

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended **March 31, 2026**
- Or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from _____ to _____
Commission File Number **000-24085**

AXT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

94-3031310
(I.R.S. Employer
Identification No.)

4281 Technology Drive, Fremont, California 94538
(Address of principal executive offices) (Zip code)
(510) 438-4700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common Stock, \$0.001 par value

Trading Symbol

AXTI

Name of each exchange on which registered:

The NASDAQ Stock Market LLC

Indicate by check-mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check-mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check-mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check-mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check-mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 4, 2026, 65,423,184 shares, \$0.001 par value, of the registrant's common stock were outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements (unaudited)**

AXT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share data)

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,769	\$ 120,266
Restricted cash	16,100	8,100
Short-term investments	65,375	—
Accounts receivable, net of allowances for credit losses of \$164 and \$164 as of March 31, 2026 and December 31, 2025	32,016	26,849
Inventories	90,168	81,651
Prepaid expenses and other current assets	8,347	9,690
Total current assets	<u>253,775</u>	<u>246,556</u>
Property, plant and equipment, net	164,622	161,860
Operating lease right-of-use assets	1,854	1,982
Other assets	24,347	23,353
Total assets	<u>\$ 444,598</u>	<u>\$ 433,751</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,141	\$ 12,947
Accrued liabilities	12,864	14,798
Short-term loans	68,871	62,796
Total current liabilities	<u>97,876</u>	<u>90,541</u>
Noncurrent operating lease liabilities	1,309	1,441
Other long-term liabilities	8,447	7,138
Total liabilities	<u>107,632</u>	<u>99,120</u>
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 18)	38,516	38,056
Stockholders' equity:		
Preferred stock Series A, \$0.001 par value; 2,000 shares authorized; 883 shares issued and outstanding as of March 31, 2026 and December 31, 2025 (Liquidation preference of \$8,273 and \$8,229 as of March 31, 2026 and December 31, 2025)	3,532	3,532
Common stock, \$0.001 par value; 70,000 shares authorized; 55,579 and 55,237 shares issued and outstanding as of March 31, 2026 and December 31, 2025	56	55
Additional paid-in capital	342,434	339,922
Accumulated deficit	(66,544)	(64,924)
Accumulated other comprehensive loss	(4,604)	(5,295)
Total AXT, Inc. stockholders' equity	<u>274,874</u>	<u>273,290</u>
Noncontrolling interests	23,576	23,285
Total stockholders' equity	<u>298,450</u>	<u>296,575</u>
Total liabilities, redeemable noncontrolling interests and stockholders' equity	<u>\$ 444,598</u>	<u>\$ 433,751</u>

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2026	2025
Revenue	\$ 26,924	\$ 19,356
Cost of revenue	18,946	20,597
Gross profit (loss)	<u>7,978</u>	<u>(1,241)</u>
Operating expenses:		
Selling, general and administrative	6,551	5,916
Research and development	3,012	3,118
Total operating expenses	<u>9,563</u>	<u>9,034</u>
Loss from operations	(1,585)	(10,275)
Interest income (expense), net	101	(269)
Equity in income of unconsolidated joint ventures	353	248
Other income, net	76	354
Loss before provision for income taxes	(1,055)	(9,942)
Provision for income taxes	430	74
Net loss	(1,485)	(10,016)
Less: Net (income) loss attributable to noncontrolling interests and redeemable noncontrolling interests	(135)	1,218
Net loss attributable to AXT, Inc.	<u>\$ (1,620)</u>	<u>\$ (8,798)</u>
Net loss attributable to AXT, Inc. per common share:		
Basic	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>
Weighted-average number of common shares outstanding:		
Basic	<u>53,319</u>	<u>43,554</u>
Diluted	<u>53,319</u>	<u>43,554</u>

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2026	2025
Net loss	\$ (1,485)	\$ (10,016)
Other comprehensive income, net of tax:		
Change in foreign currency translation income, net of tax	1,447	537
Change in unrealized gain on available-for-sale debt investments, net of tax	(469)	—
Total other comprehensive income, net of tax	978	537
Comprehensive loss	(507)	(9,479)
Less: Comprehensive (income) loss attributable to noncontrolling interests and redeemable noncontrolling interests	(422)	1,112
Comprehensive loss attributable to AXT, Inc.	\$ (929)	\$ (8,367)

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2026	2025
Cash flows from operating activities:		
Net loss	\$ (1,485)	\$ (10,016)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,435	2,223
Amortization of marketable securities premium	44	—
Stock-based compensation	1,035	646
Gain on disposal of equipment	(20)	(3)
Equity in income of unconsolidated joint ventures	(353)	(248)
Deferred tax assets	97	(11)
Changes in operating assets and liabilities:		
Accounts receivable	(4,860)	2,868
Inventories	(7,419)	5,015
Prepaid expenses and other current assets	(85)	4,534
Other assets	(512)	(3,122)
Accounts payable	2,993	(1,298)
Accrued liabilities	(1,742)	(2,956)
Other long-term liabilities	(1,812)	(978)
Net cash used in operating activities	<u>(11,684)</u>	<u>(3,346)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,372)	(510)
Purchases of available-for-sale debt securities	(65,888)	—
Investments in non-marketable equity investments	—	(276)
Net cash used in investing activities	<u>(67,260)</u>	<u>(786)</u>
Cash flows from financing activities:		
Proceeds from common stock options exercised	1,478	—
Proceeds from short-term bank loans	20,928	13,674
Payments on short-term bank loans	(16,566)	(9,250)
Proceeds from long-term loans	2,897	2,755
Payments on long-term loans	(743)	(297)
Net cash provided by financing activities	<u>7,994</u>	<u>6,882</u>
Effect of exchange rate changes on cash, restricted cash and cash equivalents	453	1,623
Net decrease in cash, restricted cash and cash equivalents	(70,497)	4,373
Cash, restricted cash and cash equivalents at the beginning of the year	128,366	33,811
Cash, restricted cash and cash equivalents at the end of the period	<u>\$ 57,869</u>	<u>\$ 38,184</u>
Supplemental disclosure of non-cash flow information:		
Notes receivables paid to purchase fixed assets	\$ 1,519	\$ 1,165
Consideration payable in connection with construction in progress, included in accrued liabilities	\$ 137	\$ —

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of AXT, Inc., a Delaware corporation (“AXT,” the “Company,” “we,” “us,” and “our” refer to AXT, Inc. and all of its consolidated subsidiaries) are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, this interim quarterly financial report does not include all disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of the Company for all periods presented.

Our management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with U.S. GAAP. Such estimates and assumptions are based on historical experience, known trends and events and various other factors that management believes to be reasonable under the circumstances. These estimates and assumptions may change as new events occur and additional information is obtained. Actual results could differ materially from those estimates.

The results of operations for the three months ended March 31, 2026 are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2025 filed with the Securities and Exchange Commission (the “SEC”) on March 17, 2026.

The condensed consolidated financial statements include the accounts of AXT and our consolidated subsidiaries, Beijing Tongmei Xtal Technology Co., Ltd. (“Tongmei”), AXT-Tongmei, Inc. (“AXT-Tongmei”), Baoding Tongmei Xtal Technology Co., Ltd. (“Baoding Tongmei”), ChaoYang Tongmei Xtal Technology Co., Ltd. (“ChaoYang Tongmei”), ChaoYang LiMei Semiconductor Technology Co., Ltd. (“ChaoYang LiMei”), ChaoYang XinMei High Purity Semiconductor Materials Co., Ltd. (“ChaoYang XinMei”), Nanjing JinMei Gallium Co., Ltd. (“JinMei”), ChaoYang JinMei Gallium Ltd. (“ChaoYang JinMei”), ChaoYang ShuoMei High Purity Semiconductor Materials Co., Ltd. (“ChaoYang ShuoMei”), MaAnShan JinMei Gallium Ltd., (“MaAnShan JinMei”) and Beijing BoYu Semiconductor Vessel Craftwork Technology Co., Ltd. (“BoYu”). All significant inter-company accounts and transactions have been eliminated. Investments in business entities in which we do not have controlling interests, but have the ability to exercise significant influence over operating and financial policies (generally 20-50% ownership), are accounted for by the equity method. As of March 31, 2026 and December 31, 2025, we have three companies accounted for by the equity method. For the majority-owned subsidiaries that we consolidate, we reflect the portion we do not own as either noncontrolling interests in stockholder’s equity or as redeemable noncontrolling interests in temporary equity on our condensed consolidated balance sheets and in our condensed consolidated statements of operations.

There have been no material changes to the Company’s basis of consolidation, significant accounting policies, or the composition of its consolidated subsidiaries and equity method investments from those disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2025.

Note 2. Investments and Fair Value Measurements

Our investments consist of instruments with original maturities of more than three months. As of March 31, 2026 and December 31, 2025, our cash and debt investments are classified as follows (in thousands):

	March 31, 2026				December 31, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash, restricted cash and cash equivalents	\$ 57,869	\$ —	\$ —	\$ 57,869	\$ 128,366	\$ —	\$ —	\$ 128,366
Investments (available-for-sale):								
Certificates of deposit ¹	7,880		(26)	7,854	—	—	—	—
Corporate bonds	57,964	2	(445)	57,521	—	—	—	—
Corporate equity securities					—	—	—	—
Total cash, restricted cash, cash equivalents and investments	<u>\$ 123,713</u>	<u>\$ 2</u>	<u>\$ (471)</u>	<u>\$ 123,244</u>	<u>\$ 128,366</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 128,366</u>
Contractual maturities on investments:								
Due within 1 year ²	\$ 5,040			\$ 5,030	\$ —			\$ —
Due after 1 through 5 years ²	60,804			60,345	—			—
	\$ 65,844			\$ 65,375	\$ —			\$ —

1. Certificates of deposit with original maturities of more than three months.
2. Classified as "Short-term investments" in our condensed consolidated balance sheets.

We manage our debt investments as a single portfolio of highly marketable securities that is intended to be available to meet our current cash requirements. Short-term investments are classified as current assets based on their contractual maturities or the Company's ability and intent to liquidate the investments within the next twelve months to fund the expansion of its production capacity.

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The following table summarizes the fair value and gross unrealized losses that do not have an allowance for credit losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2026 (in thousands):

	In Loss Position < 12 months		In Loss Position > 12 months		Total In Loss Position	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
As of March 31, 2026						
Investments:						
Certificates of deposit	\$ 7,854	\$ (26)	\$ —	\$ —	\$ 7,854	\$ (26)
Corporate bonds	52,117	(445)	—	—	52,117	(445)
Total in loss position	<u>\$ 59,971</u>	<u>\$ (471)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59,971</u>	<u>\$ (471)</u>

Restricted Cash

We maintain restricted cash in connection with cash balances temporarily restricted for regular business operations. These balances have been excluded from the Company's cash balance. As of March 31, 2026 and December 31, 2025, \$16.1 million and \$8.1 million were included in restricted cash in our condensed consolidated balance sheets, respectively. The increase in restricted cash was primarily attributable to additional deposits pledged as collateral in connection with borrowings by the Company's subsidiaries from PRC banks.

Investments in Privately-held Raw Material Companies

We have made strategic investments in private companies located in China in order to gain access at a competitive cost to raw materials that are critical to our substrate business (see Note 7). The investment balances for the non-consolidated companies are accounted for under the equity method, included in "Other assets" in the condensed consolidated balance sheets, totaled \$15.5 million and \$15.0 million as of March 31, 2026 and December 31, 2025, respectively. As of March 31, 2026, there were three companies accounted for under the equity method. There were no impairment charges for these investments during the three months ended March 31, 2026 and 2025.

Fair Value Measurements

We invest primarily in certificates of deposits, corporate bonds and notes, government securities and money market accounts. We review our debt investment portfolio for credit loss at least quarterly or when there are changes in credit risk or other potential valuation concerns. As of March 31, 2026 and December 31, 2025, the total unrealized loss, net of tax, included in accumulated other comprehensive income was immaterial. We believe it is probable the principal and interest will be collected in accordance with the contractual terms, and the unrealized loss on these securities was due to normal market fluctuations, and not due to increased credit risk or other valuation concerns. ASC 820, *Fair Value Measurements and Disclosures*, establishes three levels of inputs that may be used to measure fair value. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets of the asset or identical assets. Level 2 instrument valuations are obtained from readily-available, observable pricing sources for comparable instruments. Level 3 instrument valuations are obtained from unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. On a recurring basis, we measure certain financial assets and liabilities at fair value, primarily consisting of our short-term and long-term debt investments.

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The type of instrument valued based on quoted market prices in active markets includes our money market funds, which are generally classified within Level 1 of the fair value hierarchy. We classify our available-for-sale debt securities, including certificates of deposit and corporate bonds, as having Level 2 inputs. The valuation techniques used to measure the fair value of these financial instruments having Level 2 inputs were derived from bank statements, quoted market prices, broker or dealer statements or quotations, or alternative pricing sources with reasonable levels of price transparency.

We place short-term foreign currency hedges that are intended to offset the potential cash exposure related to fluctuations in the exchange rate between the United States dollar and Japanese yen. We measure the fair value of these foreign currency hedges at each month end and quarter end using current exchange rates and in accordance with U.S. GAAP. At quarter end, any foreign currency hedges not settled are netted in “Accrued liabilities” on the condensed consolidated balance sheets and classified as Level 3 assets and liabilities. As of March 31, 2026, the net change in fair value from the placement of the hedge to settlement at each month end during the quarter had a de minimis impact on the condensed consolidated results.

There were no changes in valuation techniques or related inputs in the three months ended March 31, 2026. There have been no transfers between fair value measurements levels during the three months ended March 31, 2026.

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets that are subject to nonrecurring fair value measurements are not included in the table above. These assets include investments in privately-held companies accounted for by the equity method (see Note 7). We did not record any other-than-temporary impairment charges for these investments during the three months ended March 31, 2026 and 2025, respectively.

Note 3. Inventories

The components of inventories are summarized below (in thousands):

	March 31, 2026	December 31, 2025
Inventories:		
Raw materials	\$ 25,975	\$ 24,105
Work in process	60,027	53,665
Finished goods	4,166	3,881
	<u>\$ 90,168</u>	<u>\$ 81,651</u>

As of March 31, 2026 and December 31, 2025, carrying values of inventories were net of inventory reserves of \$29.8 million and \$28.4 million, respectively, for excess and obsolete inventory and \$71,000 and \$180,000, respectively, for lower of cost or net realizable value reserves.

Note 4. Property, Plant and Equipment, Net

The components of our property, plant and equipment are summarized below (in thousands):

	March 31, 2026	December 31, 2025
Property, plant and equipment:		
Machinery and equipment, at cost	\$ 71,379	\$ 69,909
Less: accumulated depreciation and amortization	(48,174)	(47,028)
Building, at cost	147,944	145,952
Less: accumulated depreciation and amortization	(33,050)	(31,577)
Leasehold improvements, at cost	8,262	8,112
Less: accumulated depreciation and amortization	(7,162)	(6,981)
Construction in progress	25,423	23,473
	<u>\$ 164,622</u>	<u>\$ 161,860</u>

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As of March 31, 2026, the balance of construction in progress was \$25.4 million, of which \$18.7 million was related to our buildings in our new Dingxing and Kazuo locations, \$1.4 million was for manufacturing equipment purchases not yet placed in service and \$5.3 million was for construction in progress for our other consolidated subsidiaries. As of December 31, 2025, the balance of construction in progress was \$23.5 million, of which \$18.3 million was related to our buildings in our Dingxing and Kazuo locations, \$1.3 million was for manufacturing equipment purchases not yet placed in service and \$3.8 million was for our construction in progress for our other consolidated subsidiaries.

Note 5. Accrued Liabilities

The components of accrued liabilities are summarized below (in thousands):

	March 31, 2026	December 31, 2025
Accrued compensation and related charges	\$ 3,550	\$ 5,090
Preferred stock dividends payable	2,901	2,901
Payable in connection with construction in progress	1,379	1,676
Advances from customers	894	103
Accrued income taxes	761	841
Current portion of operating lease liabilities	593	579
Accrued professional services	467	1,023
Other tax payable	464	494
Accrued product warranty	439	411
Other personnel-related costs	289	276
Accrual for sales returns	48	48
Other accrued liabilities	1,079	1,356
	<u>\$ 12,864</u>	<u>\$ 14,798</u>

Note 6. Related Party Transactions

In September 2021 and October 2021, our consolidated subsidiary, ChaoYang XinMei, received funding from a minority investor of \$0.9 million and \$1.0 million, respectively. As of December 31, 2021, \$1.9 million was included in short-term loan from noncontrolling interest in our condensed consolidated balance sheets. In December 2021 and January 2022, the same subsidiary received funding from Tongmei of \$1.4 million and \$1.4 million, respectively. In January 2022, the China local government certified this additional funding in ChaoYang XinMei as an equity investment. As a result, noncontrolling interests increased \$2.2 million and redeemable noncontrolling interests increased \$0.2 million. Short-term loan from noncontrolling interest decreased to \$0. In April 2022, Tongmei entered into the Capital Increase Agreement with minority investors to further invest approximately \$4.5 million in ChaoYang XinMei. In April 2022 and May 2022, ChaoYang XinMei received funding from Tongmei of \$1.1 million and \$0.8 million, respectively, as equity investments. In April 2022 and May 2022, the minority investors invested \$0.7 million and \$0.6 million, respectively. As a result, noncontrolling interests increased \$1.4 million and redeemable noncontrolling interests increased \$0.1 million. In July 2022, Tongmei and the minority investors further invested \$0.8 million and \$0.6 million in ChaoYang XinMei, respectively. This completed the investment obligations under the Capital Increase Agreement. As a result, noncontrolling interests increased \$610,000 and redeemable noncontrolling interests increased \$57,000. Tongmei's ownership remained at 58.5% after these equity investments.

In September 2022, our consolidated subsidiary, ChaoYang LiMei completed the sale of land and its attached buildings to our equity investment entity, ChaoYang KaiMei, for a total consideration of \$1.5 million. In January 2023, ChaoYang KaiMei paid to ChaoYang LiMei \$1.5 million.

Our Related Party Transactions Policy seeks to prohibit all conflicts of interest in transactions between related parties and us, unless they have been approved by our Board of Directors. This policy applies to all of our employees, directors, and our consolidated subsidiaries. Our executive officers retain board seats on the board of directors of the companies in which we have invested in our PRC joint ventures. See Note 7 for further details.

Note 7. Investments in Privately-Held Raw Material Companies

We have made strategic investments in private companies located in China in order to gain access at a competitive cost to raw materials that are critical to our substrate business. These companies form part of our overall supply chain strategy.

As of March 31, 2026, the investments are summarized below (in thousands):

Company	Investment Balance as of		Accounting Method	Ownership Percentage
	March 31, 2026	December 31, 2025		
Nanjing JinMei Gallium Co., Ltd.	\$ 592	\$ 592	Consolidated	** 85.5%
ChaoYang JinMei Gallium Co., Ltd.	1,820	1,820	Consolidated	** 85.5%
Beijing BoYu Semiconductor Vessel Craftwork Technology Co., Ltd.	1,346	1,346	Consolidated	** 85.5%
ChaoYang ShuoMei High Purity Semiconductor Materials Co., Ltd.	3,122	3,122	Consolidated	**** 75.0%
ChaoYang XinMei High Purity Semiconductor Materials Co., Ltd.	7,331	7,331	Consolidated	*** 58.5%
	<u>\$ 14,211</u>	<u>\$ 14,211</u>		
Beijing JiYa Semiconductor Material Co., Ltd.	\$ 4,669	\$ 4,428	Equity	39%
Xiaoyi XingAn Gallium Co., Ltd.	6,073	5,827	Equity	** 25%
ChaoYang KaiMei Quartz Co., Ltd.	4,722	4,713	Equity	***** 40%
	<u>\$ 15,464</u>	<u>\$ 14,968</u>		

* These percentages reflect the ownership currently in effect upon the completion of the reorganization in China and the ownership in effect upon the completion of the new capital funding by private equity investors in January 2021.

** In preparation for Tongmei's application for a listing of shares in an IPO on the STAR Market, in late December 2020 we reorganized our entity structures in China. JinMei and BoYu and their subsidiaries, previously organized under AXT, Inc., were assigned to Tongmei and effectively merged with Tongmei although they retained their own respective legal entity status and are wholly owned subsidiaries of Tongmei. The 33% minority interest stakeholders of BoYu converted their ownership to a 7.59% minority interest in Tongmei. The 8.5% minority interest stakeholders, employees of JinMei, converted their ownership to a 0.38% minority interest in Tongmei. Further, a number of employees, key managers and contributors, purchased a 0.4% minority interest in Tongmei. In 2020, the Investors transferred approximately \$48.1 million of new capital to Tongmei. An additional investment of approximately \$1.5 million of new capital was funded in early January 2021. Under China regulations these investments must be formally approved by the appropriate government agency and are not deemed to be dilutive until such approval is granted. The government approved the approximately \$49 million investment in its entirety on January 25, 2021 at which time the Investors owned a redeemable noncontrolling interest in Tongmei of 7.28%. As of March 31, 2026, Tongmei's noncontrolling interests and redeemable noncontrolling interests totaled approximately 14.5%. AXT remains the controlling stakeholder of Tongmei and holds a majority of the Board of Director positions of Tongmei.

*** In February 2021, Tongmei signed a joint venture agreement with certain investors to fund ChaoYang XinMei.

**** In April 2022, ChaoYang JinMei signed a joint venture agreement with certain investor to fund a new company, ChaoYang ShuoMei.

***** In April 2022, Tongmei signed a joint venture agreement with certain investors to fund a new company, ChaoYang KaiMei.

Although we have representation on the board of directors of each of the privately held raw material companies, the daily operations of each of these companies are managed by local management and not by us. Decisions concerning their respective short-term strategy and operations, ordinary course of business capital expenditures and sales of finished product, are made by local management with regular guidance and input from us.

For AXT's minority investment entities that are not consolidated, the investment balances are included in "Other assets" in our condensed consolidated balance sheets and totaled \$15.5 million and \$15.0 million as of March 31, 2026 and December 31, 2025, respectively. As of March 31, 2026, our ownership interests in ChaoYang KaiMei, JiYa, and Xiaoyi XingAn Gallium Co., Ltd ("Xiaoyi XingAn") were 40%, 39%, and 25%, respectively. These minority investment entities are not considered variable interest entities because:

- all minority investment entities have sustainable businesses of their own;
- our voting power is proportionate to our ownership interests;
- we only recognize our respective share of the losses and/or residual returns generated by the companies if they occur; and
- we do not have controlling financial interest in, do not maintain operational or management control of, do not control the board of directors of, and are not required to provide additional investment or financial support to any of these companies.

In June 2022, July 2022 and August 2022, we received a dividend of \$1.3 million from BoYu, \$1.5 million from Xiaoyi XingAn and \$0.1 million from JiYa, respectively. In April 2023, Xiaoyi XingAn distributed a dividend of \$1.8 million to us. Additionally, in both April 2023 and November 2023, JiYa distributed dividends to us, totaling \$2.0 million and \$0.5 million, respectively. In May 2024 and November 2024, we received a dividend of \$2.1 million from Xiaoyi XingAn and \$0.3 million from JiYa, respectively. In April 2025, we received a \$0.9 million dividend from JiYa. We have no current intentions to distribute to our investors earnings under our corporate structure. All of these distributions were paid to the PRC companies and the minority shareholders.

AXT's minority investment entities are not consolidated and are accounted for under the equity method. The equity investment entities had the following summarized statements of operations information (in thousands) for the three months ended March 31, 2026 and 2025:

	Three Months Ended	
	March 31,	
	2026	2025
Net revenue	\$ 9,174	\$ 8,658
Gross profit	\$ 2,156	\$ 1,944
Operating income	\$ 1,399	\$ 1,282
Net income	\$ 1,247	\$ 971

Our portion of the income and losses, including impairment charges, from these minority investment entities that are not consolidated and are accounted for under the equity method was income of \$0.4 million and \$0.2 million, respectively, for the three months ended March 31, 2026 and 2025.

Note 8. Stockholders' Equity

Condensed Consolidated Statements of Stockholders' Equity
(in thousands)

The changes in stockholders' equity by component for the three months ended March 31, 2026 are as follows:

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	AXT, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance as of December 31, 2025	\$ 3,532	\$ 55	\$ 339,922	\$ (64,924)	\$ (5,295)	\$ 273,290	\$ 23,285	\$ 296,575
Common stock options exercised	—	1	1,477	—	—	1,478	—	1,478
Stock-based compensation	—	—	1,035	—	—	1,035	—	1,035
Net loss	—	—	—	(1,620)	—	(1,620)	148	(1,472)
Other comprehensive loss	—	—	—	—	691	691	143	834
Balance as of March 31, 2026	\$ 3,532	\$ 56	\$ 342,434	\$ (66,544)	\$ (4,604)	\$ 274,874	\$ 23,576	\$ 298,450

Net loss and other comprehensive loss attributable to redeemable noncontrolling interests were \$13,000 and \$144,000, respectively, for the three months ended March 31, 2026, and are not shown in the table above.

The changes in stockholders' equity by component for the three months ended March 31, 2025 are as follows:

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	AXT, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance as of December 31, 2024	\$ 3,532	\$ 45	\$ 241,514	\$ (43,664)	\$ (8,657)	\$ 192,770	\$ 23,561	\$ 216,331
Noncontrolling interest portion of								
Tongmei stock-based compensation	—	1	(13)	—	—	(12)	6	(6)
Stock-based compensation	—	—	563	—	—	563	—	563
Tongmei stock-based compensation	—	—	83	—	—	83	—	83
Net loss	—	—	—	(8,798)	—	(8,798)	(610)	(9,408)
Other comprehensive income	—	—	—	—	431	431	53	484
Balance as of March 31, 2025	\$ 3,532	\$ 46	\$ 242,147	\$ (52,462)	\$ (8,226)	\$ 185,037	\$ 23,010	\$ 208,047

Net loss and other comprehensive loss attributable to redeemable noncontrolling interests were \$608,000 and \$53,000, respectively, for the three months ended March 31, 2025 and are not shown in the table above.

There were no reclassification adjustments from accumulated other comprehensive income (loss) for the three months ended March 31, 2026 and 2025.

Stock Repurchase Program

On October 27, 2014, our Board of Directors approved a stock repurchase program pursuant to which we may repurchase up to \$5.0 million of our outstanding common stock. These repurchases can be made from time to time in the open market and are funded from our existing cash balances and cash generated from operations. During 2015, we repurchased approximately 908,000 shares at an average price of \$2.52 per share for a total purchase price of approximately \$2.3 million under the stock repurchase program. No shares were repurchased during 2025, 2024 and 2023 under this program. During the three months ended March 31, 2026, we did not repurchase any shares under the approved stock repurchase program. As of March 31, 2026, approximately \$2.7 million remained available for future repurchases under this program. Currently, we do not plan to repurchase additional shares.

By the terms of the Series A preferred stock, so long as any shares of Series A preferred stock are outstanding, neither the Company nor any subsidiary of the Company shall redeem, repurchase or otherwise acquire any shares of common stock, unless all accrued dividends on the Series A preferred stock have been paid. During 2013 and 2015, we repurchased shares of our outstanding common stock. As of December 31, 2015, the Series A preferred stock had cumulative dividends of \$2.9 million and we included this amount in “Accrued liabilities” in our consolidated balance sheets. In the quarter ended March 31, 2026 and 2025, we did not repurchase any of our outstanding common stock. If we are required to pay the cumulative dividends on the Series A preferred stock, our cash and cash equivalents would be reduced. We account for the cumulative year-to-date dividends on the Series A preferred stock when calculating our earnings per share.

