
- Approve the agenda and information sent in connection with Board meetings and ensure that the other independent directors also have an opportunity to provide input on the agenda, and advise the Chairman as to the quality, quantity and timeliness of the information submitted by the Company's management that is necessary or appropriate for the independent directors to effectively and responsibly perform their duties.
- Ensure that independent directors have adequate opportunities to meet and discuss issues in executive sessions without management present.
- Retain authority to call meetings of the independent directors, and develop the agendas for and serve as Chairman of the executive sessions of the independent directors.
- Serve as principal liaison between the independent directors and the Chairman on sensitive issues.
- Serve as designated contact for communication to independent directors as required by the Securities and Exchange Commission and the NASDAQ Stock Market's listing standards, including being available for consultation and direct communication with major stockholders.
- Chair Board meetings when the Chairman is not in attendance.
- Perform such other duties as the Board shall from time to time delegate.

The Chairman of the Board shall receive, distribute to the Board and arrange responses to communications from stockholders and shall be identified as the recipient of such communications in the annual meeting proxy statement.

### **Separation of Chairman and CEO**

The Board elects its Chairman and appoints the Company's Chief Executive Officer according to its view of what is best for the Company at any given time. The Board does not believe there should be a fixed rule as to whether the offices of Chairman and CEO should be vested in the same person or two different people, or whether the Chairman should be an employee of the Company or should be elected from among the non-employee directors. The needs of the Company and the individuals available to play these roles may dictate different outcomes at different times, and the Board believes that retaining flexibility in these decisions is in the best interest of the Corporation.

### **Executive Sessions of Independent Directors**

The independent directors of the Board will meet in Executive Session periodically, and at least two times each year as a part of regularly scheduled Board meetings, and at any other time requested by any independent director. Executive sessions shall be chaired by the Lead Independent Director, or in his or her absence, the Chairman of the Nominating and Corporate Governance Committee, or in his or her absence, the most senior independent director present.

### **Board Access to Management**

The independent members of the Board shall have access to, and are encouraged to contact, Company employees in order to obtain the information necessary to fulfill their duties. The Board may establish a process for such inquiries. Management is encouraged to invite Company employees to Board meetings where management participation will provide the Board with additional insight into the matters being considered.

### **Retention of Advisors/Consultants**

The Board and each committee of the Board shall have the authority to retain outside financial, legal or other advisors as they deem appropriate, and shall have the authority to obtain advice, reports or opinions from internal and external counsel and advisors, without consulting with or obtaining approval from any officer of the Company.

### **Board and Committee Evaluation**

The Board and each committee will perform an annual self-evaluation. Committees will assess their performance relative to their charter and to best practices. The Nominating and Corporate Governance Committee oversees the annual self-evaluation of the Board and its committees, and the Lead Independent Director and the CEO/Chairman may recommend changes to improve the Board, the committees and individual director effectiveness.

### **Director Nomination Process**

The Nominating Committee annually evaluates the current members of the Board of Directors whose terms are expiring and who are willing to continue in service against the criteria set forth above in determining whether to recommend these directors for election. The Nominating Committee regularly assesses the optimum size of the Board and its committees and the needs of the Board for various skills,

background and business experience in determining if the Board requires additional candidates for nomination.

Candidates for nomination as director come to the attention of the Nominating Committee from time to time through incumbent directors, management, stockholders or third parties. These candidates may be considered at meetings of the Nominating Committee at any point during the year. Such candidates are evaluated against the criteria set forth above. If the Nominating Committee believes at any time that it is desirable that the Board consider additional candidates for nomination, the Committee may poll directors and management for suggestions or conduct research to identify possible candidates and may engage, if the Nominating Committee believes it is appropriate, a third party search firm to assist in identifying qualified candidates.

The Nominating Committee will evaluate any recommendation for director nominee proposed by a stockholder. In order to be evaluated in connection with the Nominating 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; and
- 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.

In addition the Company's bylaws permit stockholders to nominate directors for consideration at an annual meeting. All directors and director nominees must submit a completed form of directors' and officers' questionnaire as part of the nominating process. The evaluation process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Nominating Committee.

The Nominating 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.

### **Communications by Stockholders with Directors**

Stockholders may communicate with any and all company directors by transmitting correspondence by mail, facsimile or email, addressed as follows:

Chairman of the Board  
or Board of Directors  
or [individual director]  
c/o Corporate Secretary  
4281 Technology Drive  
Fremont, CA 94538

The Corporate Secretary shall maintain a log of such communications and transmit as soon as practicable such communications to the identified director addressee(s), unless there are safety or security concerns that mitigate against further transmission of the communication or the communication contains commercial matters not related to the stockholder's stock ownership, as determined by the Corporate Secretary in consultation with the General Counsel. The Board of Directors or individual directors so addressed shall be advised of any communication withheld for safety or security reasons as soon as practicable.

The Company will make every effort to schedule its annual meeting of stockholders at a time and date to maximize attendance by directors taking into account the directors' schedules. The company believes that annual meetings provide an opportunity for stockholders to communicate with directors. All directors shall make every effort to attend the Company's annual meeting of stockholders. The Company will reimburse all reasonable out-of-pocket traveling expenses incurred by directors attending the annual meeting.

### **Director Attendance at Annual Meetings**

The Company will make every effort to schedule its annual meeting of stockholders at a time and date to maximize attendance by directors taking into account the directors' schedules. All directors shall make every effort to attend the company's annual meeting of stockholders.

### **Director Compensation**

On an annual basis, the Compensation Committee shall review the compensation for non-employee directors. The Compensation Committee shall be responsible for recommending to the full Board changes in the compensation for non-employee directors, and shall be guided by the following goals:

- Directors should be fairly compensated for the work required in discharge of their duties; and
- Compensation should align the directors' interests with the long-term interests of stockholders.

### **Stock Ownership/Guidelines**

While the Board has not established the level of share ownership for individual directors, the Board believes that directors should be stockholders in order to align their interests with the long-term interests of the Company's stockholders.

### **Director Education and Orientation**

The Nominating and Corporate Governance Committee shall develop and maintain an orientation program for new directors that shall include meetings with senior management and visits to the Company's facilities. Incumbent directors shall also be invited to attend the orientation program. All directors will comply with any continuing education requirements developed by the NASDAQ Stock Market, Inc..

### **Committees**

The Board will at all times have an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. All members of these committees will be

independent directors under the criteria established by the NASDAQ Stock Market, Inc. The Board may from time to time establish additional committees as necessary or appropriate. Committee members will be appointed by the Board upon the recommendation of the Nominating and Corporate Governance Committee. Consideration should be given to rotating committee members periodically, but rotation should not be mandated as a policy.

Each committee will have its own charter. The charters will set forth the purposes of the committees as well as qualifications for committee membership. The charters shall be posted on the Company's website.

The Chairman of each committee, in consultation with the committee members and senior management, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda.

### **CEO Evaluation**

The Compensation Committee conducts a review at least annually of the performance of the CEO. The Compensation Committee shall establish the evaluation process and determine the specific criteria on which the performance of the CEO is evaluated.

### **Succession Planning**

The Nominating and Corporate Governance Committee shall conduct a periodic review of the Company's succession planning, including policies and principles for CEO selection and succession in the event of an emergency or the retirement of the CEO. The Committee shall report its recommendation to the Board.