Note 9. Stock-Based Compensation

We account for stock-based compensation in accordance with the provisions of ASC Topic 718, *Compensation-Stock Compensation* (“ASC 718”), which established accounting for stock-based awards exchanged for employee services. Stock-based compensation cost is measured at each grant date, based on the fair value of the award, and is recognized as expense over the employee’s requisite service period of the award. All of our stock compensation is accounted for as an equity instrument.

In May 2015, our stockholders approved our 2015 Equity Incentive Plan (the “2015 Plan”). The 2015 Plan is a replacement of the 2007 Plan. The 399,562 share reserve of the 2007 Plan became the reserve of the 2015 Plan, together with 3,000,000 additional shares approved for issuance under the 2015 Plan. In May 2019, our stockholders approved 1,600,000 of additional shares for issuance under the 2015 Plan. In May 2021, our stockholders approved 3,600,000 of additional shares for issuance under the 2015 Plan. In May 2024, our stockholders approved an amendment to the 2015 Plan to increase the number of shares reserved for issuance by an additional 3,600,000 shares. In May 2025, our stockholders approved our 2025 Equity Incentive Plan (the “2025 Plan”). The 2025 Plan is a replacement of the 2015 Plan, which expired on April 1, 2025. The 2015 Plan will continue to govern the awards granted under that Plan. The 4,313,156 share reserve of the 2015 Plan became the reserve of the 2025 Plan. Awards that may be made under the 2025 Plan are 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 awarded under the 2025 Plan may not be repriced without stockholder approval. Stock options and stock appreciation rights may not be granted below fair market value. Stock options or stock appreciation rights generally shall not be fully vested over a period of less than four years from the date of grant and cannot be exercised more than 10 years from the date of grant. Restricted stock, restricted stock units, and performance awards generally shall not vest faster than over a three-year period (or a twelve-month period if vesting is based on a performance measure). However, options granted to consultants and restricted stock awards granted to independent board members typically vest in one year and the 2025 Plan does allow for similar vesting to employees.

The following table summarizes compensation costs related to our stock-based awards (in thousands, except per share data):

	Three Months Ended	
	March 31,	
	2026	2025
Cost of revenue	\$ 65	\$ 63
Selling, general and administrative	803	472
Research and development	167	111
Net effect on net loss	<u>\$ 1,035</u>	<u>\$ 646</u>

We did not capitalize any stock-based compensation to inventory as of March 31, 2026 and December 31, 2025 due to the immateriality of the amount.

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We estimate the fair value of stock options using the Black-Scholes option pricing model, consistent with the provisions of ASC 718. There were no options granted in the three months ended March 31, 2026 and 2025.

The following table summarizes the stock option transactions during the three months ended March 31, 2026 (in thousands, except per share data):

Stock Options	Number of Options Outstanding	Weighted- average Exercise Price	Weighted- average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance as of January 1, 2026	835	\$ 5.33	2.61	\$ 9,194
Granted	—	—	—	—
Exercised	(276)	5.38	—	—
Canceled and expired	—	—	—	—
Balance as of March 31, 2026	<u>559</u>	\$ 5.31	2.47	\$ 28,888
Options exercisable as of March 31, 2026	<u>559</u>	\$ 5.31	2.47	\$ 28,888

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our closing price of \$56.98 on March 31, 2026, which would have been received by the option holder had all option holders exercised their options on that date.

Restricted stock awards

A summary of activity related to restricted stock awards for the three months ended March 31, 2026 is presented below (in thousands, except per share data):

Stock Awards	Shares	Weighted- Average Grant Date Share Value
Non-vested as of January 1, 2026	1,766	\$ 4.23
Granted	4	\$ 23.54
Vested	(124)	\$ 2.56
Forfeited	(38)	\$ 2.45
Non-vested as of March 31, 2026	<u>1,608</u>	\$ 4.46

As of March 31, 2026, the unamortized compensation costs related to unvested restricted stock awards was approximately \$6.0 million, which is to be amortized on a straight-line basis over a weighted-average period of approximately 1.6 years.

At-Risk, Performance Shares

In February 2025, the Company issued at-risk, performance shares classified as equity awards. Expense is recognized quarterly on a straight-line method over the requisite service period, based on the probability of achieving the specified financial performance metric, with changes in expectations recognized as an adjustment to earnings in the period of change. Compensation cost is not recognized for at-risk, performance shares that do not vest because service or performance conditions are not satisfied and any previously recognized compensation cost is reversed. At-risk, performance shares are eligible to receive dividend equivalents under the Company's 2015 Equity Incentive Plan (the "Plan"), as determined by the Board of Directors. The Company will recognize forfeitures as they occur.

The Company's at-risk, performance shares are classified as equity and contain performance and service conditions that must be satisfied for an employee to receive the shares. The financial performance metric for the at-risk, performance shares issued in February 2025 is based upon the Company's year-end actual results in 2025. All performance shares, if earned, are still subject to annual vesting over a four-year period, except that no shares are vested on the first anniversary because the performance measurement is based on year-end results for the year 2024 and 2025, respectively.

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The fair value of the at-risk, performance shares is determined based on the closing price of the Company's common stock on the first day after the public issuance of the Company's earnings release for the most recent fiscal quarter, following the Compensation Committee and Board of Directors approval, which is considered the grant date. The fair value per share of the at-risk, performance shares classified as equity awards granted in February 2025 and February 2024 was \$2.23 and \$2.28, respectively.

On February 20, 2024, the Compensation Committee recommended, and the Board approved, the grant to Dr. Morris Young of 223,590 at-risk, performance shares under the Plan. On February 20, 2024, the Compensation Committee approved the grant to Gary Fischer of 77,600 at-risk, performance shares under the Plan. If the minimum financial metric for fiscal year 2024 is achieved, then based upon a performance formula, a corresponding portion of the 223,590 shares issued to Dr. Young would be eligible to vest and a corresponding portion of the 77,600 shares issued to Mr. Fischer would be eligible to vest. If the target financial metric is exceeded, then additional shares above the target number of shares are earned based on such performance formula and the maximum number of additional shares earned is capped at 100% of the target. If the minimum financial metric for fiscal year 2024 is not achieved, then these awards are forfeited. On February 18, 2025, the Compensation Committee met and certified that the year-over-year annual revenue growth rate achieved for fiscal year 2024, expressed as a percentage, was 200%. Therefore, the maximum number of at-risk performance shares became eligible to vest.

On February 18, 2025, the Compensation Committee recommended, and the Board approved, the grant to Dr. Morris Young of 223,590 at-risk, performance shares under the Plan. On February 18, 2025, the Compensation Committee approved the grant to Gary Fischer of 77,600 at-risk, performance shares under the Plan. If the minimum financial metric for fiscal year 2025 is achieved, then based upon a performance formula, a corresponding portion of the 223,590 shares issued to Dr. Young would be eligible to vest and a corresponding portion of the 77,600 shares issued to Mr. Fischer would be eligible to vest. If the target financial metric is exceeded, then additional shares above the target number of shares are earned based on such performance formula and the maximum number of additional shares earned is capped at 100% of the target. If the minimum financial metric for fiscal year 2025 is not achieved, then these awards are forfeited. On February 18, 2026, the Compensation Committee met and certified that the year-over-year annual revenue growth rate achieved for fiscal year 2025, expressed as a percentage, was 195.15%.

A summary of the status of our unvested at-risk, performance shares as of March 31, 2026 is presented below (in thousands, except per share data):

Stock Awards	Shares	Weighted-Average Grant Date Share Value
Non-vested as of January 1, 2026	444	\$ 2.25
Granted	—	\$ —
Vested	(73)	\$ 2.23
Forfeited	—	\$ —
Non-vested as of March 31, 2026	<u>371</u>	<u>\$ 2.25</u>

As of March 31, 2026, there was \$0.4 million of unrecognized compensation expense related to unvested at-risk, performance shares that is expected to be recognized over a weighted-average period of 1.4 years.

Note 10. Net Loss Per Share

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the periods less shares of common stock subject to repurchase and non-vested stock awards. Diluted net income (loss) per share is computed using the weighted-average number of common shares outstanding and potentially dilutive common shares outstanding during the periods. The dilutive effect of outstanding stock options and restricted stock awards is reflected in diluted earnings per share by application of the treasury stock method. Potentially dilutive common shares consist of common shares issuable upon the exercise of stock options and vesting of restricted stock awards. Potentially dilutive common shares are excluded from the computation of weighted-average number of common shares outstanding in net loss years, as their effect would be anti-dilutive to the computation.

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A reconciliation of the numerators and denominators of the basic and diluted net loss per share calculations is as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2026	2025
Numerator:		
Net loss attributable to AXT, Inc.	\$ (1,620)	\$ (8,798)
Less: Preferred stock dividends	(44)	(44)
Net loss available to common stockholders	<u>\$ (1,664)</u>	<u>\$ (8,842)</u>
Denominator:		
Denominator for basic net loss per share - weighted-average common shares	53,319	43,554
Effect of dilutive securities:		
Common stock options	—	—
Restricted stock awards	—	—
Denominator for dilutive net loss per common shares	<u>53,319</u>	<u>43,554</u>
Net loss attributable to AXT, Inc. per common share:		
Basic	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>
Options excluded from diluted net loss per share as the impact is anti-dilutive	<u>559</u>	<u>1,175</u>
Restricted stock excluded from diluted net loss per share as the impact is anti-dilutive	<u>1,979</u>	<u>2,006</u>

The 883,000 shares of \$0.001 par value Series A preferred stock issued and outstanding as of March 31, 2026 and December 31, 2025, valued at \$3,532,000, are non-voting and non-convertible preferred stock with a 5.0% cumulative annual dividend rate payable when declared by the Board of Directors and a \$4 per share liquidation preference over common stock, which must be paid before any distribution is made to common stockholders. These preferred shares were issued to Lyte Optronics, Inc. stockholders in connection with the completion of our acquisition of Lyte Optronics, Inc. on May 28, 1999.

Note 11. Segment Information and Foreign Operations

Segment Information

We operate in one segment for the design, development, manufacture and distribution of high-performance compound and single element semiconductor substrates and sale of raw materials integral to these substrates. In accordance with ASC Topic 280, *Segment Reporting*, our chief operating decision-maker (“CODM”) has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the Company. Since we operate in one segment, all financial segment and product line information can be found in the consolidated financial statements. The CODM regularly evaluates consolidated net income (loss) and functional expenses, including cost of revenue, selling, general and administrative and research and development, to manage Company operations. No additional disaggregated expense categories are presented beyond those already disclosed in the primary financial statements.

Product Information

The following table represents revenue amounts (in thousands) by product type:

	Three Months Ended March 31,	
	2026	2025
Product Type:		
Substrates	\$ 19,281	\$ 11,082
Raw Materials and Other	7,643	8,274
Total	<u>\$ 26,924</u>	<u>\$ 19,356</u>

Geographical Information

The following table represents revenue amounts (in thousands) reported for products shipped to customers in the corresponding geographic region:

	Three Months Ended March 31,	
	2026	2025
Geographical region:		
China	\$ 16,565	\$ 13,426
Taiwan	699	1,221
Japan	1,546	718
Asia Pacific (excluding China, Taiwan and Japan)	2,183	781
Europe (primarily Germany)	5,724	2,101
North America (primarily the United States)	207	1,109
Total	<u>\$ 26,924</u>	<u>\$ 19,356</u>

Long-lived assets consist primarily of property, plant and equipment and operating lease right-of-use assets, and are attributed to the geographic location in which they are located. Long-lived assets, net of depreciation, by geographic region were as follows (in thousands):

	As of	
	March 31, 2026	December 31, 2025
Long-lived assets by geographic region, net of depreciation:		
North America	\$ 965	\$ 1,040
China	165,511	162,802
	<u>\$ 166,476</u>	<u>\$ 163,842</u>

Significant Customers

No customer represented 10% of our revenue for the three months ended March 31, 2026 and 2025. Our top five customers, although not the same five customers for each period, represented 32% and 36% of our revenue for the three months ended March 31, 2026 and 2025, respectively.

We perform ongoing credit evaluations of our customers' financial condition, and limit the amount of credit extended when deemed necessary, but generally do not require collateral. One customer accounted for more than 10% of our accounts receivable balance as of March 31, 2026 and December 31, 2025.

Note 12. Commitments and Contingencies***Indemnification Agreements***

We have entered into indemnification agreements with our directors and officers that require us to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of a culpable nature; to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified; and to obtain directors' and officers' insurance if available on reasonable terms, which we currently have in place.

Product Warranty

We provide warranties for our products for a specific period of time, generally twelve months, against material defects. We provide for the estimated future costs of warranty obligations in cost of sales when the related revenue is recognized. The accrued warranty costs represent the best estimate at the time of sale of the total costs that we expect to incur to repair or replace product parts that fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. On a quarterly basis, we review the accrued balances and update the historical warranty cost trends.

The following table reflects the change in our warranty accrual which is included in "Accrued liabilities" in the condensed consolidated balance sheets, during the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended	
	March 31,	
	2026	2025
Beginning accrued product warranty	\$ 411	\$ 451
Accruals for warranties issued	49	21
Adjustments related to pre-existing warranties including expirations and changes in estimates	38	24
Cost of warranty repair	(59)	(93)
Ending accrued product warranty	<u>\$ 439</u>	<u>\$ 403</u>

Contractual Obligations

In 2020, we and a competitor entered into a cross license and covenant agreement (the "Cross License Agreement"), which has a term that began on January 1, 2020 and expires on December 31, 2029. The Cross License Agreement is a fixed-cost cross license and not a variable-cost cross license that is based on revenue or units. Under the Cross License Agreement, we are obligated to make annual payments over a 10-year period.

Land Purchase and Investment Agreement

We have established a wafer process production line in Dingxing, China. In addition to a land rights and building purchase agreement that we entered into with a private real estate development company to acquire our new manufacturing facility, we also entered into a cooperation agreement with the Dingxing local government. In addition to pledging its full support and cooperation, the Dingxing local government will issue certain credits or rebates to us as we achieve certain milestones. We, in turn, agreed to hire local workers over time, pay taxes when due and eventually demonstrate a total investment of approximately \$90 million in value, assets and capital. The investment will include cash paid for the land and buildings, cash on deposit in our name at local banks, the gross value of new and used equipment (including future equipment that might be used for indium phosphide and germanium substrates production), the deemed value for our customer list or the end user of our substrates, for example, the end users of 3-D sensing VCSELs (vertical cavity surface emitting lasers), a deemed value for employment of local citizens, a deemed value for our proprietary process technology, other intellectual property, other intangibles and additional items of value. There is no timeline or deadline by which this must be accomplished, rather it is a good faith covenant entered into between AXT and the Dingxing local government. Further, there is no specific penalty contemplated if either party breaches the agreement. However, the agreement does state that each party has a right to seek from the other party compensation for losses. Under certain conditions, the Dingxing local government may purchase the land and building at the appraised value. We believe that such cooperation agreements are normal, customary and usual in China and that the future valuation is flexible. We have a similar agreement with the city of Kazuo, China, although on a smaller scale. The total investment targeted by AXT in Kazuo is approximately \$15 million in value, assets and capital. In addition, BoYu has a similar agreement with the city of Kazuo. The total investment targeted by BoYu in Kazuo is approximately \$8 million in value, assets and capital.

Purchase Obligations with Penalties for Cancellation

In the normal course of business, we issue purchase orders to various suppliers. In certain cases, we may incur a penalty if we cancel the purchase order. As of March 31, 2026, we do not have any outstanding purchase orders that will incur a penalty if cancelled by the Company.

Legal Proceedings

From time to time we may be involved in judicial or administrative proceedings concerning matters arising in the ordinary course of business. We do not expect that any of these matters, individually or in the aggregate, will have a material adverse effect on our business, financial condition, cash flows or results of operations.

On May 6, 2024, a putative shareholder class action complaint was filed in the U.S. District Court for the Eastern District of New York on behalf of persons or entities who purchased or acquired our publicly traded securities, against us, Morris S. Young, our Chief Executive Officer, and Gary L. Fischer, our Chief Financial Officer. The court transferred the case to the Northern District of California, where our headquarters are located. A lead plaintiff was appointed and an amended complaint was filed. The amended complaint asserts a putative class period from March 24, 2021 and April 3, 2024, inclusive (the “Class Period”). The amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder by the defendants, and seeks unspecified monetary relief, interest, and attorneys’ fees. Defendants’ motion to dismiss is fully briefed and pending before the Court.

On August 22, 2024, a derivative lawsuit was filed in the Northern District of California by an alleged shareholder against Morris S. Young, our Chief Executive Officer, Gary L. Fischer, our Chief Financial Officer, then-serving directors David C. Chang, Jesse Chen, and Christine Russell, and former director Leonard J. LeBlanc, with the Company named as a nominal defendant (together, “Defendants”). Defendants moved to dismiss on November 6, 2024, following which the plaintiff filed an amended complaint on November 20, 2024. The amended complaint asserted that the Defendants breached their fiduciary duties to the Company based on the allegations asserted in the original complaint in the putative shareholder class action. On November 27, 2024, Defendants again moved to dismiss. On March 17, 2025, the Court granted our motion to dismiss, holding that the plaintiff did not make a pre-suit demand on our Board of Directors and failed to plead with particularity facts sufficient to excuse the lack of a demand and also for failure to state a claim. On April 11, 2025, the plaintiff filed a notice that he did not intend to further amend his complaint. The Court entered judgment on April 14, 2025. On May 13, 2025, Plaintiffs appealed to the Court of Appeals for the Ninth Circuit, which the parties are currently briefing.

It is not possible at this time to reasonably assess the final outcomes of these litigations or to reasonably estimate the possible loss or range of loss with respect to these litigations. We believe these claims to be meritless and intend to vigorously defend against them.

Note 13. Other Income, Net

Other income, net for the three months ended March 31, 2026 and 2025, includes a grant of \$0.2 million and \$0.3 million, respectively, from government agencies as awards for technological innovation and job creation.

In addition, we incurred a foreign currency transaction exchange loss of \$174,000 and a gain of \$41,000 for the three months ended March 31, 2026 and 2025, respectively.

Note 14. Income Taxes

We account for income taxes in accordance with ASC Topic 740, *Income Taxes* (“ASC 740”), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

We provide for income taxes based upon the geographic composition of worldwide earnings and tax regulations governing each region, particularly China. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws, particularly in foreign countries such as China.

We recognize interest and penalties related to uncertain tax positions in income tax expense. Income tax expense for the three months ended March 31, 2026 includes no interest and penalties. As of March 31, 2026, we have no accrued interest and penalties related to uncertain tax positions. We file income tax returns in the U.S. federal, various states and foreign jurisdictions. Currently, there is no tax audit in any of the jurisdictions and we do not expect there will be any significant change to this.

Provision for income taxes for the three months ended March 31, 2026 was mostly related to our wholly owned China subsidiaries and our partially owned subsidiaries in China. Income taxes and certain state taxes, have been provided for our U.S. operations as most of the income in the U.S. had been fully offset by utilization of federal and state net operating loss carryforwards.

On July 4, 2025, the President signed into law the “One Big Beautiful Bill Act” (the “Act”). Among other things, the Act makes permanent many provisions of the 2017 Tax Cuts and Jobs Act (the “TCJA”) that otherwise would have expired this year. The Act permanently reinstates elective expensing for qualifying domestic research and experimental expenditures with respect to amounts paid or incurred after December 31, 2024 (section 174A). Expenditures for research performed outside the U.S. remain amortizable over 15 years. We capitalize the R&E expense incurred by our China subsidiaries and amortize it over 15 years.

California Senate Bill 167 was signed into law by the acting governor on June 27, 2024. The bill makes several tax changes designed to alleviate the 2024-2025 budget. For tax years beginning on or after January 1, 2024, and before January 1, 2027, net operating losses (NOLs) are suspended for both corporate and personal income taxes. The suspension will not apply to any taxpayer with net business income or modified adjusted income of less than \$1 million. Another provision in Senate Bill 167 limits the use of credits for tax years beginning on or after January 1, 2024, and before January 1, 2027. During this period, a business (including all taxpayers that are members of a combined report) may claim a total of only \$5 million in credits under both the Corporation and Personal Income Tax laws (including the carryover of any business credit). Since the Company’s profit level is below \$1 million, Bill 167 has no impact on the Company.

Note 15. Revenue**Revenue Recognition**

We manufacture and sell high-performance compound semiconductor substrates including indium phosphide, gallium arsenide and germanium wafers, and our consolidated subsidiaries sell certain raw materials, including high purity gallium (7N Ga), pyrolytic boron nitride (pBN) crucibles and boron oxide (B2O3). After we ship our products, there are no remaining obligations or customer acceptance requirements that would preclude revenue recognition. Our products are typically sold pursuant to purchase orders placed by our customers, and our terms and conditions of sale do not require customer acceptance. We account for a contract with a customer when there is a legally enforceable contract, which could be the customer's purchase order, the rights of the parties are identified, the contract has commercial terms, and collectibility of the contract consideration is probable. The majority of our contracts have a single performance obligation to transfer products and are short term in nature, usually less than six months. Our revenue is measured based on the consideration specified in the contract with each customer in exchange for transferring products that are generally based upon a negotiated formula, list or fixed price. Revenue is recognized when control of the promised goods is transferred to our customer, which is either upon shipment from our dock, receipt at the customer's dock, or removal from consignment inventory at the customer's location, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods.

We have elected to account for shipping and handling as activities to fulfill the promise to transfer the goods. Shipping and handling fees billed to customers in a sales transaction are recorded as an offset to shipping and handling expenses. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from revenue.

We do not provide training, installation or commissioning services. We provide for future returns based on historical data, prior experience, current economic trends and changes in customer demand at the time revenue is recognized. We do not recognize any asset associated with the incremental cost of obtaining revenue generating customer contracts. As such, sales commissions are expensed as incurred, given that the expected period of benefit is less than one year.

Contract Balances

Contract assets are recorded when we have a conditional right to consideration for our completed performance under the contracts. Accounts receivables are recorded when the right to this consideration becomes unconditional. We believe the fair value of our accounts receivable approximates its carrying value due to its short maturities and nominal credit risk. We do not have any material contract assets as of March 31, 2026. In some contracts we require payment in advance of shipment, per a billing schedule reflected in our customer contracts, and the payment is recorded as a contract liability. The following table reflects the contract liabilities balance, which is included in "Accrued liabilities" on the condensed consolidated balance sheets, as of March 31, 2026 and December 31, 2025 (in thousands):

	March 31, 2026	December 31, 2025
Contract liabilities	\$ 894	\$ 103

During the three months ended March 31, 2026, the Company recognized \$16,000 of revenue that was included in the contract balances as of December 31, 2025. During the three months ended March 31, 2025, the Company recognized \$1.5 million of revenue that was included in the contract balances as of December 31, 2024.

Disaggregated Revenue

In general, revenue disaggregated by product types and geography (see Note 11) is aligned according to the nature and economic characteristics of our business and provides meaningful disaggregation of our results of operations. Since we operate in one segment, all financial segment and product line information can be found in the condensed consolidated financial statements.

Note 16. Loans and Line of Credit**Short-term Loans**

Our bank loans and credit facilities are primarily entered into by our subsidiaries with various PRC banks and generally have original maturities of 12 months or less. These borrowings are classified as “Short-term loans” in our condensed consolidated balance sheets.

As of March 31, 2026, the outstanding balance of short-term loans was \$63.8 million, with interest rates ranging from 2.0% to 3.8%. Of this amount, \$45.2 million was unsecured, \$10.7 million was secured by the time deposit of the Company, and \$7.9 million was secured by real estate properties owned by certain subsidiaries. As of December 31, 2025, the outstanding balance of short-term loans was \$58.6 million, with interest rates ranging from 2.2% to 3.9%. Of this amount, \$43.0 million was unsecured, \$7.4 million was secured by the time deposit of the Company, and \$8.2 million was secured by real estate properties owned by certain subsidiaries. Time deposit pledged as collateral is classified as restricted cash and presented separately in the condensed consolidated balance sheets.

Long-term Loans

On January 30, 2024, one of our consolidated subsidiaries secured a new line of credit amounting to \$9.7 million, structured as a five-year bank loan. The credit facility bears interest at a rate of 6.5% per annum on the amount drawn from the line of credit. The credit facility is collateralized by the real estate properties owned by the subsidiary. In January 2024, the subsidiary borrowed \$5.8 million against the credit facility. The intended use of the credit facility is for construction projects. As of March 31, 2026, \$4.4 million is included in “Other long-term liabilities” and \$0.9 million is included in “Short-term loans” in our condensed consolidated balance sheets.

In December 2023 and February 2026, two of our consolidated subsidiaries entered into financing arrangements with unrelated financing companies, receiving proceeds of approximately \$2.1 million and \$2.9 million, respectively. According to the agreements, the subsidiaries temporarily transferred ownership of its production lines and related equipment to the financing companies, while retaining the right to use the properties in their operations. The arrangements have terms of 30 months and 36 months, respectively, and provide the subsidiaries with options to repurchase the production lines and related equipment at the end of the respective terms for nominal consideration of approximately \$14.00 per arrangement. As of March 31, 2026, \$1.9 million is included in “Other long-term liabilities” and \$1.3 million is included in “Short-term loans” in our condensed consolidated balance sheets.

In February 2025, one of our consolidated subsidiaries secured a fourteen-month unsecured bank loan totaling \$2.7 million at an interest rate of 3.2%. As of March 31, 2026, the full amount is included in “Short-term loans” in our condensed consolidated balance sheets.

In September and November 2025, one of our consolidated subsidiaries entered into a four-year bank loan totaling \$0.7 million at an interest rate of 3.1%. The loan is secured by the real estate properties owned by one of our consolidated subsidiaries. As of March 31, 2026, \$0.5 million is included in “Other long-term liabilities” and \$0.2 million is included in “Short-term loans” in our condensed consolidated balance sheets.

As of March 31, 2026, the maturities of our long-term loan liabilities in five years (including current portion) are as follows (in thousands):

Maturity of long-term loans

2026 (remaining 9 months)	\$	4,372
2027		2,160
2028		2,449
2029		2,873
2030		—

In summary, short-term loans of \$68.9 million included under “Short-term loans” in our condensed consolidated balance sheet at March 31, 2026, consisted of \$63.8 million of short-term bank loans and \$5.1 million of the current portion of long-term debt. Long-term loan of \$6.8 million included under “Other long-term liabilities” in our condensed consolidated balance sheet at March 31, 2026. These borrowings are subject to customary lending arrangements. As of March 31, 2026, the Company was in compliance with all applicable covenants.

Note 17. Leases

We lease certain equipment, office space, warehouse and facilities under long-term operating leases expiring at various dates through November 2029. The majority of our lease obligations relate to our lease agreement for our facility in Fremont, California with approximately 19,467 square feet, which was scheduled to expire in 2020. Under the terms of the facility lease agreement, in May 2020, we were granted an extension to the term of the lease for an additional three years. Furthermore, in September 2023, we entered into another agreement to extend the lease for an additional five years, commencing December 2023. There are no variable lease payments, residual value guarantees or any restrictions or covenants imposed by the facility lease. The remaining lease obligations relate to a nitrogen system to be used during the manufacturing process for our facility in Dingxing, China. The equipment lease became effective in August 2019 and will expire in July 2029. The facility, located in Tongzhou, China, has a lease effective from December 2024 and expiring in November 2029. There are no variable lease payments, residual value guarantees or any restrictions or covenants imposed by the equipment lease. All other operating leases have a term of 12 months or less.

Leases are classified as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria are met: the lease transfers ownership of the asset by the end of the lease term, the lease contains an option to purchase the asset that is reasonably certain to be exercised, the lease term is for a major part of the remaining useful life of the asset or the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of these criteria. All of our leases are classified as operating leases and substantially all of our operating leases are comprised of equipment and office space leases. None of our leases are classified as finance leases.

For all leases at the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset represents the right to use the leased asset for the lease term. The lease liability represents the present value of the lease payments under the lease.

The right-of-use asset is initially measured at cost, which primarily comprises the initial amount of the lease liability, plus any initial direct costs incurred, consisting mainly of brokerage commissions, less any lease incentives received. All right-of-use assets are reviewed for impairment. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our secured incremental borrowing rate for the same term as the underlying lease.

Lease payments included in the measurement of the lease liability comprise the following: the fixed noncancelable lease payments, payments for optional renewal periods where it is reasonably certain the renewal period will be exercised, and payments for early termination options unless it is reasonably certain the lease will not be terminated early.

Lease expense for operating leases consists of the lease payments plus any initial direct costs, primarily brokerage commissions, and is recognized on a straight-line basis over the lease term.

We have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less. The effect of short-term leases on our right-of-use asset and lease liability was not material.

As of March 31, 2026, the maturities of our operating lease liabilities (excluding short-term leases) are as follows (in thousands):

Maturity of Lease Liabilities

2026	\$	503
2027		686
2028		669
2029		203
2030		—
Thereafter		—
Total minimum lease payments		<u>2,061</u>
Less: Interest		<u>(159)</u>
Present value of lease obligations		1,902
Less: Current portion, included in accrued liabilities		<u>(593)</u>
Long-term portion of lease obligations	\$	<u>1,309</u>

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The weighted-average remaining lease term and the weighted-average discount rate for our operating leases as of each date is as follows:

	March 31, 2026	December 31, 2025
Weighted-average remaining lease term (years)	3.04	3.29
Weighted-average discount rate	4.99%	5.00%

Supplemental cash flow information related to leases where we are the lessee is as follows (in thousands):

	Three Months Ended March 31,	
	2026	2025
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 156	\$ 149

The components of lease expense are as follows (in thousands) within our condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2026	2025
Operating lease	\$ 167	\$ 160
Short-term lease expense	29	49
Total	\$ 196	\$ 209

Note 18. Redeemable Noncontrolling Interests

As discussed in Note 1, during the quarter ended December 31, 2020, Tongmei entered into the Capital Investment Agreements with Investors that invested approximately \$48.1 million in the form of redeemable noncontrolling interests representing 7.06% of the outstanding shares of Tongmei. An additional investment of approximately \$1.5 million of new capital was funded in early January 2021. Under China regulations these investments must be formally approved by the appropriate government agency and are not deemed to be dilutive until such approval is granted. The government approved the entire approximately \$49 million investment on January 25, 2021, at which time the Investors owned a redeemable noncontrolling interest in Tongmei of 7.28%. The initial carrying amount of the redeemable noncontrolling interest was recorded at fair value on the date of issuance of Tongmei's common stock, net of issuance costs and presented in temporary equity on the condensed consolidated balance sheets. This classification is due to the existence of certain contingencies that could result in potential redemption at the fixed purchase price as described below. We currently do not believe that this is probable thus no amortization of the issuance costs has been recorded.

Pursuant to the Capital Investment Agreements with the Investors, each Investor has the right to require AXT to redeem any or all Tongmei shares held by such Investor at the original purchase price paid by such Investor, without interest, in the event the IPO fails to pass the audit of the Shanghai Stock Exchange, is not approved by the Chinese Securities Regulatory Commission ("CSRC") or Tongmei cancels the IPO application. The aggregate redemption amount is approximately \$49 million, subject to the foreign exchange rate variable at time of redemption.

Tongmei submitted its IPO application to the Shanghai Stock Exchange in December 2021 and it was formally accepted for review on January 10, 2022. The Shanghai Stock Exchange approved the IPO application on July 12, 2022. On August 1, 2022, the CSRC accepted for review Tongmei's IPO application. The STAR Market IPO remains subject to review and approval by the CSRC and other authorities. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. Subject to review and approval by the CSRC and other authorities, Tongmei hopes to accomplish this goal in the coming months. The listing of Tongmei on the STAR Market will not change the status of AXT as a U.S. public company.

The components of the change in redeemable noncontrolling interests for the three months ended March 31, 2026 are presented in the following table (in thousands):

Balance as of January 1, 2026	\$	38,056
Equity issuance costs incurred		(286)
Stock-based compensation attributable to redeemable noncontrolling interests		—
Net loss attributable to redeemable noncontrolling interests		(13)
Effect of foreign currency translation on redeemable noncontrolling interests		615
Effect of foreign currency translation attributable to redeemable noncontrolling interests		144
Balance as of March 31, 2026	\$	38,516

Note 19. Recent Accounting Pronouncements

In November 2024, FASB issued ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures* (Subtopic 220-40), which requires public business entities to disclose additional information on specific expense categories in the notes to the financial statements. The Update is effective for annual reporting periods beginning after December 15, 2026. Additionally, ASU 2025-01 amended the effective date for interim periods within annual reporting periods beginning after December 15, 2027. Adoption is expected to have an immaterial effect on our condensed consolidated financial statements.

In July 2025, FASB issued ASU 2025-05, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*, which allows a practical expedient that assumes current conditions as of the balance sheet date do not change for the remaining life of the asset when developing forecasts for estimating expected credit losses. The ASU is effective for fiscal years beginning after December 15, 2025, and interim periods within those fiscal years on a prospective basis. Adoption is expected to have an immaterial effect on our condensed consolidated financial statements.

In December 2025, FASB issued ASU 2025-10, *Financial Instruments - Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*, which establishes authoritative guidance on the recognition, measurement, presentation, and disclosure of government grants received by business entities. The Update provides a framework for determining when a grant should be recognized in income and includes enhanced disclosure requirements. The Update is effective for fiscal years beginning after December 15, 2028, and interim periods within those fiscal years. Adoption is expected to have an immaterial effect on our consolidated financial statements.

Note 20. Subsequent Events

On April 21, 2026, AXT entered into an underwriting agreement (the “Underwriting Agreement”) with Northland Securities, Inc., as representative of the underwriters named therein (the “Underwriters”) related to the offer and sale of 8,560,311 shares of Common Stock at a price to the public of \$64.25 per share. Pursuant to the Underwriting Agreement, AXT also granted the Underwriters a 30-day option to purchase up to 1,284,046 additional shares of common stock which was exercised in full by the Underwriters on April 22, 2026. AXT received total gross proceeds of approximately \$632.5 million, before deducting the underwriting discounts and commissions and other offering expenses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q of AXT, Inc., a Delaware corporation (“AXT”, “the Company”, “we,” “us,” and “our” refer to AXT, Inc. and its consolidated subsidiaries) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements relating to our expectations regarding the receipt of export permits for our indium phosphide substrates, results of operations, market and customer demand for our products, our ability to expand our markets or increase sales, emerging applications using chips or devices fabricated on our substrates, including the use of InP wafer substrates in artificial intelligence (“AI”) applications, the development and adoption of new products, applications, enhancements or technologies, the life cycles of our products and applications, product yields and gross margins, expense levels, the impact of the adoption of certain accounting pronouncements, our investments in capital projects, ramping production at our new sites, potential severance costs with respect to any reduction in our work force, our ability to have new customers qualify substrates from our new manufacturing locations in China, our ability to utilize or increase our manufacturing capacity, to enable our industry to meet future demands and needs for our indium phosphide wafer substrates, and our belief that we have adequate cash and investments to meet our needs over the next 12 months are forward-looking statements. Additionally, statements regarding completing steps in connection with the proposed listing of shares of our wafer manufacturing company, Beijing Tongmei Xtal Technology Co., Ltd. (“Tongmei”), on the Shanghai Stock Exchange’s Sci-Tech innovation board (the “STAR Market”), being accepted to list shares of Tongmei on the STAR Market, the timing and completion of such listing of shares of Tongmei on the STAR Market are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “likely,” and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements in this Quarterly Report on Form 10-Q, and include statements regarding the intent, belief or current expectations of our management that are subject to known and unknown risks, uncertainties and assumptions which could cause actual results to differ materially from those expressed or implied in the forward-looking statement. Additionally, statements concerning future matters such as our strategy and plans, industry trends and the impact of trends, tariffs and trade wars, geopolitical tensions, export restrictions in China, results of operations and financial condition, mandatory factory shutdowns in China, changes in policies and regulations in China and economic cycles on our business are forward-looking statements.

Our forward-looking statements are based upon assumptions that are subject to uncertainties and factors relating to the Company’s operations and business environment, which could cause actual results to differ materially from those expressed or implied in the forward-looking statements contained in this Quarterly Report on Form 10-Q. These uncertainties and factors include, but are not limited to: the receipt of export permits to export indium phosphide wafers from China, as well as our other wafer products, and the timing of such export permit approvals, the withdrawal, cancellations or requests for redemptions by private equity funds in China of their investments in Tongmei, the administrative challenges in satisfying the requirements of various government agencies in China in connection with the investments in Tongmei and the listing of shares of Tongmei on the STAR Market, continued open access to companies to list shares on the STAR Market, investor enthusiasm for new listings of shares on the STAR Market and geopolitical tensions between China and the United States. Additional uncertainties and factors include, but are not limited to: the timing and receipt of significant orders; the cancellation of orders and return of product; emerging applications using chips or devices fabricated on our substrates; end-user acceptance of products containing chips or devices fabricated on our substrates; our ability to bring new products to market; product announcements by our competitors; the ability to control costs and improve efficiency; the ability to utilize our manufacturing capacity; product yields and their impact on gross margins; the relocation of manufacturing lines and ramping of production; possible factory shutdowns as a result of air pollution in China; outbreaks of a contagious disease; tariffs and other trade war issues; export restrictions in China; the financial performance of our partially owned supply chain companies; policies and regulations in China; and other factors as set forth in this Quarterly Report on Form 10-Q, including those set forth under the section entitled “Risk Factors” in Part II, Item 1A below. All forward-looking statements are based upon management’s views as of the date of this Quarterly Report on Form 10-Q and are subject to risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated in such forward-looking statements. Such risks and uncertainties include those set forth under the section entitled “Risk Factors” in Part II, Item 1A below, as well as those discussed elsewhere in this Quarterly Report on Form 10-Q and identify important factors that could disrupt or injure our business or cause actual results to differ materially from those predicted in any such forward-looking statements.

These forward-looking statements are not guarantees of future performance. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects. We undertake no obligation to revise or update any forward-looking statements in order to reflect any development, event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2025 (the "2025 Annual Report") and the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

AXT is a worldwide materials science company that develops and produces high-performance compound and single element semiconductor substrate wafers and certain raw materials integral to these substrates. Two of our consolidated subsidiaries produce and sell certain raw materials some of which are used in our substrate manufacturing process and some of which are sold to other companies.

Our substrate wafers are used when a typical silicon substrate wafer cannot meet the performance requirements of a semiconductor or optoelectronic device. The dominant substrates used in producing semiconductor chips and other electronic circuits are made from silicon. However, certain chips may become too hot or perform their function too slowly if silicon is used as the base material. In addition, optoelectronic applications, such as LED lighting and chip-based lasers, do not use silicon substrates because they require a waveform frequency that cannot be achieved using silicon. Alternative or specialty materials are used to replace silicon as the preferred base in these situations. Our wafers provide such alternative or specialty materials. We do not design or manufacture the chips. We add value by researching, developing and producing the specialty material wafers. We have two product lines: specialty material substrates and raw materials integral to these substrates. Our compound substrates combine indium with phosphorous (indium phosphide: InP) or gallium with arsenic (gallium arsenide: GaAs). Our single element substrates are made from germanium (Ge).

InP is a high-performance semiconductor wafer substrate used in broadband and fiber optic applications, 5G infrastructure and data center connectivity. Data centers use InP devices for high-speed optical data transmission. We believe the growth of AI applications is increasing the need for high-speed data transfer, which may enable a growing increase in InP substrate demand for such data centers. Currently, InP substrates are being used in certain consumer products, including proximity sensors and other sensors in mobile devices, biometric wearables and other health monitoring applications. In recent years, InP demand has increased. Semi-insulating GaAs substrates are used to create various high-speed microwave components, including power amplifier chips used in cell phones, satellite communications and broadcast television applications. Semi-conducting GaAs substrates are used to create opto-electronic products, such as light emitting diodes (LEDs) that are used in a wide range of applications, including automotive lighting, horticulture, signage, display, sensors and machine vision. Semi-conducting GaAs substrates are also used in making industrial lasers. GaAs wafers could also be used for making vertical cavity surface emitting lasers (VCSELs) for facial recognition. Ge substrates are used in applications such as solar cells for space and terrestrial photovoltaic applications.

Our supply chain strategy includes several consolidated raw material companies. One of these consolidated companies produces pyrolytic boron nitride (pBN) crucibles used in the high temperature (typically in the range 500 C to 1,500 C) growth process of single crystal ingots, effusion rings when growing OLED (Organic Light Emitting Diode) tools, epitaxial layer growth in MOCVD (Metal-Organic Chemical Vapor Deposition) reactors and MBE (Molecular Beam Epitaxy) reactors. We use these pBN crucibles in our own ingot growth processes and they are also sold in the open market to other companies. A second consolidated company converts raw gallium to purified gallium. We use purified gallium in producing our GaAs substrates and it is also sold in the open market to other companies for use in producing magnetic materials, high temperature thermometers, single crystal ingots, including gallium arsenide, gallium nitride, gallium antimonite and gallium phosphide ingots, and other materials and alloys. In addition to purified gallium, the second consolidated company also produces InP base material which we then use to grow single crystal ingots. Our substrate product group generated 67%, 68%, and 63% of our consolidated revenue and our raw materials product group generated 33%, 32%, and 37% for 2025, 2024, and 2023, respectively.

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The following chart shows our substrate products and their materials, diameters and illustrative applications and shows our raw materials group primary products and their illustrative uses and applications.

Products

Substrate Group and Wafer Diameter	Sample of Applications
Indium Phosphide (InP) 2", 3", 4", 6"	<ul style="list-style-type: none"> •Data center connectivity using light/lasers •High-speed data transfer in data centers to support AI applications •5G communications •Fiber optic lasers and detectors •Consumer devices •Passive Optical Networks (PONs) •Silicon photonics •Photonic Integrated circuits (PICs) •Thermo-Photovoltaics (TPVs) •RF amplifier and switching (military wireless & 5G) •Infrared light-emitting diode (LEDs) motion control •Lidar for robotics and autonomous vehicles •Infrared thermal imaging
Gallium Arsenide (GaAs - semi-insulating) 1", 2", 3", 4", 5", 6"	<ul style="list-style-type: none"> •Wi-Fi devices •IoT devices •High-performance transistors •Direct broadcast television •Power amplifiers for wireless devices •Satellite communications •High efficiency solar cells for drones and automobiles •Solar cells
Gallium Arsenide (GaAs - semi-conducting) 1", 2", 3", 4", 5", 6", 8"	<ul style="list-style-type: none"> •High brightness LEDs •Screen displays using micro-LEDs •Printer head lasers and LEDs •3-D sensing using VCSELs •Data center communication using VCSELs •Sensors for industrial robotics/Near-infrared sensors •Laser machining, cutting and drilling •Optical couplers •High efficiency solar cells for drones and automobiles •Other lasers •Night vision goggles •Lidar for robotics and autonomous vehicles •Solar cells
Germanium (Ge) 2", 4", 6"	<ul style="list-style-type: none"> •Multi-junction solar cells for satellites •Optical sensors and detectors •Terrestrial concentrated photo voltaic (CPV) cells •Infrared detectors •Carrier wafer for LED
Raw Materials Group	
6N+ and 7N+ purified gallium	<ul style="list-style-type: none"> •Key material in single crystal ingots such as: <ul style="list-style-type: none"> - Gallium Arsenide (GaAs) - Gallium Nitride (GaN) - Gallium Antimonite (GaSb) - Gallium Phosphide (GaP)
Boron trioxide (B2O3)	<ul style="list-style-type: none"> •Encapsulant in the ingot growth of III-V compound semiconductors
Gallium-Magnesium alloy	<ul style="list-style-type: none"> •Used for the synthesis of organo-gallium compounds in epitaxial growth on semiconductor wafers
pyrolytic boron nitride (pBN) crucibles	<ul style="list-style-type: none"> •Used when growing single-crystal compound semiconductor ingots •Used as effusion rings when growing OLED tools
pBN insulating parts	<ul style="list-style-type: none"> •Used in MOCVD reactors •Used when growing epitaxial layers in Molecular Beam Epitaxy (MBE) reactors

All of our substrate products and raw material products are manufactured in the People's Republic of China (PRC or China) by our PRC subsidiaries and PRC joint ventures. The PRC generally has favorable costs for facilities and labor compared with comparable facilities in the United States, Europe or Japan. Our supply chain includes partial ownership of raw material companies in China (subsidiaries/joint ventures). We believe this supply chain arrangement provides us with pricing advantages, reliable supply, market trend visibility and better sourcing lead-times for key raw materials central to manufacturing our substrates. In the event of industry-wide supply shortages we believe our vertically integrated supply chain strategy will be even more advantageous. Our raw material companies produce materials, including raw gallium (4N Ga), high purity gallium (6N and 7N Ga), starting material for InP, arsenic, germanium, germanium dioxide, pyrolytic boron nitride (pBN) crucibles, quartz tubing and boron oxide (B₂O₃). One company does recycling of our scrap materials. We have board representation in all of these raw material companies. We consolidate the companies in which we have either a controlling financial interest, or majority financial interest combined with the ability to exercise substantive control over the operations, or financial decisions, of such companies. We use the equity method to account for companies in which we have noncontrolling financial interest and have the ability to exercise significant influence, but not control, over such companies. We purchase portions of the materials produced by these companies for our own use and they sell the remainder of their production to third parties.

In 2015, the Beijing city government announced its decision to move most of its offices to the Tongzhou district where our original manufacturing facility is currently located. The Beijing city government has moved thousands of government employees into this district. The government has constructed showcase tower buildings and overseen the establishment of new apartment complexes, retail stores and restaurants. A large park, named Green Heart City Park, was built across the street from our facility and Universal Studios has developed an amusement park within a few miles of our facility. To create room and upgrade the district, the city instructed virtually all existing manufacturing companies, including Tongmei, to relocate all or some of their manufacturing lines. We were instructed to relocate our gallium arsenide manufacturing lines. For reasons of manufacturing efficiency, we elected to also move part of our germanium manufacturing line. Our indium phosphide manufacturing line, as well as various administrative and sales functions, remain primarily at our original site in Beijing.

Begun in 2017, the relocation of our gallium arsenide production lines is now completed. Our PRC subsidiary, Baoding Tongmei Xtal Technology Co., Ltd. ("Baoding Tongmei"), entered into volume production in 2020. To mitigate our risks and maintain our production schedule, we moved our gallium arsenide equipment in stages. By December 31, 2019, we had ceased all crystal growth for gallium arsenide in our original manufacturing facility in Beijing and transferred 100% of our ingot production to the new manufacturing facility of our PRC subsidiary, ChaoYang Tongmei Xtal Technology Co., Ltd., ("ChaoYang Tongmei"), in Kazuo, a city approximately 250 miles from Beijing. We transferred our wafer processing equipment for gallium arsenide to Baoding Tongmei's new manufacturing facility in Dingxing, a city approximately 75 miles from Beijing. These new facilities enabled us to expand capacity and upgrade some of the equipment. In 2021 and 2022, we added additional equipment, including certain more advanced equipment. We have also invested in additional buildings to complement the initial construction and add capacity as needed. Our PRC subsidiaries also acquired sufficient land to enable them to add facilities, if needed in the future. We believe our success in the relocation and our ability to add capacity in the future gives us competitive advantages. In addition, a new level of technological sophistication in our manufacturing capabilities is enabling us to support the major trends that we believe are likely to drive demand for our products in the years ahead.

New customer qualifications and expanding capacity as needed require us to continue to diligently address the many details that arise at each of our sites. A failure to properly accomplish this could result in disruption to our production and have a material adverse impact on our revenue, our results of operations and our financial condition. If we fail to meet the product qualification and volume requirements of a customer, we may lose sales to that customer. Our reputation may also be damaged. Any loss of sales could have a material adverse effect on our revenue, our results of operations and our financial condition.

On November 16, 2020, we announced a strategic initiative to access China's capital markets by beginning a process to list shares of Tongmei in an initial public offering (the "IPO") on the STAR Market, an exchange intended to support innovative companies in China. We formed and founded Tongmei in 1998 and believe Tongmei has grown into a company that will be an attractive offering on the STAR Market. To qualify for a STAR Market listing, the first major step in the process was to engage private equity firms in China ("Investors") to invest funds in Tongmei. By December 31, 2020, Investors, which consist of 10 private equity funds, had entered into two sets of definitive transaction documents, each consisting of a capital increase agreement along with certain supplemental agreements in substantially the same form (collectively, the "Capital Investment Agreements"), with Tongmei for a total investment of approximately \$48.1 million. The currency used in the investment transactions was the Chinese renminbi, which has been converted to approximate U.S. dollars for this Quarterly Report on Form 10-Q. The remaining investment of approximately \$1.5 million of new capital was funded in January 2021. The government approved the approximately \$49 million investment in its entirety on January 25, 2021. In exchange for an investment of approximately \$49 million, the Investors received a 7.28% redeemable noncontrolling interest in Tongmei.

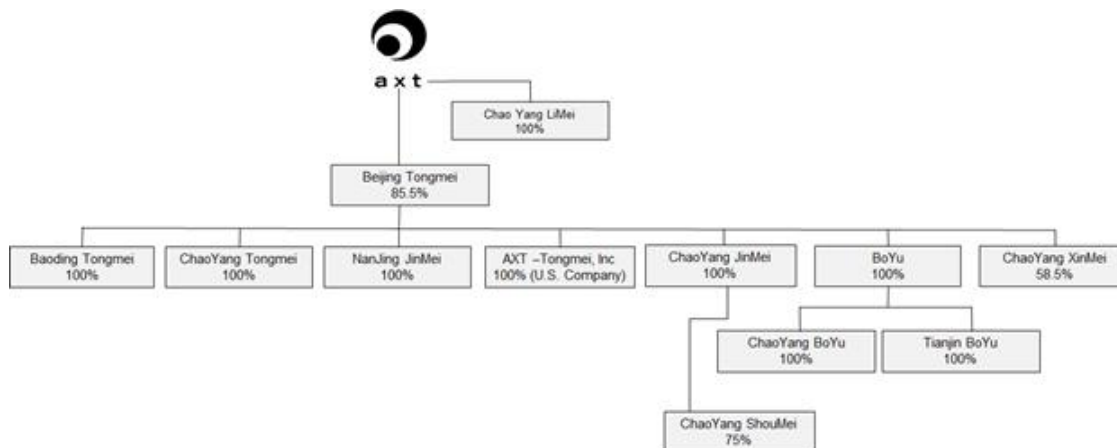
Pursuant to the Capital Investment Agreements with the Investors, each Investor has the right to require AXT to redeem any or all Tongmei shares held by such Investor at the original purchase price paid by such Investor, without interest, in the event the IPO fails to pass the audit of the Shanghai Stock Exchange, is not approved by the Chinese Securities Regulatory Commission (“CSRC”) or Tongmei cancels the IPO application. The aggregate redemption amount is approximately \$49 million, subject to the foreign exchange rate variable at time of redemption.

Tongmei submitted its IPO application to the Shanghai Stock Exchange in December 2021 and it was formally accepted for review on January 10, 2022. The Shanghai Stock Exchange approved the IPO application on July 12, 2022. On August 1, 2022, the CSRC accepted for review Tongmei’s IPO application. The STAR Market IPO remains subject to review and approval by the CSRC and other authorities. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. Subject to review and approval by the CSRC and other authorities, Tongmei hopes to accomplish this goal in the coming months. The listing of Tongmei on the STAR Market will not change the status of AXT as a U.S. public company.

An early step in the STAR Market IPO process involved certain entity reorganizations and alignment of assets under Tongmei. In this regard our two consolidated raw material companies, JinMei and BoYu and their subsidiaries were assigned to Tongmei in December 2020. As of June 30, 2021, AXT-Tongmei, Inc., a wholly owned subsidiary of AXT, was assigned to Tongmei. The assignment to Tongmei of JinMei, BoYu and their subsidiaries, and AXT-Tongmei, Inc. increased the number of customers and employees attributable to Tongmei as well as increased Tongmei’s consolidated revenue.

We are neither a PRC operating company nor do we conduct our operations in China through the use of variable interest entities (“VIEs”). Recent statements and regulatory actions by China’s government on the use of VIEs and data security or anti-monopoly concerns have not impacted our ability to conduct our business or continue to list our common stock on the Nasdaq Global Select Market.

The following organization chart depicts the consolidated structure as of March 31, 2026:



The businesses of our PRC subsidiaries and PRC joint ventures are subject to complex and rapidly evolving laws and regulations in the PRC, which can change quickly with little advance notice. The PRC government is a single party form of government with virtually unlimited authority and power to intervene in or influence commercial operations in China. We have experienced such interventions or influence by the PRC government and expect that such intervention or influence or change in the rules and regulations in China could occur in the future.

In September 2018, the United States announced a list of thousands of categories of goods that became subject to Section 301 tariffs when imported into the United States from China. This pronouncement imposed tariffs on wafer substrates we imported into the United States. The initial tariff rate was 25%. On July 3, 2023, China announced new export control regulations on materials including gallium and germanium and compounds of these materials, effective as of August 1, 2023. Materials that could be used in military applications, specifically including weapons of mass destruction, were the primary focus. This required Tongmei to seek permits from the applicable Chinese authorities to export gallium arsenide and germanium substrates. Since that time, a general escalation has been underway with further increases to the tariffs from the US and additional export controls from China.

In late 2024 and early 2025, a new round of trade restrictions was announced by China and the United States. On December 3, 2024, China issued further rules restricting exports of materials that can typically be used in military applications including antimony, gallium, germanium and other superhard materials. The effective date was December 3, 2024, the same day as the announcement itself. Reciprocally, the United States increased tariffs on many items from China from 25% to 50%, effective January 1, 2025. On February 1, 2025, the United States again further increased the tariff on imports of many products from China, including our wafer substrates, to 60%. On March 4, 2025, the United States further increased the tariff on imports of many products, including our wafer substrates, to 70%. In 2024, 8% of our total worldwide revenue was from sales in North America, primarily in the U.S. Indium phosphide substrates are the primary revenue generator derived from imports into the U.S. This revenue has been impacted by additional tariffs imposed by the United States and by export controls implemented by China. As such, in 2025, only approximately 2% of our revenue was generated by sales to customers in North America. On February 20, 2026, the U.S. Supreme Court invalidated many of the global tariffs previously imposed under the International Emergency Economic Powers Act of 1977 (the "IEEPA") and the U.S. Customs and Border Protection subsequently announced that IEEPA-based tariff provisions would be terminated effective February 24, 2026. However, tariffs imposed under other authorities, including Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974, remain in effect, and the U.S. government has indicted that it may pursue additional or replacement tariffs under alternative legal authorities, including temporary measures under Section 122 of the Trade Act of 1974. If maintained, these announced new tariffs, as well as related measures that could be taken by other countries and the potential escalation of trade disputes, could affect our business and results of operations. We continue to monitor developments closely, including pending legal challenges to certain tariff authorities, updated guidance from regulators, retaliatory measures, resolution of trade agreements and ongoing negotiations with additional trade partners.

We have little or no germanium imports into the U.S. and historically a relatively small value of imports of gallium arsenide wafers into the U.S. While Tongmei has generally received the required permits for exports to countries in Asia and Europe, our U.S. gallium arsenide customers are considered "dual use" customers: in addition to commercial applications they have significant levels of military involvement. As such, no permits for the export of gallium arsenide to the U.S. have yet been approved.

On February 4, 2025, China added indium phosphide substrates to its export control list. As a result, the three wafer substrate product families manufactured by Tongmei all require permits from China's Ministry of Commerce before they can be exported from China. InP export permits represent the most significant challenge we currently face. The portal to apply for exports of indium phosphide from China opened in March 2025 and we immediately began to submit our applications. On June 11, 2025, Tongmei was informed that it had satisfied the applicable requirements for a permit to export indium phosphide and received its initial export permits from the Ministry of Commerce of the People's Republic of China to resume shipping indium phosphide substrates to certain customers in Europe and Japan. While we continue to receive permits, we have a backlog of orders for which we have not yet received permits and as of the date of this report we still cannot predict when a permit application will be reviewed and approved. The fluidity of the export permit requirements and ongoing lack of surety creates anxiety for us and for our customers. To our knowledge, indium phosphide is rarely used in military applications and we can reasonably expect that export permits to ship our indium phosphide substrates to the U.S. will be granted. However, the timing for receiving permits remains uncertain, unclear and beyond our control. We are actively monitoring and following up on the status of our applications. Obtaining export permits on a timely basis may result in a mismatch between our receipt of purchase orders for indium phosphide substrates and the recognition of revenue under U.S. GAAP and this may have a material adverse effect on our business, financial condition, and results of operations.

On December 27, 2025, the Standing Committee of the National People's Congress of China ("NPC") enacted substantial revisions to the Foreign Trade Law of the People's Republic of China, effective March 1, 2026 (the "Foreign Trade Law"). The revisions to the Foreign Trade Law provide, among other things, enhanced power vested in governmental agencies to prohibit or restrict the import or export of goods and technologies for a variety of reasons set forth in Article 18 of the Foreign Trade Law, including, but not limited to, (i) safeguarding national security, (ii) where there is a domestic shortage of supply or to protect potentially depleted natural resources, (iii) in order to establish or accelerate the establishment of specific domestic industries, and (iv) other circumstances where it is necessary to prohibit or restrict the import or export of relevant goods or technologies, or take other necessary measures. The revisions also include a chapter on intellectual property introducing new trade sanctions for the infringement of intellectual property rights when such infringement endangers the order of foreign trade and targets specific licensing practices that prohibit the challenge of a license's validity or portfolio licensing bundling. The specific prohibitions and restrictions on the import and export of goods and technologies are delegated to the Ministry of Commerce of the People's Republic of China, among other agencies. We do not believe that the revisions will have any additional material adverse effects on our wafer substrate products beyond the current restrictions and licensing requirements. However, with the Foreign Trade Law's enhanced power over import and export prohibitions and restrictions, no assurances can be given that additional restrictions will not be imposed in the future.

In the ordinary course of business, our PRC subsidiaries and PRC joint ventures require permits and licenses to operate in the PRC. Such permits and licenses include permits to use hazardous materials in manufacturing operations. From time to time, the PRC government issues new regulations, which may require additional actions on the part of our PRC subsidiaries and PRC joint ventures to comply. For example, on February 27, 2015, the China State Administration of Work Safety updated its list of hazardous substances. The previous list, which was published in 2002, did not restrict the materials that we use in our wafers. The new list added gallium arsenide. Another example of a change in the rules and regulations in China occurred in 2015 when we were instructed by the Beijing municipal government to relocate part of our manufacturing facility in Beijing. Any such intervention or influence or change in the rules and regulations in China could result in a material change in our PRC operations and/or the value of our common stock or cause the value of such securities to significantly decline or be worthless.

We have created a vertically integrated supply chain and transfer cash through our corporate structure in three ways. First, we capitalize our investments in our PRC subsidiaries. We licensed to our PRC subsidiaries intellectual property and received from our PRC subsidiaries royalty payments or one-time fees. Second, we use transfer pricing arrangements to buy from our PRC subsidiaries and PRC joint ventures wafers and raw materials. We review the terms of the transfer pricing arrangements annually with our independent registered public accounting firm. In the past, we sold to our PRC subsidiaries capital equipment that we purchased at the request of our PRC subsidiaries and for which we were reimbursed by the applicable PRC subsidiary. In recent years, Tongmei purchases capital equipment from suppliers in Taiwan, Japan, China, Europe or South Korea. Third, our PRC subsidiaries and PRC joint ventures pay dividends to entities within the Company's corporate structure. For the three months ended March 31, 2026, the aggregate dividends paid to the Company, directly or to an intermediate entity within our corporate structure, by our PRC subsidiaries and PRC raw material joint ventures were \$0 million. For the year ended December 31, 2025, the aggregate dividends paid to the Company, directly or to an intermediate entity within our corporate structure, by our PRC subsidiaries and PRC raw material joint ventures were approximately \$0.9 million. For the year ended December 31, 2025, the aggregate dividends paid to minority shareholders by our PRC subsidiaries and PRC raw material joint ventures were approximately \$0. All of these distributions were paid to our PRC subsidiaries and the minority shareholders. For the three months ended March 31, 2026 and the year ended December 31, 2025, no transfers, dividends, or distributions were made between the Company and its PRC subsidiaries, or to investors, except for the settlement of amounts owed under our transfer pricing arrangements in the ordinary course of business. We have no current intentions to distribute earnings to our investors under our corporate structure.

The cash generated from one PRC subsidiary is not used to fund another PRC subsidiary's operations. None of our PRC subsidiaries has faced difficulties or limitations on its ability to transfer cash between our subsidiaries. We have cash management policies that dictate the amount of such funding.

We are subject to a number of unique legal and operational risks associated with our corporate structure, any of which could result in a material change in our operations and/or the value of our common stock or cause the value of such securities to significantly decline or be worthless. Please carefully read the section entitled "Risk Factors" in Part II, Item 1A below. In particular, the following risk factors address issues associated with our corporate structure:

- Although we are a Delaware corporation and are neither a PRC operating company nor do we conduct our operations in China through the use of VIEs, in the event we inadvertently concluded that we do not require any permissions or approvals from the CSRC or other PRC central government authorities to complete a public offering of securities in the U.S. or applicable laws, regulations, or interpretations change, we may be required to obtain such permissions or approvals to complete such a public offering of securities.
- The PRC central government may intervene in or influence our PRC operations at any time and the rules and regulations in China can change quickly with little advance notice.

- The PRC central government may also exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our common stock.
- Changes in China’s political, social, regulatory or economic environments may affect our financial performance.
- Joint venture raw material companies in China bring certain risks.
- The Chinese central government is increasingly aware of air pollution and other forms of environmental pollution and their reform efforts can impact our manufacturing, including intermittent mandatory shutdowns.
- Shutdowns or underutilizing our manufacturing facilities may result in declines in our gross margins.
- Escalating and volatile trade tariffs, import restrictions, export restrictions, Chinese regulations or other trade barriers may materially harm our business.
- If China places restrictions on freight and transportation routes and on ports of entry and departure this could result in shipping delays or increased costs for shipping.
- Our international operations are exposed to potential adverse tax consequence in China.
- We derive a significant portion of our revenue from international sales, and our ability to sustain and increase our international sales involves significant risks.
- The terms of the private equity raised in China as a first step toward an IPO on the STAR Market grant each Investor a right of redemption if Tongmei fails to achieve its IPO.
- We are subject to foreign exchange gains and losses that may materially impact our statement of operations.
- Although the audit report is prepared by an independent registered public accounting firm that is currently inspected fully by the Public Company Accounting Oversight Board (the “PCAOB”), there is no guarantee that future audit reports will be prepared by an independent registered public accounting firm that is completely inspected by the PCAOB.

Our independent registered public accounting firm is BPM LLP (“BPM”), which is registered with the PCAOB. The Holding Foreign Companies Accountable Act (the “HFCA Act”) requires that the PCAOB determine whether it is unable to inspect or investigate completely registered public accounting firms located in a non-U.S. jurisdiction because of a position taken by one or more authorities in that jurisdiction. On December 16, 2021, the PCAOB issued a report on its determinations that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in the PRC and Hong Kong because of positions taken by PRC authorities in those jurisdictions. BPM is headquartered in the United States and not in the PRC or Hong Kong. As such, BPM is not subject to the determinations announced by the PCAOB. Accordingly, the Company does not expect the HFCA Act, the Accelerating Holding Foreign Companies Accountable Act and the related regulations to affect the Company and does not expect to be identified by the Securities and Exchange Commission, or SEC, under the HFCA Act. On December 15, 2022, the PCAOB vacated its 2021 determinations that the positions taken by authorities in the PRC and Hong Kong prevented it from inspecting and investigating completely registered public accounting firms headquartered in those jurisdictions. See “Although the audit report is prepared by an independent registered public accounting firm that is currently inspected fully by the PCAOB, there is no guarantee that future audit reports will be prepared by an independent registered public accounting firm that is completely inspected by the PCAOB” under the section entitled “Risk Factors” in Part II, Item 1A below for further information on risks related to our foreign operations and dependence.

Critical Accounting Policies, Estimates and Change in Accounting Estimates

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, we make estimates, assumptions and judgments that affect the amounts reported on our condensed consolidated financial statements. These estimates, assumptions and judgments about future events and their effects on our results cannot be determined with certainty, and are made based upon our historical experience and on other assumptions that are believed to be reasonable under the circumstances. These estimates may change as new events occur or additional information is obtained, and we may periodically be faced with uncertainties, the outcomes of which are not within our control and may not be known for a prolonged period of time.

We have identified the policies below as critical to our business operations and understanding of our financial condition and results of operations. Critical accounting policies are material to the presentation of our condensed consolidated financial statements and require us to make difficult, subjective or complex judgments that could have a material effect on our financial reports and results of operations. They may require us to make assumptions about matters that are highly uncertain at the time of the estimate. Different estimates that we could have used, or changes in the estimate that are reasonably likely to occur, may have a material impact on our financial condition or results of operations.

Revenue Recognition

We manufacture and sell high-performance compound semiconductor substrates including indium phosphide, gallium arsenide and germanium wafers, and our consolidated subsidiaries sell certain raw materials, including high purity gallium (6N and 7N Ga), pyrolytic boron nitride (pBN) crucibles and boron oxide (B₂O₃). After we ship our products, there are no remaining obligations or customer acceptance requirements that would preclude revenue recognition. Our products are typically sold pursuant to purchase orders placed by our customers, and our terms and conditions of sale do not require customer acceptance. We account for a contract with a customer when there is a legally enforceable contract, which could be the customer's purchase order, the rights of the parties are identified, the contract has commercial terms, and collectibility of the contract consideration is probable. The majority of our contracts have a single performance obligation to transfer products and are short term in nature, usually less than six months. Our revenue is measured based on the consideration specified in the contract with each customer in exchange for transferring products that are generally based upon a negotiated, formula, list or fixed price. Revenue is recognized when control of the promised goods is transferred to our customer, which is either upon shipment from our dock, receipt at the customer's dock, or removal from consignment inventory at the customer's location, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded at the invoiced amount and are not interest bearing. We review at least quarterly, or when there are changes in credit risks, the likelihood of collection on our accounts receivable balances and provide an allowance for credit losses. We measure the expected credit losses on a collective (pool) basis when similar delinquency status exists. We evaluate receivables from U.S. customers with an emphasis on balances in excess of 90 days and for receivables from customers located outside the U.S. with an emphasis on balances in excess of 120 days and establish a reserve allowance on the receivable balances if needed. The reason for the difference in the evaluation of receivables between foreign and U.S. customers is that U.S. customers have historically made payments in a shorter period of time than foreign customers. Foreign business practices generally require us to allow customer payment terms that are longer than those accepted in the United States.

In accordance with ASC Topic 326, Financial Instruments – Credit Losses current expected credit loss impairment model, we exercise judgment when determining the adequacy of our reserves as we evaluate historical bad debt trends, general economic conditions in the United States and internationally, and reasonable and supportable forecasts of future economic conditions. Uncollectible receivables are recorded as provision for credit losses when a credit loss is expected through the establishment of an allowance, which would then be written off when all efforts to collect have been exhausted and recoveries are recognized when they are received. As of March 31, 2026 and December 31, 2025, our accounts receivable, net balance was \$32.0 million and \$26.8 million, respectively, which was net of an allowance of \$164,000 and \$164,000, respectively. If actual uncollectible accounts differ substantially from our estimates, revisions to the estimated allowance for credit losses would be required, which could have a material impact on our financial results for the future periods.

Warranty Reserve

We maintain a product warranty based upon our claims experience during the prior twelve months and any pending claims and returns of which we are aware. Warranty costs are accrued at the time revenue is recognized. As of March 31, 2026 and December 31, 2025, accrued product warranties totaled \$439,000 and \$411,000, respectively. The increase in accrued product warranties is primarily attributable to increased claims for quality issues experienced by customers. If actual warranty costs or pending new claims differ substantially from our estimates, revisions to the estimated warranty liability would be required, which could have a material impact on our financial condition and results of operations for future periods.

Inventory Valuation

Inventories are stated at the lower of cost (approximated by standard cost) or net realizable value. Cost is determined using the weighted-average cost method. Our inventory consists of raw materials as well as finished goods and work in process that include material, labor and manufacturing overhead costs. We routinely evaluate the levels of our inventory in light of current market conditions in order to identify excess and obsolete inventory, and we provide a valuation allowance for certain inventories based upon the age and quality of the product and the projections for sale of the completed products. As of March 31, 2026 and December 31, 2025, we had an inventory reserve of \$29.8 million and \$28.4 million, respectively, for excess and obsolete inventory and \$71,000 and \$180,000, respectively, for lower of cost or net realizable value reserves. If actual demand for our products were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory might be required, which could have a material impact on our business, financial condition and results of operations.

Impairment of Investments

We classify marketable investments in debt securities as available-for-sale debt securities in accordance with ASC Topic 320, *Investments - Debt Securities*. All available-for-sale debt securities with a quoted market value below cost (or adjusted cost) are reviewed in order to determine whether the decline is other-than-temporary. Factors considered in determining whether a loss is temporary include the magnitude of the decline in market value, the length of time the market value has been below cost (or adjusted cost), credit quality, and our ability and intent to hold the securities for a period of time sufficient to allow for any anticipated recovery in market value. We also review our debt investment portfolio at least quarterly, or when there are changes in credit risks or other potential valuation concerns to identify and evaluate whether an allowance for expected credit losses or impairment would be necessary.

We also invest in equity instruments of privately-held companies in China for business and strategic purposes. Investments in our unconsolidated PRC joint venture companies are classified as other assets and accounted for under the equity method. We monitor our investments for impairment and record reductions in carrying value when events or changes in circumstances indicate that the carrying value may not be recoverable. Determination of impairment is highly subjective and is based on a number of factors, including an assessment of the strength of each company's management, the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the company, fundamental changes to the business prospects of the company, share prices of subsequent offerings, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in our carrying value.

Fair Value of Investments

ASC 820, establishes three levels of inputs that may be used to measure fair value.

Level 1 instruments represent quoted prices in active markets. Therefore, determining fair value for Level 1 instruments does not require significant management judgment, and the estimation is not difficult.

Level 2 instruments include observable inputs other than Level 1 prices, such as quoted prices for identical instruments in markets with insufficient volume or infrequent transactions (less active markets), issuer bank statements, credit ratings, non-binding market consensus prices that can be corroborated with observable market data, model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities, or quoted prices for similar assets or liabilities. These Level 2 instruments require more management judgment and subjectivity compared to Level 1 instruments, including:

- Determining which instruments are most comparable to the instrument being priced requires management to identify a sample of similar securities based on the coupon rates, maturity, issuer, credit rating, and instrument type, and subjectively select an individual security or multiple securities that are deemed most similar to the security being priced.
- Determining which model-derived valuations to use in determining fair value requires management judgment. When observable market prices for similar securities or similar securities are not available, we price our marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data or pricing models, such as discounted cash flow models, with all significant inputs derived from or corroborated with observable market data.

Level 3 instruments include unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

We place short-term foreign currency hedges that are intended to offset the potential cash exposure related to fluctuations in the exchange rate between the United States dollar and Japanese yen. We measure the fair value of these foreign currency hedges at each month end and quarter end using current exchange rates and in accordance with U.S. GAAP. At quarter end any foreign currency hedges not settled are netted in "Accrued liabilities" in the condensed consolidated balance sheets and classified as Level 3 assets and liabilities. As of March 31, 2026, the net change in fair value from the placement of the hedge to settlement at each month end during the quarter had a de minimis impact to the condensed consolidated results.

There have been no transfers between fair value measurement levels during the three months ended March 31, 2026 and 2025.

Impairment of Long-Lived Assets

We evaluate the recoverability of property, equipment and intangible assets in accordance with ASC Topic 360, *Property, Plant and Equipment*. When events and circumstances indicate that long-lived assets may be impaired, we compare the carrying value of the long-lived assets to the projection of future undiscounted cash flows attributable to these assets. In the event that the carrying value exceeds the future undiscounted cash flows, we record an impairment charge against income equal to the excess of the carrying value over the assets' fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets held for sale are carried at the lower of carrying value or estimated net realizable value. We had no "Assets held for sale" or any impairment of long-lived assets in the condensed consolidated balance sheets as of March 31, 2026 and December 31, 2025.

Stock-based Compensation

We account for stock-based compensation in accordance with ASC Topic 718, *Stock-based Compensation*. Share-based awards granted include stock options and restricted stock awards. We utilize the Black-Scholes option pricing model to estimate the grant date fair value of stock options, which requires the input of highly subjective assumptions, including estimating stock price volatility and expected term. Historical volatility of our stock price was used while the expected term for our options was estimated based on historical option exercise behavior and post-vesting forfeitures of options, and the contractual term, the vesting period and the expected term of the outstanding options. Further, we apply an expected forfeiture rate in determining the amount of share-based compensation. We use historical forfeitures to estimate the rate of future forfeitures. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our stock compensation. The cost of restricted stock awards is determined using the fair value of our common stock on the date of grant.

The award of performance Restricted Stock covering Shares (the "Performance Award") will be subject to vesting requirements relating to both the recipient of the Performance Award (the "Participant") continuously remaining a Service Provider through specified dates and achievement of specified performance-based criteria ("Performance Criteria"). Any capitalized term not defined herein will have the meaning ascribed to such term in the 2025 Equity Incentive Plan.

The financial Performance Criteria are metrics based upon prior year-end actual results as compared to the Company's 2024 year-end actual results with respect to the 2024 Performance Awards or based upon the 2025 year-end actual results with respect to the 2025 Performance Awards. All performance shares, if earned, are still subject to annual vesting over a four-year period except that no shares are vested on the first anniversary because the performance measurement is based on year-end results for the entire year.

We recognize the compensation costs net of an estimated forfeiture rate over the requisite service period of the options award, which is generally the vesting term of four years. Compensation expense for restricted stock awards is recognized over the vesting period, which is generally one, three or four years. Stock-based compensation expense is recorded in cost of revenue, research and development, and selling, general and administrative expenses.

Income Taxes

We account for income taxes in accordance with ASC Topic 740, *Income Taxes* ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

We provide for income taxes based upon the geographic composition of worldwide earnings and tax regulations governing each region, particularly China. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws, particularly in foreign countries such as China.

See Note 14—"Income Taxes" in the notes to condensed consolidated financial statements for additional information.

Economic Challenges, Risks and Uncertainties

The Company has been impacted by escalating trade tensions and regulations. On December 3, 2024, China issued further rules restricting exports of materials that can typically be used in military applications including antimony, gallium, germanium and other superhard materials. The effective date was December 3, 2024, the same day as the announcement itself. Reciprocally, the United States increased tariffs on many items from China from 25% to 50%, effective January 1, 2025. On February 1, 2025, the United States again further increased the tariff on imports of many products from China, including our wafer substrates, to 60%. On February 4, 2025, China added indium phosphide substrates to its export control list. On March 4, 2025, the United States further increased the tariff on imports of many products, including our wafer substrates, to 70%. InP export permits represent the most significant challenge we currently face. On February 20, 2026, the U.S. Supreme Court invalidated many of the global tariffs previously imposed under the International Emergency Economic Powers Act of 1977; however, tariffs imposed under other authorities remain in effect, and the U.S. government has indicated that it may pursue additional or replacement tariffs under alternative legal authorities, including temporary measures under Section 122 of the Trade Act of 1974. Due to the uncertainties pertaining to export restrictions in China and tariffs and tariff levels in the United States, it is difficult for us to reliably forecast the short-term or ongoing impact to our business or that of our customers but is expected that tariffs and export regulations will negatively impact our revenues, profitability and cash flows. We are closely monitoring the fluid nature of both export permits and their impact on our operations. More broadly, we will continue to monitor the macroeconomic conditions and evaluate the financial and operational impact of ongoing trade policies.

Previously, as of August 1, 2023, Tongmei was required to secure permits from the applicable Chinese authorities to export gallium arsenide and germanium substrates. Materials that could be used in military applications, specifically including weapons of mass destruction, are the primary focus. We have little or no germanium imports into the U.S. and historically a relatively small value of imports of gallium arsenide wafers into the U.S. Our primary revenue generator derived from imports into the U.S. is indium phosphide substrates. In 2024, approximately 8% of our revenue was generated by sales to customers in the U.S. On February 4, 2025, China added indium phosphide substrates to its export control list. As a result, the three wafer substrate product families manufactured by Tongmei all require permits from China's Ministry of Commerce before they can be exported from China. The portal to apply for exports of indium phosphide from China opened in March 2025 and we immediately began to submit our applications. On June 11, Tongmei was informed that it had satisfied the applicable requirements for a permit to export indium phosphide and has received its initial export permits from the Ministry of Commerce of the People's Republic of China to resume shipping indium phosphide substrates to certain customers in Europe and Japan. While we continue to receive permits, we have a backlog of orders for which we have not yet received permits and as of the date of this report we still cannot predict when a permit application will be reviewed and approved. On December 27, 2025 China's National People's Congress enacted substantial revisions to the Foreign Trade Law of the People's Republic of China, effective March 1, 2026 (the "Foreign Trade Law"). The revisions to the Foreign Trade Law provide, among other things, enhanced power vested in governmental agencies to prohibit or restrict the import or export of goods and technologies for a variety of reasons set forth in Article 18 of the Foreign Trade Law, including, but not limited to, (i) safeguarding national security, (ii) where there is a domestic shortage of supply or to protect potentially depleted natural resources, (iii) in order to establish or accelerate the establishment of specific domestic industries, and (iv) other circumstances where it is necessary to prohibit or restrict the import or export of relevant goods or technologies, or take other necessary measures. The revisions also include a chapter on intellectual property introducing new trade sanctions for the infringement of intellectual property rights when such infringement endangers the order of foreign trade and targets specific licensing practices that prohibit the challenge of a license's validity or portfolio licensing bundling. The specific prohibitions and restrictions on the import and export of goods and technologies are delegated to the Ministry of Commerce of the People's Republic of China, among other agencies. We do not believe that the revisions will have any additional material adverse effects on our wafer substrate products beyond the current restrictions and licensing requirement. However, with the Foreign Trade Law's enhanced power over import and export prohibitions and restrictions, no assurances can be given that additional restrictions will not be imposed in the future. The fluidity of the export permit requirements and ongoing lack of surety creates anxiety for us and for our customers. To our knowledge, indium phosphide is rarely used in military applications and we can reasonably expect that export permits to ship our indium phosphide substrates to the U.S. will be granted. However, the timing for when permits will be granted remains uncertain, unclear and beyond our control. We are unable to estimate when we will receive the necessary export permits to resume shipping our indium phosphide substrates to the U.S. We are actively monitoring and following-up on the status of our applications.

The political tensions between China and the U.S. remain high and tariffs and controls on exports are changing and fluid. There can be no assurances that Tongmei will receive the necessary China permits to export our wafer substrates or that China will not adopt additional export control regulations that affect our business, financial condition and results of operations. Reciprocally, there can be no assurance that the U.S. will allow products to be imported into the U.S. from China or what the tariff charge rate might be. We are actively evaluating the potential impacts of these proposed tariffs, as well as our ability to mitigate their related impacts. Tariffs and export restrictions clearly affect our revenue and operations. For additional discussion regarding these factors and other risks, please refer to "Part II. Other Information – Item 1A. Risk Factors – Risks Related to International Aspects of Our Business".

Board of Director Changes

On July 11, 2025, Ms. Christine Russell, our independent director, Chair of the Audit Committee, member of the Compensation Committee and the Nominating and Corporate Governance Committee, passed away. On July 14, 2025, we notified The Nasdaq Stock Market LLC (“Nasdaq”) that due to the passing of Ms. Russell, our Audit Committee had been reduced to two independent directors, and we were not compliant with Nasdaq Listing Rule 5605(c)(2)(A), which requires the Audit Committee to be comprised of a minimum of three independent directors, and our non-compliance was confirmed by Nasdaq on July 18, 2025.

On July 29, 2025, we appointed Mr. Leonard J. LeBlanc as a non-independent member of its Board in reliance on the limited exception provided under the Nasdaq Listing Rules. On January 26, 2026, the Board re-evaluated Mr. LeBlanc’s independence under the Nasdaq Listing Rules, and determined that Mr. LeBlanc is now independent under the Nasdaq Listing Rules. The Board previously determined that Mr. LeBlanc met all independence requirements for a member of the audit committee under Rule 10A-3 of the Securities and Exchange Act of 1934, as amended, and the other independence requirements under the Nasdaq Listing Rules. Upon the Board’s determination that Mr. LeBlanc is now independent under the Nasdaq Listing Rules, the Company’s Audit Committee will consist of three independent directors as required by Nasdaq Listing Rule 5605(c)(2)(A). On January 30, 2026, we received notification from the Nasdaq Listing Qualifications Department that we have regained compliance with Nasdaq Listing Rule 5605(c)(2).

Effective upon Mr. LeBlanc’s determination as an independent director by the Board, Mr. Chen stepped down as Chair of the Audit Committee and the Board appointed Mr. LeBlanc as Chair of the Audit Committee. Mr. Chen will remain a member of the Audit Committee. The Board has determined that Mr. LeBlanc is an “audit committee financial expert” as defined by the rules and regulations of the SEC.

Recent Financing

On April 21, 2026, we entered into an underwriting agreement (the “Underwriting Agreement”) with Northland Securities, Inc., as representative of the underwriters named therein (the “Underwriters”) related to the offer and sale of shares of the Company’s common stock (the “Offering”). The Underwriting Agreement provides for the offer and sale by the Company, and the purchase by the Underwriters, of 8,560,311 shares of the Company’s common stock (the “Base Shares”) at a price to the public of \$64.25 per share. Pursuant to the Underwriting Agreement, the Company granted the Underwriters a 30-day option to purchase up to 1,284,046 additional shares of common stock at the public offering price, which was exercised in full on April 22, 2026. The Company received total gross proceeds of approximately \$632.5 million, before deducting the underwriting discounts and commissions and other offering expenses.

Results of Operations

Revenue

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2026	2025		
Product Type:	(\$ in thousands)			
Substrates	\$ 19,281	\$ 11,082	\$ 8,199	74.0%
Raw materials and other	7,643	8,274	(631)	(7.6)%
Total revenue	\$ 26,924	\$ 19,356	\$ 7,568	39.1%

Revenue increased \$7.6 million, or 39.1%, to \$26.9 million for the three months ended March 31, 2026 from \$19.4 million for the three months ended March 31, 2025. The substrate revenue increase for the three months ended March 31, 2026 as compared to the same period in 2025 was primarily the result of higher demand for InP wafer substrates used for data center applications and in passive optical networks, as a result of additional export approvals granted by the China government. Raw materials sales decreased \$0.6 million, or 7.6%, to \$7.6 million for the three months ended March 31, 2026 as compared to the same period in 2025. The decrease in raw materials revenue for the three months ended March 31, 2026 as compared to the same period in 2025 was primarily the result of a decrease in sales of refined gallium resulting from weaker market demand, partially offset by increased sales of pBN crucibles resulting from stronger market demand.

Revenue by Geographic Region

	Three Months Ended March 31,		2025 to 2026	
	2026	2025	Increase (Decrease)	% Change
	(\$ in thousands)			
China	\$ 16,565	\$ 13,426	\$ 3,139	23.4%
% of total revenue	61%	69%		
Taiwan	699	1,221	(522)	(42.8)%
% of total revenue	3%	6%		
Japan	1,546	718	828	115.3%
% of total revenue	6%	4%		
Asia Pacific (excluding China, Taiwan and Japan)	2,183	781	1,402	179.5%
% of total revenue	8%	4%		
Europe (primarily Germany)	5,724	2,101	3,623	172.4%
% of total revenue	21%	11%		
North America (primarily the United States)	207	1,109	(902)	(81.3)%
% of total revenue	1%	6%		
Total revenue	\$ 26,924	\$ 19,356	\$ 7,568	39.1%

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Revenue in China increased \$3.1 million for the three months ended March 31, 2026, primarily due to higher demand for our InP wafer substrates and pBN crucibles sold by one of our consolidated subsidiaries, partially offset by lower demand for our GaAs and Ge wafer substrates and refined gallium sold by one of our consolidated subsidiaries. Revenue in Taiwan decreased \$0.5 million, primarily due to reduced export approvals granted by the China government. Revenue in Japan increased \$0.8 million, primarily due to additional export approvals granted by the China government for our GaAs and InP wafer substrates. Revenue in Asia Pacific increased \$1.4 million, primarily due to higher demand for our InP wafer substrates, partially offset by lower demand for our GaAs wafer substrates. Revenue in Europe increased \$3.6 million, primarily due to additional export approvals granted by the China government. Revenue in North America decreased \$0.9 million, primarily due to the impact of China export restrictions on our InP and GaAs wafer substrates and lower demand for pBN crucibles sold by one of our consolidated subsidiaries.

Gross Profit

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2026	2025		
	(\$ in thousands)			
Gross profit (loss)	\$ 7,978	\$ (1,241)	\$ 9,219	742.9%
Gross Profit %	29.6%	(6.4)%		

Gross profit increased 9.2 million, or 742.9%, to a profit of \$8.0 million for the three months ended March 31, 2026 from a loss of \$1.2 million for the three months ended March 31, 2025. The increase in gross profit is attributed to higher revenue resulting in fixed costs being spread over more units and a favorable change in product mix.

Selling, General and Administrative Expenses

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2026	2025		
	(\$ in thousands)			
Selling, general and administrative expenses	\$ 6,551	\$ 5,916	\$ 635	10.7%
% of total revenue	24.3%	30.6%		

Selling, general and administrative expenses increased \$635,000, or 10.7%, to \$6.6 million for the three months ended March 31, 2026 from \$5.9 million for the three months ended March 31, 2025. The higher selling, general and administrative expenses were primarily from an increase in compensation related costs, travel related costs and legal expenses, partially offset by a decrease in license, tax and registration fees.

Research and Development

	Three Months Ended March 31,		Increase (Decrease)	% Change
	2026	2025		
	(\$ in thousands)			
Research and development	\$ 3,012	\$ 3,118	\$ (106)	(3.4)%
% of total revenue	11.2%	16.1%		

Research and development expenses decreased \$0.1 million, or 3.4%, to \$3.0 million for the three months ended March 31, 2026 from \$3.1 million for the three months ended March 31, 2025. The decrease in research and development expenses for the three months ended March 31, 2026 was primarily due to a decrease in compensation related costs, partially offset by the increased use of certain materials for new product development.

Interest Expense, Net

	Three Months Ended		Increase (Decrease)	% Change
	March 31,			
	2026	2025		
	(\$ in thousands)			
Interest income (expense), net	\$ 101	\$ (269)	\$ 370	137.5%
<i>% of total revenue</i>	<i>0.4%</i>	<i>(1.4)%</i>		

Interest income (expense), net increased \$370,000, or 137.5%, to an income of \$101,000 for the three months ended March 31, 2026 from an expense of \$269,000 for the three months ended March 31, 2025. The increase was primarily due to higher interest income resulting from proceeds from our secondary public offering in the gross amount of \$100 million in December 2025.

Equity in Income of Unconsolidated Joint Venture Companies

	Three Months Ended		Change	% Change
	March 31,			
	2026	2025		
	(\$ in thousands)			
Equity in income of unconsolidated joint ventures	\$ 353	\$ 248	\$ 105	42.3%
<i>% of total revenue</i>	<i>1.3%</i>	<i>1.3%</i>		

The equity in income of unconsolidated joint ventures companies was income of \$0.4 million for the three months ended March 31, 2026 as compared to income of \$0.2 million for the three months ended March 31, 2025. The increase in income of \$0.1 million is primarily due to stronger performance in unconsolidated joint ventures.

Other Income, Net

	Three Months Ended		Other Income	
	March 31,		Change	% Change
	2026	2025		
	(\$ in thousands)			
Other income, net	\$ 76	\$ 354	\$ (278)	(78.5)%
<i>% of total revenue</i>	<i>0.3%</i>	<i>1.8%</i>		

Other income, net decreased \$0.3 million, or 78.5%, to \$76,000 for the three months ended March 31, 2026 from \$0.4 million for the three months ended March 31, 2025. Other income, net decreased primarily due to foreign currency exchange losses in the current period compared to foreign currency exchange gains in the prior period.

Provision for Income Taxes

	Three Months Ended		Increase (Decrease)	% Change
	March 31,			
	2026	2025		
	(\$ in thousands)			
Provision for income taxes	\$ 430	\$ 74	\$ 356	481.1%
<i>% of total revenue</i>	<i>1.6%</i>	<i>0.4%</i>		

Provision for income taxes increased \$356,000, or 481.1%, to \$430,000 for the three months ended March 31, 2026 as compared to \$74,000 for the three months ended March 31, 2025. The tax expense recorded for the three months ended March 31, 2026 is the result of mainly foreign taxes, federal income taxes, and some minimum state taxes. Additionally, there is uncertainty of generating future profit in the U.S., which has resulted in our deferred tax assets being fully reserved for the U.S. parent company. Our estimated tax rate can vary greatly from year to year because of the change or benefit in the mix of taxable income between our U.S. and China-based operations.

Net (Income) loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

	Three Months Ended		Net (income) loss attributable to	
	March 31,		noncontrolling interests and	
	2026	2025	Change	% Change
	(\$ in thousands)			
Net (income) loss attributable to noncontrolling interests and redeemable noncontrolling interests	\$ (135)	\$ 1,218	\$ (1,353)	(111.1)%
<i>% of total revenue</i>	<i>(0.5)%</i>	<i>6.3%</i>		

Net (income) loss attributable to noncontrolling interests and redeemable noncontrolling interests increased \$1.4 million or 111.1% to an income of \$0.1 million for the three months ended March 31, 2026, from a loss of \$1.2 million for the three months ended March 31, 2025, primarily due to higher profitability from our PRC subsidiaries as sales increased.

Liquidity and Capital Resources

We consider cash and short-term investments as liquid and available for use within one year in our current operations. Short-term investments are comprised of U.S. government securities, certificates of deposit and investment-grade corporate notes and bonds.

As of March 31, 2026, our principal source of liquidity was \$57.9 million, which consisted of cash of \$41.8 million and restricted cash of \$16.1 million. In the three months ended March 31, 2026, cash and restricted cash decreased by \$70.5 million. The decrease in cash and restricted cash of \$70.5 million in the three months ended March 31, 2026 was primarily due to net cash used in investing activities of \$67.3 million and net cash used in operating activities of \$11.7 million, partially offset by net cash provided by financing activities of \$8.0 million and the effect of exchange rate changes of \$0.5 million. As of March 31, 2026, we and our PRC subsidiaries held approximately \$32.6 million in cash and investments in foreign bank accounts, of which \$15.9 million was classified in restricted cash.

As of March 31, 2025, our principal source of liquidity was \$38.2 million, which consisted of cash of \$31.6 million and restricted cash of \$6.6 million. In the three months ended March 31, 2025, cash and restricted cash increased by \$4.4 million. The increase in cash and restricted cash of \$4.4 million in the three months ended March 31, 2025 was primarily due to net cash provided by financing activities of \$6.9 million and the effect of exchange rate changes of \$1.6 million, partially offset by net cash used in operating activities of \$3.3 million and net cash used in investing activities of \$0.8 million. As of March 31, 2025, we and our PRC subsidiaries held approximately \$31.8 million in cash and investments in foreign bank accounts, of which \$6.4 million was classified in restricted cash.

Net cash used in operating activities of \$11.7 million for the three months ended March 31, 2026 was primarily comprised of a net change of \$13.4 million in operating assets and liabilities, a net loss before income attributable to noncontrolling interest and redeemable noncontrolling interests of \$1.5 million and gain from unconsolidated joint ventures of \$0.4 million, partially offset by the adjustment for non-cash items of depreciation and amortization of \$2.4 million, and stock-based compensation of \$1.0 million and change in deferred tax assets of \$0.1 million.

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Net cash used in operating activities of \$3.3 million for the three months ended March 31, 2025 was primarily comprised of a net loss before income attributable to noncontrolling interest and redeemable noncontrolling interests of \$10.0 million, and income from equity method investments of \$0.2 million, partially offset by a net change of \$4.1 million in operating assets and liabilities, the adjustment for non-cash items of depreciation and amortization of \$2.2 million, and stock-based compensation of \$0.6 million.

Net cash used in investing activities of \$67.3 million for the three months ended March 31, 2026 was primarily from the purchase of available-for-sale debt securities of \$65.9 million and the purchase of property, plant and equipment of \$1.4 million.

Net cash used in investing activities of \$0.8 million for the three months ended March 31, 2025 was primarily from the purchase of property, plant and equipment of \$0.5 million, and investment in non-marketable equity investments of \$0.3 million.

Net cash provided by financing activities was \$8.0 million for the three months ended March 31, 2026, which consisted of proceeds from short-term loans of \$20.9 million, long-term loan of \$2.9 million and common stock options exercised of \$1.5 million, partially offset by repayment of short-term loans of \$16.6 million and repayment of long-term loan of \$0.8 million.

Net cash provided by financing activities was \$6.9 million for the three months ended March 31, 2025, which consisted of proceeds from short-term loans of \$13.7 million and long-term loan of \$2.8 million, partially offset by repayment of short-term loans of \$9.3 million and repayment of long-term loan of \$0.3 million.

On October 27, 2014, our Board of Directors approved a stock repurchase program pursuant to which we may repurchase up to \$5.0 million of our outstanding common stock. These repurchases could be made from time to time in the open market and could be funded from our existing cash balances and cash generated from operations. During 2015, we repurchased approximately 908,000 shares at an average price of \$2.52 per share for a total purchase price of approximately \$2.3 million under the stock repurchase program. Since 2015, no shares were repurchased under this program. As of March 31, 2026, approximately \$2.7 million remained available for future repurchases under this program. Currently, we do not plan to repurchase additional shares.

Dividends accrue on our outstanding Series A preferred stock, and are payable as and when declared by our Board of Directors. We have never declared or paid any dividends on the Series A preferred stock. By the terms of the Series A preferred stock, so long as any shares of Series A preferred stock are outstanding, neither the Company nor any subsidiary of the Company shall redeem, repurchase or otherwise acquire any shares of common stock, unless all accrued dividends on the Series A preferred stock have been paid. During 2013 and 2015, we repurchased shares of our outstanding common stock. As of December 31, 2015, the Series A preferred stock had cumulative dividends of \$2.9 million and we include such cumulative dividends in "Accrued liabilities" in our condensed consolidated balance sheets. As of March 31, 2026, the balance remained unchanged. At the time we pay this accrued liability, our cash will be reduced. We account for the cumulative year to date dividends on the Series A preferred stock when calculating our earnings per share.

Occasionally, one of our PRC subsidiaries or PRC raw material joint ventures declares and pays a dividend. These dividends generally occur when the PRC joint venture declares a dividend for all of its shareholders. Dividends paid to the Company are subject to a 10% PRC withholding tax. The Company is required to obtain approval from the State Administration of Foreign Exchange ("SAFE") to transfer funds in or out of the PRC. SAFE requires a valid agreement to approve the transfers, which are processed through a bank. Other than PRC foreign exchange restrictions, the Company is not subject to any PRC restrictions and limitations on its ability to distribute earnings from its businesses, including its PRC subsidiaries and PRC joint ventures, to the Company and its investors as well as the ability to settle amounts owed by the Company to its PRC subsidiaries and PRC joint ventures. If SAFE approval is denied the dividend payable to the Company would be owed but would not be paid.

For the three months ended March 31, 2026 and 2025, there were no dividends paid to us, directly or to an intermediate entity within our corporate structure, by our PRC subsidiaries and PRC raw material joint ventures. For the three months ended March 31, 2026 and 2025, there were no dividends paid to minority shareholders by our PRC subsidiaries or PRC raw material joint ventures. For the three months ended March 31, 2026, no transfers, dividends, or distributions have been made to date between the Company and its PRC subsidiaries, or to investors, except for the settlement of amounts owed under our transfer pricing arrangements in the ordinary course of business.

We have no current intentions to distribute to our investors earnings under our corporate structure. We settle amounts owed under our transfer pricing arrangements in the ordinary course of business.

The cash generated from one PRC subsidiary is not used to fund another PRC subsidiary's operations. None of our PRC subsidiaries has faced difficulties or limitations on its ability to transfer cash between our subsidiaries. AXT has cash management policies that dictate the amount of such funding.

As one of the first steps in the process of listing Tongmei on the STAR Market and going public, we sold approximately 7.28% of Tongmei to private equity investors for approximately \$49 million in the aggregate. Pursuant to the Capital Investment Agreements with the Investors, each Investor has the right to require AXT to redeem any or all Tongmei shares held by such Investor at the original purchase price paid by such Investor, without interest, in the event the IPO fails to pass the audit of the Shanghai Stock Exchange, is not approved by the CSRC or Tongmei cancels the IPO application. The aggregate redemption amount is approximately \$49 million.

Tongmei submitted its IPO application to the Shanghai Stock Exchange, and it was formally accepted for review on January 10, 2022. The Shanghai Stock Exchange approved the IPO application on July 12, 2022. On August 1, 2022, the CSRC accepted for review Tongmei's IPO application. The STAR Market IPO remains subject to review and approval by the CSRC and other authorities. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. Subject to review and approval by the CSRC and other authorities, Tongmei expects to accomplish this goal in the coming months. The listing of Tongmei on the STAR Market will not change the status of AXT as a U.S. public company.

Our bank loans and credit facilities are primarily entered into by our subsidiaries with various PRC banks and generally have original maturities of 12 months or less. These borrowings are classified as "Short-term loans" in our condensed consolidated balance sheets. As of March 31, 2026, the outstanding balance of short-term loans was \$63.8 million, with interest rates ranging from 2.0% to 3.8%. Of this amount, \$45.2 million was unsecured, \$10.7 million was secured by the time deposit of the Company, and \$7.9 million was secured by real estate properties owned by certain subsidiaries. As of December 31, 2025, the outstanding balance of short-term loans was \$58.6 million, with interest rates ranging from 2.2% to 3.9%. Of this amount, \$43.0 million was unsecured, \$7.4 million was secured by the time deposit of the Company, and \$8.2 million was secured by real estate properties owned by certain subsidiaries.

On January 30, 2024, one of our consolidated subsidiaries secured a new line of credit amounting to \$9.7 million, structured as a five-year bank loan. The credit facility bears interest at a rate of 6.5% per annum on the amount drawn from the line of credit. The credit facility is collateralized by the real estate properties owned by the subsidiary. In January 2024, the subsidiary borrowed \$5.8 million against the credit facility. The intended use of the credit facility is for construction projects. As of March 31, 2026, \$4.4 million is included in "Other long-term liabilities" and \$0.9 million is included in "Short-term loans" in our condensed consolidated balance sheets.

In December 2023 and February 2026, two of our consolidated subsidiaries entered into financing arrangements with unrelated financing companies, receiving proceeds of approximately \$2.1 million and \$2.9 million, respectively. According to the agreements, the subsidiaries temporarily transferred ownership of its production lines and related equipment to the financing companies, while retaining the right to use the properties in their operations. The arrangements have terms of 30 months and 36 months, respectively, and provide the subsidiaries with options to repurchase the production lines and related equipment at the end of the respective terms for nominal consideration of approximately \$14.00 per arrangement. As of March 31, 2026, \$1.9 million is included in "Other long-term liabilities" and \$1.3 million is included in "Short-term loans" in our condensed consolidated balance sheets.

In February 2025, one of our consolidated subsidiaries secured a fourteen-month unsecured bank loan totaling \$2.7 million at an interest rate of 3.2%. As of March 31, 2026, the full amount is included in "Short-term loans" in our condensed consolidated balance sheets.

In September and November 2025, one of our consolidated subsidiaries entered into a four-year bank loan totaling \$0.7 million at an interest rate of 3.1%. The loan is secured by the real estate properties owned by one of our consolidated subsidiaries. As of March 31, 2026, \$0.5 million is included in "Other long-term liabilities" and \$0.2 million is included in "Short-term loans" in our condensed consolidated balance sheets.

On November 7, 2025, we filed with the SEC a registration statement on Form S-3, pursuant to which we may offer up to \$100 million of common stock, preferred stock, debt securities, depositary shares, warrants, subscription rights, purchase contracts and/or units in one or more offerings and in any combination, which became effective in accordance with the provisions of Section 8(a) of the Securities Act on November 27, 2025. On December 29, 2025, we filed a prospectus supplement relating to an offering of 7,098,492 shares of our common stock at a public offering price of \$12.25 per share and up to 1,064,773 shares of common stock subject to an option to purchase additional shares granted to the underwriters of the offering at the public offering price (the “December Offering”). The closing of the December Offering occurred on December 30, 2025, including the full exercise of the underwriters’ option. Net proceeds from the December Offering, after deducting underwriting discounts, commissions, and other offering costs, were \$93.9 million.

On April 20, 2026, we filed with the SEC an automatic registration statement on Form S-3, pursuant to which we may offer common stock, warrants and/or units in one or more offerings and in any combination, which became effective upon filing on April 20, 2026 pursuant to Rule 462(e) of the Securities Act. On April 21, 2026, filed a prospectus supplement relating to an offering of 8,560,311 shares of our common stock at a public offering price of \$64.25 per share and up to 1,284,046 shares of common stock subject to a 30-day option to purchase additional shares granted to the underwriters of the offering at the public offering price (the “April Offering”). The closing of the April Offering occurred on April 22, 2026. On April 22, 2026, the Underwriters exercised the option in full. Net proceeds from the offering, after deducting underwriting discounts, commissions, and other offering costs, were \$600.2 million.

We intend to use the net proceeds from the December Offering and April Offering to financially support our subsidiary Tongmei in its efforts to increase its manufacturing capacity to produce indium phosphide substrates for export worldwide, for research and development of new or improved products, for working capital and for general corporate purposes. Pending these uses, we intend to invest the net proceeds in a variety of capital preservation instruments, including certificates of deposit, or guaranteed obligations of the U.S. government or other instruments that are not considered “investment securities” under the Investment Company Act of 1940, as amended.

We believe that we have adequate cash and investments to meet our operating needs and capital expenditures over the next 12 months. If our sales decrease, however, our ability to generate cash from operations will be adversely affected which could adversely affect our future liquidity, require us to use cash at a more rapid rate than expected, and require us to seek additional capital.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to those set forth below under the section entitled “Risk Factors” in Part II, Item 1A below.

Contract to Purchase Goods and Services

Purchase orders or contracts for the purchase of certain goods and services are not considered to be part of our contractual obligations. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. For the purposes of this disclosure, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current needs and are fulfilled by our vendors within short time horizons. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. Contractual obligations that are contingent upon the achievement of certain milestones would also not be included.

Land Purchase and Investment Agreement

We have established a wafer processing production line in Dingxing, China. In addition to a land rights and building purchase agreement that we entered into with a private real estate development company to acquire our new manufacturing facility, we also entered into a cooperation agreement with the Dingxing local government. In addition to pledging its full support and cooperation, the Dingxing local government will issue certain tax credits to us as we achieve certain milestones. We, in turn, agreed to hire local workers over time, pay taxes when due and eventually demonstrate a total investment of approximately \$90 million in value, assets and capital. The investment will include cash paid for the land and buildings, cash on deposit in our name at local banks, the gross value of new and used equipment (including future equipment that might be used for indium phosphide and germanium substrates production), the deemed value for our customer list or the end user of our substrates (for example, the end users of the 3-D sensing VCSELs), a deemed value for employment of local citizens, a deemed value for our proprietary process technology, other intellectual property, other intangibles and additional items of value. There is no timeline or deadline by which this must be accomplished, rather it is a good faith covenant entered into between AXT and the Dingxing local government. Further, there is no specific penalty contemplated if either party breaches the agreement, however the agreement does state that each party has a right to seek from the other party compensation for losses. Under certain conditions, the Dingxing local government may purchase the land and building at the appraised value. We believe that such cooperation agreements are normal, customary and usual in China and that the future valuation is flexible. We have a similar agreement with the city of Kazuo, China, although on a smaller scale. The total investment targeted by AXT in Kazuo is approximately \$15 million in value, assets and capital.

Off-Balance Sheet Arrangements

As of March 31, 2026, we did not have any off-balance sheet financing arrangements and have never established any special purpose entities as defined under SEC Regulation S-K Item 303(a)(4)(ii).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

A significant portion of our business is conducted in currencies other than the U.S. dollar. Foreign exchange losses have had a material adverse effect on our operating results and cash flows in the past and could have a material adverse effect on our operating results and cash flows in the future. If we do not effectively manage the risks associated with this currency risk, our revenue, cash flows and financial condition could be adversely affected. During 2025, we recorded a foreign exchange loss of \$74,000, during 2024 and 2023 we recorded a foreign exchange gain of \$0.1 million and \$0.2 million, respectively. We incur foreign currency transaction exchange gains and losses due to operations in general. In the future we may experience foreign exchange losses on our non-functional currency denominated receivables and payables to the extent that we have not mitigated our exposure. Foreign exchange losses could have a materially adverse effect on our operating results and cash flows.

Our product sales to Japanese customers are typically invoiced in Japanese yen. As such, we have foreign exchange exposure on our accounts receivable and on any Japanese yen denominated cash deposits. To partially protect us against fluctuations in foreign currency resulting from accounts receivable in Japanese yen, starting in 2015, we instituted a foreign currency hedging program. We place short term hedges that are intended to offset the potential cash exposure related to fluctuations in the exchange rate between the United States dollar and Japanese yen. We measure the fair value of these hedges at each month end and quarter end using current exchange rates and in accordance with U.S. GAAP. At quarter end and year end any foreign currency hedges not settled are netted on the condensed consolidated balance sheet and consolidated balance sheet, respectively, and classified as Level 3 assets and liabilities. As of March 31, 2026 and December 31, 2025, the net change in fair value from the placement of the hedge to settlement at each month end during the quarter had a de minimis impact to the condensed consolidated results.

The functional currency for our foreign operations is the renminbi, the local currency of China, and in the future we may establish short term hedges covering renminbi. Most of our operations are conducted in China and most of our costs are incurred in Chinese renminbi, which subjects us to fluctuations in the exchange rates between the U.S. dollar and the Chinese renminbi. We incur transaction gains or losses resulting from consolidation of expenses incurred in local currencies for our Chinese subsidiaries, as well as in translation of the assets and liabilities at each balance sheet date. Our financial results could be adversely affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets, including the revaluation by China of the renminbi, and any future adjustments that China may make to its currency such as any move it might make to a managed float system with opportunistic interventions. We may also experience foreign exchange losses on our non-functional currency denominated receivables and payables.

We currently are using a hedging program to minimize the effects of currency fluctuations relating to the Japanese yen. While we may apply this program to other currencies, such as the Chinese renminbi, our hedging position is partial and may not exist at all in the future. It may not succeed in minimizing our foreign currency fluctuation risks. Our primary objective in holding these instruments is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The program is not designated for trading or speculative purposes. The company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to accounting considerations and the prohibitive economic cost of hedging particular exposures. However, even with our hedging program, we still experience losses on foreign exchange from time to time.

Interest Rate Risk

Cash and restricted cash earning interest and certain variable rate debt instruments are subject to interest rate fluctuations. The following table sets forth the probable impact of a 10% change in interest rates (in thousands):

Instrument	Balance as of March 31, 2026	Current Interest Rate	Projected Annual Interest Income	Proforma 10% Interest Rate Decline Income	Proforma 10% Interest Rate Increase Income
Cash, restricted cash and cash equivalents	\$ 57,869	1.78%	\$ 1,030	\$ 927	\$ 1,133
Investments in marketable debt securities	65,375	3.51%	2,295	2,065	2,524
			<u>\$ 3,325</u>	<u>\$ 2,992</u>	<u>\$ 3,657</u>

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash, short-term investments, and accounts receivable. We invest primarily in money market accounts, certificates of deposits, corporate bonds and notes, and government securities. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the condensed consolidated balance sheets. These securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated tax, further reduced by a valuation allowance for expected credit losses, if any. Our cash and short-term investments and long-term investments are in high-quality instruments placed with major banks and financial institutions and commercial paper. We have no investments in auction rate securities.

Credit Risk

We perform ongoing credit evaluations of our customers' financial condition, and limit the amount of credit extended when deemed necessary, but generally do not require collateral. The credit risk in our accounts receivable is mitigated by our credit evaluation process and the broad dispersion of sales transactions. Two customers each accounted for more than 10% of our accounts receivable balance as of March 31, 2026 and one customer accounted for more than 10% as of December 31, 2025.

Impairment of Equity Investment Risk

As part of our supply chain strategy, we maintain minority investments in privately-held raw material companies located in China either invested directly by us or by one of our supply chain companies in China. These minority investments are reviewed for other than-temporary declines in value on a quarterly basis. These investments are classified as other assets in the condensed consolidated balance sheets and accounted for under the equity method. We monitor our investments for impairment and record reductions in carrying value when events or changes in circumstances indicate that the carrying value may not be recoverable. Reasons for other-than-temporary declines in value include whether the related company would have insufficient cash flow to operate for the next twelve months, significant changes in the operating performance and changes in market conditions. Our minority investments under the equity method as of March 31, 2026 and December 31, 2025 totaled \$15.5 million and \$15.0 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined under Exchange Act Rules 13a-15(e) and 15d-15(e) were effective at the reasonable assurance level to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a or 15(d) of the Exchange Act that occurred during the three months ended March 31, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in judicial or administrative proceedings concerning matters arising in the ordinary course of business. We do not expect that any of these matters, individually or in the aggregate, will have a material adverse effect on our business, financial condition, cash flows or results of operations.

Shareholder Class Action

On May 6, 2024, a putative shareholder class action complaint was filed in the U.S. District Court for the Eastern District of New York on behalf of persons or entities who purchased or acquired our publicly traded securities, against us, Morris S. Young, our Chief Executive Officer, and Gary L. Fischer, our Chief Financial Officer. The court transferred the case to the Northern District of California, where our headquarters are located. A lead plaintiff has been appointed and an amended complaint was filed. The amended complaint asserts a putative class period from March 24, 2021 and April 3, 2024, inclusive (the “Class Period”). The amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder by the defendants, and seeks unspecified monetary relief, interest, and attorneys’ fees. Defendants’ motion to dismiss is fully briefed and pending before the Court.

Derivative Action

On August 22, 2024, a derivative lawsuit was filed in the Northern District of California by an alleged shareholder against Morris S. Young, our Chief Executive Officer, Gary L. Fischer, our Chief Financial Officer, then-serving directors David C. Chang, Jesse Chen, and Christine Russell, and former director Leonard J. LeBlanc, with the Company named as a nominal defendant (together, “Defendants”). Defendants moved to dismiss on November 6, 2024, following which the plaintiff filed an amended complaint on November 20, 2024. The amended complaint asserted that the Defendants breached their fiduciary duties to the Company based on the allegations asserted in the original complaint in the putative shareholder class action. On November 27, 2024, Defendants again moved to dismiss. On March 17, 2025, the Court granted our motion to dismiss, holding that the plaintiff did not make a pre-suit demand on our Board of Directors and failed to plead with particularity facts sufficient to excuse the lack of a demand and also for failure to state a claim. On April 11, 2025, the plaintiff filed a notice that he did not intend to further amend his complaint. The Court entered judgment on April 14, 2025. On May 13, 2025, Plaintiffs appealed to the Court of Appeals for the Ninth Circuit, which the parties are currently briefing.

It is not possible at this time to reasonably assess the final outcomes of these litigations or to reasonably estimate the possible loss or range of loss with respect to these litigations. We believe these claims to be meritless and intend to vigorously defend against them.

Item 1A. Risk Factors

For ease of reference, we have divided these risks and uncertainties into the following general categories:

- I. Summary Risk Factors;
- II. Risks Related to Our Business and Operations;
- III. Risks Related to International Aspects of Our Business;
- IV. Risks Related to Our Financial Results and Capital Structure;
- V. Risks Related to Our Intellectual Property; and
- VI. Risks Related to Compliance, Environmental Regulations and Other Legal Matters.

I. Summary Risk Factors

- Global economic and political conditions, including trade tariffs, import-export restrictions, and other restrictions, may have a negative impact on our business and financial results. China's requirement of export permits for InP is an example. We are subject to a number of unique legal and operational risks associated with our corporate structure.
- The PRC central government may intervene in or influence our PRC operations at any time and the rules and regulations in China can change quickly with little advance notice.
- Although the audit report included in our Annual Report was prepared by an independent registered public accounting firm who is currently inspected fully by the Public Company Accounting Oversight Board (the "PCAOB"), there is no guarantee that future audit reports will be prepared by an independent registered public accounting firm that is completely inspected by the PCAOB.
- Our NASDAQ stock price is volatile and our stock price could decline. Unpredictable fluctuations in our operating results, export permit requirements, changes and events in our end markets and global trends cause volatility in our stock price.
- We face litigation and legal proceedings which could adversely affect our business, financial condition, results of operations or cash flows.
- Changes in China's political, social, regulatory or economic environments may affect our financial performance.
- The Chinese central government is increasingly aware of air pollution and other forms of environmental pollution and their reform efforts can impact our manufacturing, including intermittent mandatory shutdowns. Shutdowns or underutilizing our manufacturing facilities may result in declines in our gross margins.
- Escalating and volatile trade tariffs, import restrictions, export restrictions, Chinese regulations or other trade barriers may materially harm our business.
- If China places restrictions on freight and transportation routes and on ports of entry and departure this could result in shipping delays or increased costs for shipping.
- Our international operations are exposed to potential adverse tax consequence in China.
- Our gross margin has fluctuated historically and may decline or increase due to several factors. Factors such as product mix, unit volume, yields and other manufacturing efficiencies can cause our gross margin to decrease or increase from quarter to quarter.
- The proposed Tongmei IPO on the STAR Market in China could fail to be completed. This could result in investor disappointment and in failure to secure sufficient capital needed to take advantage of market opportunities for our products. Our stock price could decline.
- The terms of the private equity raised by Tongmei in China grant each investor a right of redemption if the IPO fails to pass the audit of the Shanghai Stock Exchange, is not approved by the CSRC or Tongmei cancels the IPO application. This could result in disgorging the cash that we raised from the Investors.
- Defects in our products could diminish demand for our products. Our ability to receive orders from tier one customers is contingent on producing wafer substrates of very high quality and deploying best practices in manufacturing. We may not always be able to meet these requirements and we could then lose revenue.
- Difficulties in accurately estimating market demand could result in over-investing in inventory, equipment and capacity expansion or losing market share if we do not invest sufficiently.
- Attracting and retaining tier one customers requires that we succeed in our research and development programs. Customers establish difficult to meet product specifications regarding defect densities, surface flatness, diameter size and other specifications pushing the boundaries of material science. We may not achieve these specifications.
- We are subject to foreign exchange gains and losses that materially impact our condensed consolidated statements of operations. Because we are a global company we are exposed to changes and swings in foreign exchange, particularly when currencies experience periods of volatility.
- Joint venture raw material companies in China bring certain risks.
- We derive a significant portion of our revenue from international sales, and our ability to sustain and increase our international sales involves significant risks.

II. Risks Related to Our Business and Operations

Global economic and political conditions, including trade tariffs, import-export restrictions, and other restrictions, may have a negative impact on our business and financial results. China's requirement of export permits for InP is an example.

In September 2018, the United States announced a list of thousands of categories of goods that became subject to Section 301 tariffs when imported into the United States from China. This pronouncement imposed tariffs on wafer substrates we imported into the United States. The initial tariff rate was 25%. On July 3, 2023, China announced new export control regulations on materials including gallium and germanium and compounds of these materials, effective as of August 1, 2023. Materials that could be used in military applications, specifically including weapons of mass destruction, were the primary focus. This required Tongmei to seek permits from the applicable Chinese authorities to export gallium arsenide and germanium substrates. Since that time, a general escalation has been underway with further increases to the tariffs from the US and additional export controls from China, including for InP wafers.

The escalating requirements resulted in a new layer of administration within our company. Each order needs the customer to certify in writing that our wafer substrates will not be used in military applications and must state the end use of our products. This is a labor intensive process and has extended the cycle time in order fulfillment. To ensure compliance in trade matters we have consulted with legal experts and incurred additional legal costs. The rapid pace of change and new regulations in trade matters results in more internal administrative review and costs.

In late 2024 and early 2025, a new round of trade restrictions was announced by China and the United States. On December 3, 2024, China issued further rules restricting exports of materials that can typically be used in military applications including antimony, gallium, germanium and other superhard materials. The effective date was December 3, 2024, the same day as the announcement itself. Reciprocally, the United States increased tariffs on many items from China from 25% to 50%, effective January 1, 2025. On February 1, 2025, the United States again further increased the tariff on imports of many products from China, including our wafer substrates, to 60%. On February 4, 2025, China began to require export permits on InP wafers. This requirement remains major concern for AXT. On March 4, 2025, the United States further increased the tariff on imports of many products, including our wafer substrates, to 70%. On December 27, 2025, the Standing Committee of the National People's Congress of China ("NPC") enacted substantial revisions to the Foreign Trade Law of the People's Republic of China, effective March 1, 2026 (the "Foreign Trade Law"). The revisions to the Foreign Trade Law provide, among other things, enhanced power vested in governmental agencies to prohibit or restrict the import or export of goods and technologies for a variety of reasons set forth in Article 18 of the Foreign Trade Law, including, but not limited to, (i) safeguarding national security, (ii) where there is a domestic shortage of supply or to protect potentially depleted natural resources, (iii) in order to establish or accelerate the establishment of specific domestic industries, and (iv) other circumstances where it is necessary to prohibit or restrict the import or export of relevant goods or technologies, or take other necessary measures. The revisions also include a chapter on intellectual property introducing new trade sanctions for the infringement of intellectual property rights when such infringement endangers the order of foreign trade and targets specific licensing practices that prohibit the challenge of a license's validity or portfolio licensing bundling. The specific prohibitions and restrictions on the import and export of goods and technologies are delegated to the Ministry of Commerce of the People's Republic of China, among other agencies. While we do not believe that the revisions will have any additional material adverse effects on our wafer substrate products beyond the current restrictions and licensing requirement, however, with the Foreign Trade Law's enhanced power over import and export prohibitions and restrictions, no assurances can be given that additional restrictions will not be imposed in the future.

On February 20, 2026, the U.S. Supreme Court invalidated many of the global tariffs previously imposed under the International Emergency Economic Powers Act of 1977 (the "IEEPA") and the U.S. Customs and Border Protection subsequently announced that IEEPA-based tariff provisions would be terminated effective February 24, 2026. However, tariffs imposed under other authorities, including Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974, remain in effect, and the U.S. government has indicated that it may pursue additional or replacement tariffs under alternative legal authorities, including temporary measures under Section 122 of the Trade Act of 1974. If maintained, these announced new tariffs, as well as related measures that could be taken by other countries and the potential escalation of trade disputes, could affect our business and results of operations. Indium phosphide substrates are the primary revenue generator derived from imports into the U.S. This revenue has been impacted by additional tariffs imposed by the United States and by export controls implemented by China. In 2024, 8% of our total worldwide revenue was from sales in North America, primarily in the U.S.; however, in 2025, only approximately 2% of our revenue was generated by sales to customers in North America.

All of our wafer substrates are manufactured in China. In the years 2025, 2024 and 2023, approximately 2%, 8% and 10% of our revenue, respectively, were generated by sales to customers in North America, primarily in the U.S. In the years 2025, 2024 and 2023, we paid approximately \$0.3 million, \$1.0 million and \$1.0 million, respectively, in tariffs. The trade and political tensions between China and the U.S. remain high and controls on exports and tariffs are changing and fluid.

Silicon substrates (wafers) are significantly lower in cost compared to substrates made from specialty materials, such as those that we produce, and new silicon-based technologies could enable silicon-based substrates to replace specialty material-based substrates for certain applications.

Historically silicon wafers or substrates are less expensive than specialty material substrates, such as those that we produce. Electronic circuit designers will generally consider silicon first and only turn to alternative materials if silicon cannot provide the required functionality in terms of power consumption, speed, wave lengths or other specifications. Beginning in 2011, certain applications that had previously used GaAs substrates, specifically the RF chip in mobile phones, adopted a new silicon-based technology called silicon on insulator, or SOI. SOI technology uses a silicon-insulator-silicon layered substrate in place of conventional silicon substrates in semiconductor manufacturing. SOI substrates cost less than GaAs substrates and, although their performance is not as robust as GaAs substrates in terms of power consumption, heat generation and speed, they became acceptable in mobile phones and other applications that were previously dominated by GaAs substrates. The adoption of SOI resulted in decreased GaAs wafer demand, and decreased revenue. If SOI or new silicon-based technologies gain more widespread market acceptance, or are used in more applications, our sales of specialty material-based substrates could be reduced and our business and operating results could be significantly and adversely affected.

Our gross margin has fluctuated historically and may decline due to several factors.

Our gross margin has fluctuated from period to period as a result of increases or decreases in total revenue, unit volume, shifts in product mix, shifts in the cost of raw materials, costs related to the relocation of our gallium arsenide and germanium production lines, including costs related to hiring additional manufacturing employees at our new locations, tariffs imposed by the U.S. government, the introduction of new products, decreases in average selling prices for products, utilization of our manufacturing capacity, fluctuations in manufacturing yields and our ability to reduce product costs. These factors and other variables change from period to period and these fluctuations are expected to continue in the future. For example, in the third quarter of 2022 our gross margin was 42.0% but it dropped to 10.7% in the third quarter of 2023 as a result of several of these factors. In the first quarter of 2025, our gross margin was a negative 6.4% but improved to 8.0% in the second quarter of 2025; in the third quarter of 2025, our gross margin has further improved to 22.3%. However, there can be no assurance that our gross margin will not fluctuate in future periods due to ongoing uncertainty of various factors.

Our raw material companies experience selling price volatility and purchase price volatility in acquiring base materials. We consolidate the results of two of these raw material companies, and any reduction in their gross margins could have a significant, adverse impact on our overall gross margins. One or more of our companies has in the past sold, and may in the future sell, raw materials at significantly reduced prices in order to gain volume sales or sales to new customers. In addition, the market price of gallium dropped below our per unit inventory cost and we incurred an inventory write down under the lower of cost or net realizable value accounting rules.

Shutdowns or underutilizing our manufacturing facilities may result in declines in our gross margins.

An important factor in our success is the extent to which we are able to utilize the available capacity in our manufacturing facilities. A number of factors and circumstances may reduce utilization rates, including periods of industry overcapacity, low levels of customer orders, operating inefficiencies, mechanical failures and disruption of operations due to expansion, power interruptions, fire, flood, other natural disasters or calamities or government-ordered mandatory factory shutdowns, including as a result of the health epidemics or outbreaks such as during the COVID-19 pandemic. Severe air pollution in Beijing can trigger mandatory factory shutdowns. For example, in the first quarter of 2018, over 300 manufacturing companies, including Tongmei, were intermittently shut down by the local government for a total of ten days from February 27 to March 31, due to severe air pollution. Further, we have increased capacity by adding two new sites and this could reduce our utilization rate and increase our depreciation charges. Because many portions of our manufacturing costs are relatively fixed, high utilization rates are critical to our gross margins and operating results. If we fail to achieve acceptable manufacturing volumes or experience product shipment delays, our results of operations will be negatively affected. During periods of decreased demand, we have underutilized our manufacturing lines. If we are unable to improve utilization levels at our facilities during periods of decreased demand and correctly manage capacity, the fixed expense levels will have an adverse effect on our business, financial condition and results of operations. For example, in the three months ended September 30, 2023, our revenue dropped to \$17.4 million and our gross margin was only 10.7%.

If we are unable to utilize the available capacity in our manufacturing facilities, we may need to implement a restructuring plan, which could have a material adverse effect on our revenue, our results of operations and our financial condition. For example, in 2013, we concluded that incoming orders were insufficient and that we were significantly underutilizing our factory capacity. As a result, in February 2014, we announced a restructuring plan with respect to our China company, Tongmei, in order to better align manufacturing capacity with demand. Under the restructuring plan, we recorded a charge of approximately \$907,000 in the first quarter of 2014.

If we receive fewer customer orders than forecasted or if our customers delay or cancel orders, we may not be able to reduce our manufacturing costs in the short-term and our gross margins would be negatively affected. In addition, lead times required by our customers are shrinking, which reduces our ability to forecast orders and properly balance our capacity utilization.

Cyber-attacks, system security risks and data protection issues could disrupt our internal operations and cause a reduction in revenue, increase in expenses, negatively impact our results of operations or result in other adverse consequences.

Like most technology companies, we could be targeted in cyber-attacks. We face a risk that experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential and proprietary information, potentially without being detected. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our information technology infrastructure and demand a ransom payment. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions and delays that may impede our sales, manufacturing, distribution, accounting or other critical functions.

Breaches of our security measures could create system disruptions or cause shutdowns or result in the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us. Cyber-attacks could use fraud, trickery or other forms of deception. In addition, the rapid evolution of AI has the potential to disrupt existing business models and markets and could result in a material adverse effect on our business. The increased adoption of AI technologies may also increase our cybersecurity risks. A cyber-attack could expose us to a risk of loss or misuse of information, result in litigation and potential liability, damage our reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our information technology infrastructure might also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time, which may have a material impact on our business. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive than originally anticipated. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers could adversely affect our financial results and reputation.

We may become subject to risks associated with artificial intelligence and machine learning technologies.

Artificial intelligence, including machine learning technology (collectively, “AI”), is complex and rapidly evolving. While the full extent of current or future risks related thereto is not possible to predict, AI could significantly disrupt the business models and markets in which we operate and subject us to increased competition, legal and regulatory risks and compliance costs, any of which could have a material adverse effect on our business, financial condition and results of operations. Although we do not currently utilize AI to a significant extent in our operations, any future potential integration of AI technologies into our operations, any new regulations related to AI may also impose on us certain obligations and costs related to monitoring and compliance, and we could be subject to regulatory actions if we or they are deemed not to have complied.

We face risks related to health epidemics and other outbreaks, which could significantly disrupt our business operations.

The spread of a novel strain of coronavirus (COVID-19) around the world in the first quarter of 2020, which was declared a pandemic by the World Health Organization in March 2020, significantly impacted our operations and financial performance. In early 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included, among others, ordering companies to remain closed after the traditional Lunar New Year holiday ended, which included our subsidiaries in China, and restricting travel between China and the U.S.. In December 2022, the PRC government ended its zero-COVID policy. If there are future outbreaks or future health epidemics in cities in which our PRC subsidiaries and PRC joint ventures are located, the Chinese government may require these companies to close again. If one or more of our key suppliers is required to close for an extended period, we might not have enough raw material inventories to continue manufacturing operations. In addition, travel restrictions between China and the U.S. were disrupted and this impacted our efficiency. In the future, if our manufacturing operations were closed for a significant period or we experience difficulty in shipping our products, we could lose revenue and market share, which would depress our financial performance and could be difficult to recapture. If one of our key customers is required to close for an extended period, this may delay the placement of new orders. As a result, our revenue would decline.

If we have low product yields, the shipment of our products may be delayed and our product cost and operating results may be adversely impacted.

A critical factor in our product cost is yield. Our products are manufactured using complex crystal growth and wafer processing technologies, and the number of usable wafer substrates we produce can fluctuate as a result of many factors, including:

- poor control of furnace temperature and pressure during crystal growth;
- impurities in the materials used;
- contamination of the manufacturing environment;
- quality control and inconsistency in quality levels;
- lack of automation and inconsistent processing requiring manual manufacturing steps;
- substrate breakage during the manufacturing process; and
- equipment failure, power outages or variations in the manufacturing process.

An example where yield is of special concern is for our six-inch semi-conducting gallium arsenide substrates, which can be used for manufacturing industrial lasers and LED lighting. These applications require very low defect densities, also called EPD, and our yields will be lower than the yields achieved for the same substrate when it will be used in other applications. If we are unable to achieve the targeted quantity of low defect density substrates, then our manufacturing costs would increase and our gross margins would be negatively impacted.

In addition, we may modify our process to meet a customer specification, but this can impact our yields. If our yields decrease, our revenue could decline if we are unable to produce products to our customers' requirements. At the same time, our manufacturing costs could remain fixed, or could increase. Lower yields negatively impact our gross margin. We have experienced product shipment delays and difficulties in achieving acceptable yields on both new and older products, and such delays and poor yields have adversely affected our operating results. We may experience similar problems in the future and we cannot predict when they may occur, their duration or severity.

If our manufacturing processes result in defects in our products making them unfit for use by our customers, our products would be rejected, resulting in compensation costs paid to our customers, and possible disqualification. This could lead to revenue loss and market share loss.

Problems incurred in our raw material companies or our investment partners could result in a material adverse impact on our financial condition or results of operations.

We have invested in raw material companies in China that produce materials, including 99.99% pure gallium (4N Ga), high purity gallium (6N and 7N Ga), arsenic, germanium, germanium dioxide, pyrolytic boron nitride (pBN) crucibles and boron oxide (B₂O₃). We purchase a portion of the materials produced by these companies for our use and they sell the remainder of their production to third parties. We consolidate the companies in which we have a majority or controlling financial interest and employ equity accounting for the companies in which we have a smaller ownership interest. Several of these companies occupy space within larger facilities owned and/or operated by one of the other investment partners. Several of these partners are engaged in other manufacturing activities at or near the same facility. In some facilities, we share access to certain functions, including water, hazardous waste treatment or air quality treatment. If a partner in any of these ventures experiences problems with its operations, or deliberately withholds or disrupts services, disruptions in the operations of our companies could occur, having a material adverse effect on the financial condition and results of operation in these companies, and correspondingly on our financial condition or results of operations. For example, since gallium is a by-product of aluminum, our raw gallium company in China, which is housed in and receives services from an affiliated aluminum plant, could generate lower production and shipments of gallium as a result of reduced services provided by the aluminum plant. Accordingly, in order to meet customer supply obligations, our supply chain may have to source materials from another independent third-party supplier, resulting in higher costs and reduced gross margin.

The China central government has tightened control over hazardous chemicals and other hazardous materials. Further, the central government encourages employees to report to the appropriate regulatory agencies possible safety or environmental violations, but there may not be actual violations. Regular use in the normal course of business of hazardous chemicals or hazardous materials or a company's failure to meet the ever-tightening standards for control of hazardous chemicals or hazardous materials could result in orders to shut down permanently, fines or other severe measures. Any such orders directed at one of our raw material companies could result in impairment charges if the company is forced to close its business, cease operations or incurs fines or operating losses, which would have a material adverse effect on our financial results.

Further, some of our raw material companies share facilities with our raw material investment partners. If either company is deemed to have violated applicable laws, rules or regulations governing the use, storage, discharge or disposal of hazardous chemicals, their operations could be adversely affected and we could be subject to substantial liability for clean-up efforts, personal injury, fines or suspension or termination of operations. Employees working for these companies could bring litigation against us even though we are not directly controlling those operations. While we would expect to defend ourselves vigorously in any litigation that is brought against us, litigation is inherently uncertain and it is possible that our business, financial condition, results of operations or cash flows could be affected. Even if we are not deemed responsible for the actions of the raw material companies or investment partners, litigation could be costly, time consuming to defend and divert management attention; in addition, if we are deemed to be the most financially viable of the partners, plaintiffs may decide to pursue us for damages.

Our financial performance can be adversely affected if there are unfavorable financial results in any of our raw material companies.

The raw material companies in our vertically integrated supply chain have historically made a positive contribution to our financial performance. However, if there are unfavorable changes in revenue, average selling prices, gross margins or operating expenses in one or more of the consolidated companies, then this can result in a negative impact on our consolidated revenue, gross margin and profitability. For unconsolidated, minority-owned joint ventures, these changes can result in a reduction in Equity in Income of Unconsolidated Joint Venture. In 2025 and 2024, these unconsolidated joint ventures contributed gains of \$0.8 million and \$3.4 million, respectively, to our consolidated financial statements. The last time the companies accounted for under the equity method of accounting contributed a loss was 2019 with a loss of \$1.9 million.

Unforeseen manufacturing issues and restrictions at the new manufacturing sites could occur.

In 2015, the Beijing city government announced its decision to move most of its offices to the Tongzhou district where our original manufacturing facility is currently located. The Beijing city government has moved thousands of government employees into this district. To create room and upgrade the district, the government instructed virtually all existing manufacturing companies, including Tongmei, to relocate all or some of their manufacturing lines. We were instructed to move our gallium arsenide manufacturing lines out of the area.

Although the relocation is completed and we are in volume production at the new sites, unforeseen manufacturing issues and restrictions at the new sites could occur. Problems could occur as we add capacity or comply with strict guidelines as customers perform their qualifications. All of this will require us to continue to diligently address the many details that arise at each of our new sites. A failure to properly accomplish this could result in disruption to our production and have a material adverse impact on our revenue, our results of operations and our financial condition. If we fail to meet the product qualification and volume requirements of a customer, we may lose sales to that customer. Our reputation may also be damaged. Any loss of sales could have a material adverse effect on our revenue, our results of operations and our financial condition.

The Chinese government has in the past imposed temporary restrictions on manufacturing facilities, such as the restrictions imposed on polluting factories for the 2008 Olympics and the 2014 Asian Pacific Economic Cooperation event. These restrictions included a shutdown of the transportation of materials and power plants to reduce air pollution. To reduce air pollution in Beijing, the Chinese government has sometimes limited the construction of new, or expansion of existing, facilities by manufacturing companies in the Beijing area or required mandatory factory shutdowns. For example, in the first quarter of 2018, over 300 manufacturing companies, including Tongmei, were intermittently shut down by the local government for a total of ten days from February 27 to March 31 due to severe air pollution. If the government applies restrictions to us or requires mandatory factory shutdowns in the future, then such restrictions or shutdowns could have an adverse impact on our results of operations and our financial condition. Our ability to supply current or new orders could be significantly impacted. Customers could then be required to purchase products from our competitors, causing our competitors to take market share from us.

In addition, from time to time, the Chinese government issues new regulations, which may require additional actions on our part to comply. On February 27, 2015, the China State Administration of Work Safety updated its list of hazardous substances. The previous list, which was published in 2002, did not restrict the materials that we use in our wafers. The new list added gallium arsenide. As a result of the newly published list, we were required to seek additional permits.

If we do not successfully develop new product features and improvements and new products that respond to customer requirements, our ability to generate revenue, obtain new customers, and retain existing customers may suffer.

Our success depends on our ability to offer new product features, improved performance characteristics and new products, such as larger diameter substrates, low defect density substrates, thicker or thinner substrates, substrates with extreme surface flatness specifications, substrates that are manufactured with a doped crystal growth process or substrates that incorporate leading technology and other technological advances. This is an ongoing iterative research and development process performed by our China team in collaboration with our product marketing managers. New products must meet customer needs and compete effectively on quality, price and performance. The markets for our products are characterized by rapid technological change, changing customer needs and evolving industry standards. If our competitors introduce products employing new technologies or performance characteristics, our existing products could become obsolete and unmarketable. Over time, we have seen our competitors selling more substrates manufactured using a crystal growth technology similar to ours, which has eroded our technological differentiation.

The development of new product features, improved performance characteristics and new products can be a highly complex process, and we may experience delays in developing and introducing them. Any significant delay could cause us to fail to timely introduce and gain market acceptance of new products. Further, the costs involved in researching, developing and engineering new products could be greater than anticipated. If we fail to offer new products or product enhancements or fail to achieve higher quality products, we may not generate sufficient revenue to offset our development costs and other expenses or meet our customers' requirements.

The loss of one or more of our tier one substrate customers would significantly hurt our operating results.

From time to time, sales to one or more of our tier one customers individually represent more than 10% of our revenue and if we were to lose a major customer the loss would negatively impact our revenue. Our customers are not obligated to purchase a specified quantity of our products or to provide us with binding forecasts of product purchases. In addition, our customers may reduce, delay or cancel orders. In the past, we have experienced a slowdown in bookings, significant push-outs and cancellation of orders from customers. If we lose a major customer or if a customer cancels, reduces or delays orders, our revenue would decline. In addition, customers that have accounted for significant revenue in the past may not continue to generate revenue for us in any future period. Any loss of customers or any delay in scheduled shipments of our products could cause revenue to fall below our expectations and the expectations of market analysts or investors, causing our stock price to decline.

Defects in our products could diminish demand for our products.

Our wafer products are complex and may contain defects, including defects resulting from impurities inherent in our raw materials or inconsistencies in our manufacturing processes. We have experienced quality control problems with some of our products, which caused customers to return products to us, reduce orders for our products, or both. If we experience quality control problems, or experience other manufacturing problems, customers may return product for credit, cancel or reduce orders or purchase products from our competitors. We may be unable to maintain or increase sales to our customers and sales of our products could decline. Defects in our products could cause us to incur higher manufacturing costs and suffer product returns and additional service expenses, all of which could adversely impact our operating results. If new products developed by us contain defects when released, our customers may be dissatisfied and we may suffer negative publicity or customer claims against us, lose sales or experience delays in market acceptance of our new products.

Demand for our products may decrease if demand for the end-user applications decrease or if manufacturers downstream in our supply chain experience difficulty manufacturing, marketing or selling their products.

Our products are used to produce components for electronic and opto-electronic products. Accordingly, demand for our products is subject to the demand for end-user applications, including certain consumer applications, which utilize our products. For example, we have developed an 8-inch gallium arsenide wafer targeting an application in a consumer product, which was scheduled to begin production in 2024. However, we were informed by our customer that its end-user customer cancelled its project. While there may be other end users, this particular cancellation is the loss of a potentially high-volume sales opportunity. Other factors affecting the ability of the manufacturers downstream in our supply chain to introduce and market their products successfully, include:

- worldwide economic and political conditions and their impact on levels of business spending;
- the competition such manufacturers face in their particular industries;
- end of life obsolescence of products containing devices built on our wafers;
- the technical, manufacturing, sales, marketing and management capabilities of such manufacturers;
- the financial and other resources of such manufacturers; and
- the inability of such manufacturers to sell their products if they infringe third-party intellectual property rights.

If demand for the end-user applications for which our products are used decreases, or if manufacturers downstream in our supply chain are unable to develop, market and sell their products, demand for our products will decrease. For example, during 2019 widespread political and economic instability and trade war concerns resulted in a general slowdown and our revenue decreased significantly. Additionally, in the second half of 2016, manufacturers producing and selling passive optical network devices known as EPONs and GPONs experienced a slowdown in demand resulting in surplus inventory on hand. The slowdown persisted until late in 2017. This resulted in a slowdown of sales of our InP substrates used in the PON market. In the second half of 2022, many companies purchased more inventory than needed, in part due to fears of shortages resulting from COVID. This triggered an inventory correction cycle and our revenue declined as customers worked down their inventory level. We expect similar cycles of strong demand followed by lower demand will occur for various InP, GaAs or Ge substrates in the future.

Intense competition in the markets for our products could prevent us from increasing revenue and achieving profitability.

The markets for our products are intensely competitive. We face competition for our wafer substrate products from other manufacturers of substrates, such as Sumitomo, JX, Freiberger, Umicore, Vital and CCTC, and from companies, such as Qorvo and Skyworks, that are actively considering alternative materials to GaAs and marketing semiconductor devices using these alternative materials. Sumitomo and JX also compete with us in the InP market. If we are unable to compete effectively, our revenue may decrease and we may not maintain profitability. We face many competitors that have a number of significant advantages over us, including:

- greater name recognition and market share in the business;
- more manufacturing experience;
- extensive intellectual property; and

- significantly greater financial, technical and marketing resources.

Our competitors could develop new or enhanced products that are more effective than our products.

The level and intensity of competition has increased over the past years and we expect competition to continue to increase in the future. Competitive pressures have resulted in reductions in the prices of our products, and continued or increased competition could reduce our market share, require us to further reduce the prices of our products, affect our ability to recover costs and result in reduced gross margins and profitability.

In addition, new competitors have and may continue to emerge, such as a company established by a former employee in China that is supplying semi-conducting GaAs wafers to the LED market. Competition from sources such as this could increase, particularly if these competitors are able to obtain large capital investments. Further, recent trade tensions between China and the United States have resulted in a greater determination within China to be self-sufficient and produce more goods domestically. This could result in the formation of new competitors that would compete against us and adversely affect our financial results.

The average selling prices of our substrates may decline over relatively short periods, which may reduce our revenue and gross margins.

Since the market for our products is characterized by declining average selling prices resulting from various factors, such as increased competition, overcapacity, the introduction of new products and decreased sales of products incorporating our products, the average selling prices for our products may decline over relatively short time periods. We have in the past experienced, and in the future may experience, substantial period-to-period fluctuations in operating results due to declining average selling prices. In certain years, we have experienced an average selling price decline of our substrate selling prices of approximately 5% to 10%, depending on the substrate product. It is possible that the pace of the decline of average selling prices could accelerate beyond these levels for certain products in a commoditizing market. We anticipate that average selling prices may decrease in the future in response to the unstable demand environment, price reductions by competitors, or by other factors, including pricing pressures from significant customers. When our average selling prices decline, our revenue and gross profit decline, unless we are able to sell more products or reduce the cost to manufacture our products. We generally attempt to combat an average selling price decline by improving yields and manufacturing efficiencies and working to reduce the costs of our raw materials and of manufacturing our products. We also need to sell our current products in increasing volumes to offset any decline in their average selling prices, and introduce new products, which we may not be able to do, or do on a timely basis.

In order to remain competitive, we must continually improve our processes, work to reduce the cost of manufacturing our products and improve our yields and manufacturing efficiencies. Our efforts may not allow us to keep pace with competitive pricing pressures which could adversely affect our margins. There is no assurance that any changes implemented by us will result in sufficient cost reductions to allow us to reduce the price of our products to remain competitive or improve our gross margins.

We have made and may continue to make strategic investments in raw materials suppliers, which may not be successful and may result in the loss of all or part of our investment.

We have made direct investments or investments through our subsidiaries in raw material suppliers in China, which provide us with opportunities to gain supplies of key raw materials that are important to our substrate business. These affiliates each have a market beyond that provided by us. We may not have significant influence over every one of these companies and in some we have made only a strategic, minority investment. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and we could end up losing all or part of our investment which would have a negative impact on our results of operations. In the first quarter of 2019, we incurred an impairment charge of \$1.1 million for a germanium materials company in China in which we had a 25% ownership interest, writing down our investment to zero value. During the second quarter of 2023, one of our equity investments determined that one of its equity investments was fully impaired, leading to a \$754,000 impairment charge in our financial results for the second quarter of 2023. In the fourth quarter of 2023, we divested another equity investment, incurring a net impairment charge of \$1.1 million. A significant decline in the selling prices of raw materials began in 2015 and weakened some of these companies and their losses negatively impacted our financial results for several years. Further, the increasing concern and restrictions in China of hazardous chemicals and other hazardous materials could result in orders to shut down permanently, fines or other severe measures. Any such orders directed at one of our joint venture companies could result in impairment charges if the company is forced to close its business, cease operations or incurs fines, or operating losses, which would have a material adverse effect on our financial results.

If any of our facilities are damaged by occurrences such as fire, explosion, power outage or natural disaster, we might not be able to manufacture our products.

The ongoing operation of our manufacturing and production facilities is critical to our ability to meet demand for our products. If we are not able to use all or a significant portion of our facilities for prolonged periods for any reason, we would not be able to manufacture products for our customers. For example, a fire or explosion caused by our use of combustible chemicals, high furnace temperatures or, in the case of InP, high pressure during our manufacturing processes could render some of our facilities inoperable for an indefinite period of time. Actions outside of our control, such as earthquakes or other natural disasters, could also damage our facilities, rendering them inoperable. If we are unable to operate our facilities and manufacture our products, we would lose customers and revenue and our business would be harmed.

On the evening of March 15, 2017, an electrical short-circuit fire occurred at our Beijing manufacturing facility. The electrical power supply supporting 2-inch, 3-inch and 4-inch gallium arsenide and germanium crystal growth was damaged and production in that area was stopped. In addition, a wastewater pipe was damaged resulting in a halt to wafer processing for four days until the pipe could be repaired. We were able to rotate key furnace hardware and use some of the 6-inch capacity for smaller diameter crystal growth production to mitigate the impact of the fire and resume production. If we are unable to recover from a fire or natural disaster, our business and operating results could be materially and adversely affected.

Our substrate products have a long qualification cycle that makes it difficult to forecast revenue from new customers or for new products sold to existing customers.

New customers typically place orders with us for our substrate products three months to a year or more after our initial contact with them. The sale of our products is subject to our customers' lengthy internal evaluation and qualification processes. During this time, we may incur substantial expenses and expend selling, marketing and management efforts while the customers evaluate our products. These expenditures may not result in sales of our products. If we do not achieve anticipated sales in a period as expected, we may experience an unplanned shortfall in our revenue. As a result, our operating results would be adversely affected. In addition, if we fail to meet the product qualification requirements of the customer, we may not have another opportunity to sell that product to that customer for many months or even years. In the current competitive climate, the average qualification and sales cycle for our products has lengthened even further and is expected to continue to make it difficult for us to forecast our future sales accurately. We anticipate that sales of any future substrate products will also have lengthy qualification periods and will, therefore, be subject to risks substantially similar to those inherent in the lengthy sales cycles of our current substrate products.

The cyclical nature of the semiconductor industry may limit our ability to maintain or increase net sales and operating results during industry downturns.

The semiconductor industry is highly cyclical and periodically experiences significant economic downturns characterized by diminished product demand, resulting in production overcapacity and excess inventory in the markets we serve. A downturn can result in lower unit volumes and rapid erosion of average selling prices. The semiconductor industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products or a decline in general economic conditions. This may adversely affect our results of operations and the value of our business.

A recent example of a cyclical downcycle took shape in the second half of 2022 and continued into 2024. Early in its history, COVID began to impact supply chains resulting in shortages. As a result, in 2021 and into 2022 almost all companies purchased more inventory than they needed as a safety precaution. In the second half of 2022 companies began to realize they were holding too much inventory and entered into the "inventory correction" period. Our consolidated revenue had reached \$39.7 million in the first quarter of 2022. In the third quarter of 2023, our revenue had declined to \$17.4 million.

Our continuing business depends in significant part upon manufacturers of electronic and opto-electronic compound semiconductor devices, as well as the current and anticipated market demand for these devices and products using these devices. As a supplier to the semiconductor industry, we are subject to the business cycles that characterize the industry. The timing, length and volatility of these cycles are difficult to predict. The compound semiconductor industry has historically been cyclical due to sudden changes in demand, the amount of manufacturing capacity and changes in the technology employed in compound semiconductors. The rate of changes in demand, including end demand, is high, and the effect of these changes upon us occurs quickly, exacerbating the volatility of these cycles. These changes have affected the timing and amounts of customers' purchases and investments in new technology. These industry cycles create pressure on our revenue, gross margin and net income.

Our industry has in the past experienced periods of oversupply and that has resulted in significantly reduced prices for compound semiconductor devices and components, including our products, both as a result of general economic changes and overcapacity. Oversupply causes greater price competition and can cause our revenue, gross margins and net income to decline. During periods of weak demand, customers typically reduce purchases, delay delivery of products and/or cancel orders for our products. Order cancellations, reductions in order size or delays in orders could occur and would materially adversely affect our business and results of operations. Actions to reduce our costs may be insufficient to align our structure with prevailing business conditions. We may be required to undertake additional cost-cutting measures, and may be unable to invest in marketing, research and development and engineering at the levels we believe are necessary to maintain our competitive position. Our failure to make these investments could seriously harm our business.

A significant portion of our operating expense and manufacturing costs are relatively fixed. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses or fixed manufacturing costs for that quarter, which would harm our operating results.

We purchase critical raw materials and parts for our equipment from single or limited sources, and could lose sales if these sources fail to fill our needs.

We depend on a limited number of suppliers for certain raw materials, components and equipment used in manufacturing our products, including key materials such as quartz tubing, and polishing solutions. We generally purchase these materials through standard purchase orders and not pursuant to long-term supply contracts, and no supplier guarantees supply of raw materials or equipment to us. If we lose any of our key suppliers, our manufacturing efforts could be significantly hampered and we could be prevented from timely producing and delivering products to our customers. We have experienced delays obtaining critical raw materials and spare parts, including gallium, and we could experience such delays again in the future due to shortages of materials or for other reasons. Delays in receiving equipment or materials could result in higher costs and cause us to delay or reduce production of our products. If we have to delay or reduce production, we could fail to meet customer delivery schedules and our revenue and operating results could suffer.

We may not be able to identify or form additional complementary raw material joint ventures.

We might invest in additional joint venture companies in order to remain competitive in our marketplace and ensure a supply of critical raw materials. However, we may not be able to identify additional complementary joint venture opportunities or, even once opportunities are identified, we may not be able to reach agreement on the terms of the business venture with the other investment partners. Further, geopolitical tensions and trade wars could result in government agencies blocking such new joint ventures. New joint ventures could require cash investments or cause us to incur additional liabilities or other expenses, any of which could adversely affect our financial condition and operating results.

The financial condition of our customers may affect their ability to pay amounts owed to us.

Some of our customers may be undercapitalized and cope with cash flow issues. Because of competitive market conditions, we may grant our customers extended payment terms when selling products to them. Subsequent to our fulfilling an order, some customers have been unable to make payments when due, reducing our cash balances and causing us to incur charges to allow for a possibility that some accounts might not be paid. In the past, we have had some customers file for bankruptcy. The uncertainty in current economic trends or changes in the domestic, global, political and economic environment may also affect our customers' ability to pay. If our customers do not pay amounts owed to us then we will incur charges that would reduce our earnings.

We depend on the continuing efforts of our senior management team and other key personnel. If we lose members of our senior management team or other key personnel, or are unable to successfully recruit and train qualified personnel, our ability to manufacture and sell our products could be harmed.

Our future success depends on the continuing services of members of our senior management team and other key personnel. Our industry is characterized by high demand and intense competition for talent, and the turnover rate can be high. We compete for qualified management and other personnel with other specialty material companies and semiconductor companies. Our employees could leave with little or no prior notice and would be free to work for a competitor. If one or more of our senior executives or other key personnel were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and other senior management may be required to divert attention from other aspects of the business. The loss of any of these individuals or our ability to attract or retain qualified personnel could adversely affect our business.

Our results of operations may suffer if we do not effectively manage our inventory.

We must manage our inventory of raw materials, work in process and finished goods effectively to meet changing customer requirements, while keeping inventory costs down and improving gross margins. Although we seek to maintain sufficient inventory levels of certain materials to guard against interruptions in supply and to meet our near term needs, we may experience shortages of certain key materials. Alternatively, a sudden decline in demand could result in holding too much inventory which occurred in the second half of 2022. Some of our products and supplies have in the past, and may in the future, become obsolete while in inventory due to changing customer specifications, or become excess inventory due to decreased demand for our products and an inability to sell the inventory within a foreseeable period. This would result in charges that reduce our gross profit and gross margin. Furthermore, if market prices drop below the prices at which we value inventory, we would need to take a charge for a reduction in inventory values in accordance with the lower of cost or net realizable value valuation rule. We have in the past had to take inventory valuation and impairment charges. Any future unexpected changes in demand or increases in costs of production that cause us to take additional charges for un-saleable, obsolete or excess inventory, or to reduce inventory values, would adversely affect our results of operations.

The effect of terrorist threats and actions on the general economy could decrease our revenue.

Countries such as the United States and China continue to be on alert for terrorist activity. The potential near and long-term impact terrorist activities may have in regards to our suppliers, customers and markets for our products and the economy is uncertain. There may be embargos of ports or products, or destruction of shipments or our facilities, or attacks that affect our personnel. There may be other potentially adverse effects on our operating results due to significant events that we cannot foresee. Since we perform all of our manufacturing operations in China, terrorist activity or threats against U.S. owned enterprises are a particular concern to us.

III. Risks Related to International Aspects of Our Business

Escalating and volatile trade tariffs, import restrictions, export restrictions, Chinese regulations or other trade barriers may materially harm our business.

On February 4, 2025, China added indium phosphide substrates to its export control list. As a result, the three wafer substrate product families manufactured by Tongmei all require permits from China’s Ministry of Commerce before they can be exported from China. InP export permits represent the most significant challenge we currently face. The portal to apply for exports of indium phosphide from China opened in March and we immediately began to submit our applications. On June 11, Tongmei was informed that it had satisfied the applicable requirements for a permit to export indium phosphide and received its initial export permits from the Ministry of Commerce of the People’s Republic of China to resume shipping indium phosphide substrates to certain customers in Europe and Japan. While we have received some permits as of the date of this report, we cannot predict when a permit application will be reviewed and approved. On December 27, 2025, the Standing Committee of the National People’s Congress of China (“NPC”) enacted substantial revisions to the Foreign Trade Law of the People’s Republic of China, effective March 1, 2026 (the “Foreign Trade Law”). The revisions to the Foreign Trade Law provide, among other things, enhanced power vested in governmental agencies to prohibit or restrict the import or export of goods and technologies for a variety of reasons set forth in Article 18 of the Foreign Trade Law, including, but not limited to, (i) safeguarding national security, (ii) where there is a domestic shortage of supply or to protect potentially depleted natural resources, (iii) in order to establish or accelerate the establishment of specific domestic industries, and (iv) other circumstances where it is necessary to prohibit or restrict the import or export of relevant goods or technologies, or take other necessary measures. The revisions also include a chapter on intellectual property introducing new trade sanctions for the infringement of intellectual property rights when such infringement endangers the order of foreign trade and targets specific licensing practices that prohibit the challenge of a license’s validity or portfolio licensing bundling. The specific prohibitions and restrictions on the import and export of goods and technologies are delegated to the Ministry of Commerce of the People’s Republic of China, among other agencies. As mentioned above, the three wafer substrate product families manufactured by Tongmei all require permits from the Ministry of Commerce before they can be exported from China. Consequently, we do not believe that the revisions will have any additional material adverse effects on our wafer substrate products beyond the current restrictions and licensing requirement. However, with the Foreign Trade Law’s enhanced power over import and export prohibitions and restrictions, no assurances can be given that additional restrictions will not be imposed in the future. The fluidity of the export permit requirements and ongoing lack of surety for us and for our customers. To our knowledge, indium phosphide is rarely used in military applications and we can reasonably expect that export permits to ship our indium phosphide substrates to the U.S. will be granted. But the timing for receiving permits remains uncertain, unclear and beyond our control. We are actively monitoring and following up on the status of our applications.

In September 2018, the United States announced a list of thousands of categories of goods that became subject to Section 301 tariffs when imported into the United States from China. This pronouncement imposed tariffs on wafer substrates we imported into the United States. The initial tariff rate was 25%. On July 3, 2023, China announced new export control regulations on materials including gallium and germanium and compounds of these materials, effective as of August 1, 2023. Materials that could be used in military applications, specifically including weapons of mass destruction, were the primary focus. This required Tongmei to seek permits from the applicable Chinese authorities to export gallium arsenide and germanium substrates. Since that time, a general escalation has been underway with further increases to the tariffs from the US and additional export controls from China.

The escalating requirements resulted in a new layer of administration within our company. Each order needs the customer to certify in writing that our wafer substrates will not be used in military applications and must state the end use of our products. This is a labor intensive process and has extended the cycle time in order fulfillment. To ensure compliance in trade matters we have consulted with legal experts and incurred additional legal costs. The rapid pace of change and new regulations in trade matters results in more internal administrative review and costs.

In late 2024 and early 2025, a new round of trade restrictions was announced by China and the United States. On December 3, 2024 China issued further rules restricting exports of materials that can typically be used in military applications including antimony, gallium, germanium and other superhard materials. The effective date was December 3, 2024, the same day as the announcement itself. Reciprocally, the United States increased tariffs on many items from China from 25% to 50%, effective January 1, 2025. On February 1, 2025, the United States again further increased the tariff on imports of many products from China, including our wafer substrates, to 60%. On March 4, 2025, the United States further increased the tariff on imports of many products, including our wafer substrates, to 70%. On February 20, 2026, the U.S. Supreme Court invalidated many of the global tariffs previously imposed under the International Emergency Economic Powers Act of 1977 (the "IEEPA") and the U.S. Customs and Border Protection subsequently announced that IEEPA-based tariff provisions would be terminated effective February 24, 2026. However, tariffs imposed under other authorities, including Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974, remain in effect, and the U.S. government has indicated that it may pursue additional or replacement tariffs under alternative legal authorities, including temporary measures under Section 122 of the Trade Act of 1974. If maintained, these announced new tariffs, as well as related measures that could be taken by other countries and the potential escalation of trade disputes, could affect our business and results of operations. Indium phosphide substrates are the primary revenue generator derived from imports into the U.S. This revenue has been impacted by additional tariffs imposed by the United States and by export controls implemented by China. In 2024, 8% of our total worldwide revenue was from sales in North America, primarily in the U.S.; however, in 2025, only approximately 2% of our revenue was generated by sales to customers in North America.

We have little or no germanium imports into the U.S. and historically a relatively small value of imports of gallium arsenide wafers into the U.S. While Tongmei has generally received the required permits for exports to countries in Asia and Europe, our U.S. gallium arsenide customers are considered "dual use" customers: in addition to commercial applications they have significant levels of military involvement. As such, no permits for gallium arsenide to the U.S. have yet been approved.

All of our wafer substrates are manufactured in China and in the years 2025, 2024 and 2023, approximately 2%, 8% and 10% of our revenue, respectively, were generated by sales to customers in North America, primarily in the U.S. In the years 2025, 2024 and 2023, we paid approximately \$0.3 million, \$1.0 million and \$1.0 million, respectively, in tariffs. The future impact of tariffs and trade wars is uncertain. We may be required to raise prices, which could result in the loss of customers and our business, financial condition and results of operations may be materially harmed. Additionally, it is possible that our business could be adversely impacted by further retaliatory trade measures taken by China or other countries in response to existing or future tariffs. Such measures could cause us to raise prices or make changes to our operations, which could materially harm our business, financial condition and results of operations.

The economic and political conditions between China and the United States, in our view, create an unstable business environment. Reciprocal trade restrictions have resulted in a greater determination to be self-sufficient and produce more goods domestically. Both governments appear to be encouraging and supporting the founding of new companies, the addition of new products in existing companies and more vertical integration within companies. The complexity and uncertainty of trade tensions has caused some customers and prospective customers in each county to adopt sourcing policies that block purchases from suppliers in the other county. Further, the continued threats of tariffs and other trade restrictions could have a generally disruptive impact on the global economy and, therefore, negatively impact our sales. We continue to monitor developments closely, including pending legal challenges to certain tariff authorities, updated guidance from regulators, retaliatory measures, resolution of trade agreements and ongoing negotiations with additional trade partners. In addition, ongoing uncertainty regarding the mechanisms, timing and amount of any refunds or other relief relating to previously paid duties may affect our cash flows and results in future periods. We cannot predict the scope, timing or ultimate impact of these developments on our business.

The trade and political tensions between China and the U.S. remain high and controls on exports and tariffs are changing and fluid. There can be no assurances that Tongmei will receive China permits to export our wafer substrates or that China will not adopt additional export control regulations that affect our business, financial condition and results of operations. Reciprocally, there can be no assurance that the U.S. will allow products to be imported into the U.S. from China or what the tariff charge rate might be. Further, a volatile global trade environment increases the likelihood of supply chain disruption. Trade barriers, political conflict, and uncertainty surrounding tariffs can lead to logistical challenges such as shipping delays, port congestion, container shortages, and other transportation bottlenecks. These disruptions may hinder our ability to meet customer demand on a timely basis. Consequently, prolonged trade tensions or supply chain disturbances could significantly increase our operating costs which may require us to consider alternative manufacturing options. There is no guarantee that we can secure alternative manufacturing facilities to meet customer demand of our products. Any failure to manage these international trade and supply chain risks could materially and adversely affect our business, financial condition, and results of operations.

Changes in China's political, social, regulatory or economic environments may affect our financial performance.

Our financial performance may be affected by changes in China's political, social, regulatory or economic environments. The role of the Chinese central and local governments in the Chinese economy is significant. The Beijing municipal government's decision to move to the Tongzhou district, the original location of our China company, resulted in the city instructing virtually all existing manufacturing companies, including AXT, to relocate all or some of their manufacturing lines. We were instructed to move our gallium arsenide manufacturing line out of the area. Chinese policies toward hazardous materials, including arsenic, environmental controls, air pollution, economic liberalization, laws and policies affecting technology companies, foreign investment, currency exchange rates, taxation structure and other matters could change, resulting in greater restrictions on our ability to do business and operate our manufacturing facilities in China. We have observed a growing fluidity and tightening of regulations concerning hazardous materials, other environmental controls and air pollution. The Chinese government could revoke, terminate or suspend our operating licenses for reasons related to environmental control over the use of hazardous materials, air pollution, labor complaints, national security and similar reasons without compensation to us. Further, the central government encourages employees to report to the appropriate regulatory agencies possible safety or environmental violations, but there may not be actual violations. In days of severe air pollution the government has ordered manufacturing companies to stop all production. For example, in the first quarter of 2018, from February 27 to March 31, over 300 manufacturing companies, including us, were again intermittently shut down by the local government for a total of ten days due to severe air pollution. Our shipments were delayed and our revenue for the quarter was negatively impacted. We expect that mandatory factory shutdowns may occur in the future. Any failure on our part to comply with governmental regulations could result in the loss of our ability to manufacture our products. Further, any imposition of surcharges or any increase in Chinese tax rates or reduction or elimination of Chinese tax benefits could hurt our financial results.

The Chinese central government is increasingly aware of air pollution and other forms of environmental pollution and their reform efforts can impact our manufacturing, including intermittent mandatory shutdowns.

The Chinese central government is demonstrating strong leadership to improve air quality and reduce environmental pollution. These efforts have impacted manufacturing companies through mandatory shutdowns, increased inspections and regulatory reforms. In the fourth quarter of 2017, many manufacturing companies in the greater Beijing area, including Tongmei, were instructed by the local government to cease most manufacturing for several days until the air quality improved. In the first quarter of 2018, from February 27 to March 31 over 300 manufacturing companies, including Tongmei, were again intermittently shut down by the local government for a total of ten days, or 30 percent of the remaining calendar days, due to severe air pollution. Our shipments were delayed and our revenue for the quarter was negatively impacted. We expect that mandatory factory shutdowns may occur in the future. If the frequency of such shutdowns increases, especially at the end of a quarter, or if the total number of days of shutdowns prevents us from producing enough wafers to ship, then these shutdowns will have a material adverse effect on our manufacturing output, revenue and factory utilization. Each of our raw material supply chain companies could also be impacted by environmental related orders from the central government.

Although we are a Delaware corporation and are neither a PRC operating company nor do we conduct our operations in China through the use of VIEs, in the event we inadvertently concluded that we do not require any permissions or approvals from the CSRC or other PRC central government authorities to complete a public offering of securities in the U.S. or applicable laws, regulations, or interpretations change, we may be required to obtain such permissions or approvals to complete such a public offering of securities.

We are a Delaware corporation and are neither a PRC operating company nor do we conduct our operations in China through the use of VIEs. All of our products are manufactured in the PRC by our PRC subsidiaries and PRC joint ventures. We believe that we do not require any permissions or approvals from the CSRC or other PRC central government authorities to complete a public offering of securities in the U.S. because we are a Delaware corporation with our principal corporate office in Fremont, California and the PRC laws and regulations that govern the listing of securities on a U.S. securities exchange apply to PRC companies. However, in the event that we inadvertently concluded that such permission or approvals are not required or applicable laws, regulations, or interpretations change and we are required to obtain such permissions or approvals in the future and we fail to obtain such permissions or approvals, then we may not be able to complete a public offering of securities in the U.S. We may also be pressured to delist our securities, which would force the holders to sell these securities and could result in a material adverse effect on the value of these securities. We may face sanctions by the CSRC or other PRC central government authorities or pressure from the PRC government in various business matters for failure to obtain such permissions or approvals. These sanctions or pressure may include fines and penalties on our operations in China, limitations on our operating privileges in China, delays in or restrictions on the repatriation of the proceeds from a public offering of securities in the U.S. into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock.

The PRC central government may intervene in or influence our PRC operations at any time and the rules and regulations in China can change quickly with little advance notice.

The businesses of our PRC subsidiaries and PRC joint ventures are subject to complex and rapidly evolving laws and regulations in the PRC, which can change quickly with little advance notice. The PRC central government is a single party form of government with virtually unlimited authority and power to intervene in or influence commercial operations in China. In the past, we have experienced such intervention or influence by a change in the rules and regulations when we were instructed by the Beijing municipal government to relocate our gallium arsenide manufacturing facility from Beijing. A more recent example is the imposition of export controls. We expect that such intervention or change in the rules and regulations in China could occur in the future.

In the ordinary course of business, our PRC subsidiaries and PRC joint ventures require permits and licenses to operate in the PRC. Such permits and licenses include permits to use hazardous materials in manufacturing operations. From time to time, the PRC government issues new regulations, which may require additional actions on the part of our PRC subsidiaries and PRC joint ventures to comply. For example, on February 27, 2015, the China State Administration of Work Safety updated its list of hazardous substances. The previous list, which was published in 2002, did not restrict the materials that we use in our wafers. The new list added gallium arsenide. As a result of the newly published list, we were required to seek additional permits. Any such intervention or influence or change in the rules and regulations in China could result in a material change in our PRC operations and/or the value of our common stock.

Uncertainty regarding the United States' foreign policy, particularly with regards to China, could disrupt our business.

We manufacture our substrates in China and, in the year ended December 31, 2025, approximately 98% of our sales were to customers located outside the United States. Further, we have partial ownership of raw material companies in China as part of our supply chain. The United States' current foreign policy has created uncertainty and caution in the international business community, resulting in disruptions in manufacturing, import/export, trade tariffs, sales, investments and other business activity. Such disruptions have had an adverse impact on our financial performance and could continue in the future.

Epidemic diseases, other contagious diseases or the perception of their effects, may affect our business operations and financial performance.

Outbreaks of epidemic, pandemic, or contagious diseases, such as the COVID-19 pandemic could result in business disruptions and impact our operations and financial performance. The outbreak of COVID triggered references to the SARS outbreak, which occurred in 2003 and affected our business operations. Any severe occurrence of an outbreak of a contagious disease such as COVID-19, SARS, Avian Flu or Ebola may cause us or the government to temporarily close our manufacturing operations in China. In January 2020, virtually all companies in China were ordered to remain closed after the traditional Lunar New Year holiday ended, including our subsidiaries in China. If there is a renewed surge of the COVID-19 pandemic or of other contagious diseases in cities in which our PRC subsidiaries and PRC joint ventures are located, the Chinese government may require these companies to close again. If one or more of our key suppliers is required to close for an extended period, we might not have enough raw material inventories to continue manufacturing operations. In addition, during COVID-19, travel restrictions between China and the U.S. were disrupted and this impacted our efficiency. In the future, if our manufacturing operations were closed for a significant period or we experience difficulty in shipping our products, we could lose revenue and market share, which would depress our financial performance and could be difficult to recapture. If one of our key customers is required to close for an extended period, this may delay the placement of new orders. Any significant outbreak of epidemic, pandemic, or contagious diseases could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, which could have a material adverse effect on our business, financial condition, results of operations, or cash flows. As a result, our revenue would decline.

Financial market volatility and adverse changes in the domestic, global, political and economic environment could have a significant adverse impact on our business, financial condition and operating results.

We are subject to the risks arising from adverse changes and uncertainty in domestic and global economies and policies. Uncertain global economic and political conditions or low or negative growth in China, Europe or the United States, along with volatility in the financial markets and U.S. financial system, increasing national debt and fiscal concerns in various regions and the adoption and availability of fiscal and monetary stimulus measures, pose challenges to our industry. Currently China's economy is slowing and this could impact our financial performance. In addition, tariffs, trade restrictions, trade wars, high levels of inflation, high interest rates, the Russian invasion of Ukraine, the Middle East conflict, the Red Sea shipping disruptions, Brexit, heightened tensions between the U.S. and China, and U.S. bank failures in 2023, among other factors, are creating an unstable environment and can disrupt or restrict commerce. Although we remain well-capitalized, the cost and availability of funds may be adversely affected by illiquid credit markets. Volatility in U.S. and international markets and economies may adversely affect our liquidity, financial condition and profitability. Another severe or prolonged economic downturn could result in a variety of risks to our business, including:

- inventory corrections;
- increased volatility in our stock price;
- increased volatility in foreign currency exchange rates;
- delays in, or curtailment of, purchasing decisions by our customers or potential customers;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by an economic downturn; and
- impairment of our tangible or intangible assets.

A recent example of economic volatility took shape in the second half of 2022 and continued into 2024. Early in its history, COVID-19 began to impact supply chains resulting in shortages. As a result, in 2021 and into 2022 almost all companies purchased more inventory than needed as a safety net. In the second half of 2022 companies began to realize they had too much inventory and entered into the “inventory correction” period. Our consolidated revenue had reached \$39.7 million in the first quarter of 2022. In the third quarter of 2023 our revenue had declined to \$17.4 million. In the fourth quarter of 2018 and continuing in 2019, we experienced delays in customer purchasing decisions and disruptions in a normal volume of customer orders that we believe were in part due to the uncertainties in the global economy, resulting in an adverse impact on consumer spending. During challenging and uncertain economic times and in tight credit markets, many customers delay or reduce technology purchases. Should similar events occur again, our business and operating results could be significantly and adversely affected.

The PRC central government may also exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our common stock.

The PRC central government may also exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our common stock. The PRC central government may also seek to significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless.

Our international operations are exposed to potential adverse tax consequence in China.

Our international operations create a risk of potential adverse tax consequences. Taxes on income in our China-based companies are dependent upon acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies among taxing authorities in application of the arm's length standard, transfer pricing challenges by tax authorities could, if successful, materially increase our consolidated income tax expense. We are subject to tax audits in China and an audit could result in the assessment of additional income tax against us. This could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made and could result in increases to our overall tax expense in subsequent periods. Various taxing agencies in China are increasingly focused on tax reform and other legislative action to increase tax revenue. In addition to risks regarding income tax we have in the past been retroactively assessed value added taxes (“VAT” or “sales tax”) and such VAT assessments could occur again in the future.

Dividends from within our corporate structure are subject to PRC withholding tax and SAFE approval.

Occasionally, one of our PRC subsidiaries or PRC raw material joint ventures declares and pays a dividend. These dividends generally occur when the PRC joint venture declares a dividend for all of its shareholders. We have no current intentions to distribute to our investors earnings under our corporate structure. Dividends paid to the Company are subject to a 10% PRC withholding tax. The Company is required to obtain approval from the State Administration of Foreign Exchange (“SAFE”) to transfer funds in or out of the PRC. SAFE requires a valid agreement to approve the transfers, which are processed through a bank. Other than PRC foreign exchange restrictions, the Company is not subject to any PRC restrictions and limitations on its ability to distribute earnings from its businesses. If SAFE approval is denied the dividend payable to the Company would be owed but would not be paid.

Our PRC subsidiaries and PRC joint ventures are subject to data security oversight.

Our PRC subsidiaries and PRC joint ventures are subject to oversight by the Cyberspace Administration of China (the “CAC”) regarding data security. Except for routine personal information necessary to process payroll and other benefits and emergency contact information, our PRC subsidiaries and PRC joint ventures do not collect or maintain personal information. We believe our PRC subsidiaries and PRC joint ventures are in material compliance with the regulations or policies that have been issued by the CAC. We do not believe AXT, Inc. is subject to oversight by the CAC regarding data security. AXT, Inc. is neither a PRC operating company nor do we conduct our operations in China through the use of VIEs. However, cybersecurity is increasingly a focus of the central government and we may be required to change our existing practices in data privacy and cybersecurity matters at substantial costs, which could cause us to make changes to our operations that could materially harm our business, financial condition and results of operations.

We derive a significant portion of our revenue from international sales, and our ability to sustain and increase our international sales involves significant risks.

Approximately 99% of our revenue is from international sales. We expect that sales to customers outside the United States, particularly sales to customers in Japan, Taiwan, Europe and China, will continue to represent a significant portion of our revenue. Therefore, our revenue growth depends significantly on the expansion of our international sales and operations.

All of our manufacturing facilities and most of our suppliers are also located outside the United States. Managing our overseas operations presents challenges, including export permit requirements, periodic regional economic downturns, trade balance issues, threats of trade wars, varying business conditions and demands, political instability, variations in enforcement of intellectual property and contract rights in different jurisdictions, differences in the ability to develop relationships with suppliers and other local businesses, changes in U.S. and international laws and regulations, including import tariffs, fluctuations in interest and currency exchange rates, the ability to provide sufficient levels of technical support in different locations, cultural differences and perceptions of U.S. companies, shipping delays and terrorist acts or acts of war, natural disasters and epidemics or pandemics, such as COVID-19, among other risks. Many of these challenges are present in China, which represents a large potential market for semiconductor devices. Global uncertainties with respect to: (i) economic growth rates in various countries; (ii) sustainability of demand for electronic products; (iii) capital spending by semiconductor manufacturers; (iv) price weakness for certain semiconductor devices; (v) changing and tightening environmental regulations; (vi) political instability in regions where we have operations and (vii) trade wars may also affect our business, financial condition and results of operations.

Our dependence on international sales involves a number of risks, including:

- changes in tariffs, import restrictions, export restrictions, or other trade barriers;
- unexpected changes in regulatory requirements;
- longer periods to collect accounts receivable;
- foreign exchange rate fluctuations;
- changes in export license requirements;
- political and economic instability; and
- unexpected changes in diplomatic and trade relationships.

Most of our sales are denominated in U.S. dollars, except for sales to our Chinese customers which are denominated in renminbi and our Japanese customers which are denominated in Japanese yen. We also have some small sales denominated in Euro. Increases in the value of the U.S. dollar could increase the price of our products in non-U.S. markets and make our products more expensive than competitors' products in these markets.

We are subject to foreign exchange gains and losses that may materially impact our condensed consolidated statements of operations.

We are subject to foreign exchange gains and losses that may materially impact our condensed consolidated statements of operations. For example, in 2025, 2024 and 2023, we incurred foreign exchange losses of \$74,000 and foreign exchange gains of \$91,000 and \$169,000, respectively.

The functional currency of our companies in China is the Chinese renminbi, the local currency. We can incur foreign exchange gains or losses when we pay dollars to one of our China-based companies or a third-party supplier in China. Similarly, if a company in China pays renminbi into one of our bank accounts transacting in dollars the renminbi will be converted to dollars and we can incur a foreign exchange gain or loss. Hedging renminbi will be considered in the future but it is complicated by the number of companies involved, the diversity of transactions and restrictions imposed by the banking system in China.

Sales to Japanese customers are denominated in Japanese yen. This subjects us to fluctuations in the exchange rates between the U.S. dollar and the Japanese yen and can result in foreign exchange gains and losses. This has been problematic in the past and, therefore, we instituted a foreign currency hedging program dealing with yen which has historically mitigated the gains and losses caused by fluctuations in the exchange rates.

Joint venture raw material companies in China bring certain risks.

Since our consolidated subsidiaries and all of our joint venture raw material companies operate in China, their activities could subject us to a number of risks associated with conducting operations internationally, including:

- import and export restrictions;
- unexpected changes in regulatory requirements that may limit our ability to manufacture, export the products of these companies, sell into particular jurisdictions or impose multiple conflicting tax laws and regulations;
- the imposition of tariffs, trade barriers and duties;
- difficulties in managing geographically disparate operations;
- difficulties in enforcing agreements through non-U.S. legal systems;
- political and economic instability, civil unrest or war;
- terrorist activities that impact international commerce;
- difficulties in protecting our intellectual property rights, particularly in countries where the laws and practices do not protect proprietary rights to as great an extent as do the laws and practices of the United States;
- new or changing laws and policies affecting economic liberalization, foreign investment, currency convertibility or exchange rates, taxation or employment;
- new or changing PRC regulations and policies regarding data security and oversight by the CAC of our consolidated subsidiaries and all of our joint venture raw material companies; and
- nationalization of foreign-owned assets, including intellectual property.

If China places restrictions on freight and transportation routes and on ports of entry and departure this could result in shipping delays or increased costs for shipping.

In August 2015, there was an explosion at the Port of Tianjin, China. As a result of this incident the government placed restrictions on importing certain materials and on freight routes used to transport these materials. We experienced some modest disruption from these restrictions. If the government were to place additional restrictions on the transportation of materials, then our ability to transport our raw materials or products could be limited and result in manufacturing delays or bottlenecks at shipping ports, affecting our ability to deliver products to our customers. During periods of such restrictions, we may increase our stock of critical materials (such as arsenic, gallium and other items) for use during the period that these restrictions are likely to last, which will increase our use of cash and increase our inventory level. Any of these restrictions could materially and adversely impact our results of operations and our financial condition.

Our operating results depend in large part on continued customer acceptance of our substrate products manufactured in China and continued improvements in product quality.

We manufacture all of our products in China, and source most of our raw materials in China. We have in the past experienced quality problems with our China manufactured products. Our previous quality problems caused us to lose market share to our competitors as some of our customers reduced their orders until our wafer surface quality was as good and as consistent as that offered by our competitors. If we are unable to continue to achieve customer qualifications for our products, or if we are unable to control product quality, customers may not increase purchases of our products, our China facilities will become underutilized, and we will be unable to achieve revenue growth.

If there are power shortages in China, we may have to temporarily close our China operations, which would adversely impact our ability to manufacture our products and meet customer orders, and would result in reduced revenue.

In the past, China has faced power shortages resulting in power demand outstripping supply in peak periods. Instability in electrical supply has caused sporadic outages among residential and commercial consumers causing the Chinese government to implement tough measures to ease the energy shortage. If further problems with power shortages occur in the future, we may be required to make temporary closures of our operations or of our subsidiary and joint venture raw material companies. We may be unable to manufacture our products and would then be unable to meet customer orders except from finished goods inventory on hand. As a result, our revenue could be adversely impacted, and our relationships with our customers could suffer, impacting our ability to generate future revenue. In addition, if power is shut off at any of our facilities at any time, either voluntarily or as a result of unplanned brownouts, during certain phases of our manufacturing process including our crystal growth phase, the work in process may be ruined and rendered unusable, causing us to incur costs that will not be covered by revenue, and negatively impacting our cost of revenue and gross margins.

Although our audit report is prepared by an independent registered public accounting firm who is currently inspected fully by the PCAOB, there is no guarantee that future audit reports will be prepared by an independent registered public accounting firm that is completely inspected by the PCAOB.

Our independent registered public accounting firm, BPM, is registered with the PCAOB and is subject to regular inspections by the PCAOB to assess its compliance with the applicable professional standards. Although we have operations in China, a jurisdiction where the PCAOB was, until 2022, unable to conduct inspections without the approval of the Chinese government authorities, our independent registered public accounting firm is currently inspected fully by the PCAOB.

Inspections of other independent registered public accounting firms conducted by the PCAOB outside China have at times identified deficiencies in those independent registered public accounting firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevented the PCAOB from regularly evaluating independent registered public accounting firms' audits and their quality control procedures. As a result, to the extent that any component of our independent registered public accounting firm's work papers is or becomes located in China, such work papers may not be subject to inspection by the PCAOB. As a result, investors would be deprived of such PCAOB inspections, which could result in limitations or restrictions to our access of the U.S. capital markets.

While an agreement has been reached among the CSRC, the SEC and the PCAOB regarding the inspection of PCAOB-independent registered public accounting firms in China, there can be no assurance that we will be able to comply with requirements imposed by U.S. regulators. If the PRC authorities do not fully perform their obligations under the agreement with the PCAOB in the future, or if authorities in the PRC otherwise take positions that render the PCAOB unable to inspect or investigate completely registered public accounting firms headquartered in the PRC and Hong Kong, the PCAOB will make determinations under the HFCA Act. Delisting of our common stock would force holders of our common stock to sell their shares. The market price of our common stock could be adversely affected as a result of anticipated negative impacts of these executive or legislative actions upon, as well as negative investor sentiment towards, companies with operations in China that are listed in the United States, regardless of whether these executive or legislative actions are implemented and regardless of our actual operating performance.

IV. Risks Related to Our Financial Results and Capital Structure

Management has broad discretion as to the use of our cash balances, including any proceeds from capital raises such as the offering completed in December 2025 for gross proceeds of approximately \$100 million and in April 2026 for gross proceeds of approximately \$632.5 million, before deducting underwriting discounts and commissions and other offering expenses, and may not use such funds effectively. If we need additional capital, funds may not be available on acceptable terms, or at all.

Our management has broad discretion in the application of our cash balances and if we are not able to use this cash effectively, it could adversely affect our business and operations. Our liquidity is affected by many factors, including among others, the expansion of our capacity to meet market demand, in particular to add InP capacity, the acquisition of state-of-the-art equipment, relocating manufacturing lines, other capital expenditures, operating activities, offsetting a business downturn, the effect of exchange rate changes and other factors related to the uncertainties of the industry and global economies. Such matters could draw down our cash reserves, which could adversely affect our financial condition, reduce the value of our common stock and possibly impinge our ability to raise debt and equity funding in the future, at a time when we might need to raise additional cash or elect to raise additional cash. Accordingly, there can be no assurance that events will not require us to seek additional capital or, if required, that such capital would be available on terms acceptable to us, if at all.

The terms of the private equity raised in China as a first step toward an IPO on the STAR Market grant each Investor a right of redemption if Tongmei fails to achieve its IPO.

Pursuant to the Capital Investment Agreements with the Investors, each Investor has the right to require AXT to redeem any or all Tongmei shares held by such Investor at the original purchase price paid by such Investor, without interest, in the event the IPO fails to pass the audit of the Shanghai Stock Exchange, is not approved by the CSRC or Tongmei cancels the IPO application. The aggregate redemption amount is approximately \$49 million.

Tongmei submitted its IPO application to the Shanghai Stock Exchange and it was formally accepted for review on January 10, 2022. The Shanghai Stock Exchange approved the IPO application on July 12, 2022. On August 1, 2022, the CSRC accepted for review Tongmei's IPO application. The STAR Market IPO remains subject to review and approval by the CSRC and other authorities. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. Subject to review and approval by the CSRC and other authorities, Tongmei expects to accomplish this goal in the coming months. The listing of Tongmei on the STAR Market will not change the status of AXT as a U.S. public company. There can be no assurances that Tongmei will complete its IPO in 2026 or at all. In the event that investors exercise their redemption rights, we may be required to seek additional capital in order to redeem their Tongmei shares and there would be no assurances that such capital would be available on terms acceptable to us, if at all. Any redemptions could have a material adverse effect on our business, financial condition and results of operations.

The price of shares of our Common Stock has fluctuated substantially.

The price of shares of our common stock has fluctuated substantially. Therefore, some investors who have purchased our common stock at high prices face the risk of losing a significant portion of their original investment if they have to sell at a time when the price of shares of our common stock has declined.

For example, during the fourth quarter of 2025, and during the first and second quarter of 2026, the price of our common stock and trading volume have significantly increased compared to prior periods. During this period, we did not make any significant announcements other than our financial condition and results of operations for the three and nine months ended September 30, 2025. Accordingly, the market price of our common stock may fluctuate dramatically and may decline rapidly, irrespective of any developments in our business. In addition, the volatility of our stock price could cause other consequences including causing a short squeeze due to the difference in investment decisions by short sellers of shares of our common stock and buy-and-hold decisions of longer investors.

Unpredictable fluctuations in our operating results could disappoint analysts or our investors, which could cause our stock price to decline.

We have experienced, and may continue to experience, significant fluctuations in our revenue, gross margins and earnings. Our quarterly and annual revenue and operating results have varied significantly in the past and may vary significantly in the future due to a number of factors, including:

- inventory corrections within the technology sector;
- our ability to develop, manufacture and deliver high quality products in a timely and cost-effective manner;
- unforeseen disruptions at our new sites;
- disruptions in manufacturing if air pollution, or other environmental hazards, or outbreaks of contagious diseases causes the Chinese government to order work stoppages;
- fluctuation of our manufacturing yields;
- decreases in the prices of our or our competitors' products;
- fluctuations in demand for our products;
- the volume and timing of orders from our customers, and cancellations, push-outs and delays of customer orders once booked;
- decline in general economic conditions or downturns in the industry in which we compete;
- expansion of our manufacturing capacity;
- expansion of our operations in China;
- limited availability and increased cost of raw materials;
- costs incurred in connection with any future acquisitions of businesses or technologies; and
- increases in our expenses, including expenses for research and development.

Due to these factors, we believe that period-to-period comparisons of our operating results may not be meaningful indicators of our future performance.

A substantial percentage of our operating expenses are fixed, and we may be unable to adjust spending to compensate for an unexpected shortfall in revenue. As a result, any delay in generating revenue could cause our operating results to fall below the expectations of market analysts or investors, which could also cause our stock price to decline.

If our operating results and financial performance do not meet the guidance that we have provided to the public, our stock price may decline.

We provide public guidance on our expected operating and financial results. Although we believe that this guidance provides our stockholders, investors and analysts with a better understanding of our expectations for the future, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this Report and in our other public filings and public statements. Our actual results may not meet the guidance we have provided. If our operating or financial results do not meet our guidance or the expectations of investment analysts, our stock price may decline.

Because we do not intend to pay dividends on our common stock, stockholders will benefit from an investment in our stock only if it appreciates in value.

We have never declared or paid any cash dividends on our shares of common stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our Board of Directors and will depend on factors the Board of Directors deems relevant, including, among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our financing arrangements, if any. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our common stock. There is no guarantee that our common stock will appreciate in value.

We have adopted certain anti-takeover measures that may make it more difficult for a third party to acquire us and the rights of the holders of common stock may be impaired by the potential issuance of preferred stock.

Our Board of Directors has the authority, without stockholder approval, to issue preferred stock with voting, dividend, conversion, liquidation or other rights and this could adversely affect the voting power and equity interest of the holders of common stock. Preferred shares could be issued with the right to more than one vote per common share and could be utilized as a method of discouraging, delaying or preventing a change of control. These steps could be taken without any further vote or action by the common stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued. The possible negative impact on takeover attempts could adversely affect the price of our common stock. Although we have no present intention to issue any shares of preferred stock or to create any new series of preferred stock, we may issue such shares in the future.

Provisions in our restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a merger, acquisition or change of control, or changes in our management, which could adversely affect the market price of our common stock. The following are some examples of these provisions:

- the division of our Board of Directors into three separate classes, each with three-year terms;
- the right of our Board of Directors to elect a director to fill a space created by a board vacancy or the expansion of the board;
- the ability of our Board of Directors to alter our amended and restated bylaws; and
- the requirement that only our Board of Directors or the holders of at least 10% of our outstanding shares may call a special meeting of our stockholders.

Furthermore, because we are incorporated in Delaware, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions prohibit us from engaging in any business combination with any interested stockholder (a stockholder who owns 15% or more of our outstanding voting stock) for a period of three years following the time that such stockholder became an interested stockholder, unless:

- 66 $\frac{2}{3}$ % of the shares of voting stock not owned by the interested stockholder approve the merger or combination, or
- the Board of Directors approves the merger or combination or the transaction which resulted in the stockholder becoming an interested stockholder.

Our common stock may be delisted from The Nasdaq Global Select Market, which could negatively impact the price of our common stock and our ability to access the capital markets.

Our common stock is listed on The Nasdaq Global Select Market. The bid price of our common stock has in the past closed below the \$1.00 minimum per share bid price required for continued inclusion on The Nasdaq Global Select Market under Marketplace Rule 5450(a). If the bid price of our common stock remains below \$1.00 per share for thirty consecutive business days, we could be subject to delisting from the Nasdaq Global Select Market. In addition, the continued listing of our common stock is contingent upon our compliance with The Nasdaq Global Select Market's conditions for continued listing. If we fail to meet any Nasdaq listing requirements, including the minimum bid price, satisfaction of minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity and certain corporate governance requirements, and do not regain compliance, we may be subject to delisting by Nasdaq.

Any delisting from The Nasdaq Global Select Market could have an adverse effect on our business and on the trading of our common stock. If a delisting of our common stock were to occur, our common stock would trade in the over-the-counter market and be quoted on a service such as those provided by OTC Markets Group, Inc. Such alternatives are generally considered to be less efficient markets, and our stock price, as well as the liquidity of our common stock, may be adversely impacted as a result. Delisting from The Nasdaq Global Select Market could also have other negative results, including the potential loss of confidence by customers, suppliers and employees, the loss of institutional investor interest and fewer business development opportunities, as well as the loss of liquidity for our stockholders.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2025, we had U.S. federal net operating loss carryforwards of approximately \$50.5 million. We have state net operating loss carryforwards of approximately \$138,000, primarily in the state of California, as of December 31, 2025. We do not expect to utilize the loss carryforwards in the next several years unless Tongmei pays a dividend. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We might have undergone prior ownership changes, and we may undergo ownership changes in the future, which may result in limitations on our net operating loss carryforwards and other tax attributes. Any such limitations on our ability to use our net operating loss carryforwards and other tax attributes could adversely impact our business, financial condition and results of operations.

V. Risks Related to Our Intellectual Property

Intellectual property infringement claims may be costly to resolve and could divert management attention.

Other companies may hold or obtain patents on inventions or may otherwise claim proprietary rights to technology necessary to our business. The markets in which we compete are comprised of competitors that in some cases hold substantial patent portfolios covering aspects of products that could be similar to ours. We could become subject to claims that we are infringing patent, trademark, copyright or other proprietary rights of others. We may incur expenses to defend ourselves against such claims or enter into cross license agreements that require us to pay royalty payments to resolve such claims. For example, in 2020, we and a competitor entered into a cross license and covenant agreement (the “Cross License Agreement”), which has a term that began on January 1, 2020 and expires on December 31, 2029. We have in the past been involved in lawsuits alleging patent infringement, and could in the future be involved in similar litigation.

If we are unable to protect our intellectual property, including our non-patented proprietary process technology, we may lose valuable assets or incur costly litigation.

We rely on a combination of patents, copyrights, trademarks, trade secrets and trade secret laws, non-disclosure agreements and other intellectual property protection methods to protect our proprietary technology. We believe that our internal, non-patented proprietary process technology methods, systems and processes are a valuable and critical element of our intellectual property. We must establish and maintain safeguards to avoid the theft of these processes. Our ability to establish and maintain a position of technology leadership also depends on the skills of our development personnel. Despite our efforts to protect our intellectual property, third parties can develop products or processes similar to ours. Our means of protecting our proprietary rights may not be adequate, and our competitors may independently develop similar technology, duplicate our products or design around our patents. We believe that at least two of our competitors ship GaAs substrates produced using a process similar to our VGF process. Our competitors may also develop and patent improvements to the VGF technology upon which we rely, and thus may limit any exclusivity we enjoy by virtue of our patents or trade secrets.

It is possible that pending or future United States or foreign patent applications made by us will not be approved, that our issued patents will not protect our intellectual property, or that third parties will challenge our ownership rights or the validity of our patents. In addition, the laws of some foreign countries may not protect our proprietary rights to as great an extent as do the laws of the United States and it may be more difficult to monitor the use of our intellectual property. Our competitors may be able to legitimately ascertain non-patented proprietary technology embedded in our systems. If this occurs, we may not be able to prevent the development of technology substantially similar to ours.

We may have to resort to costly litigation to enforce our intellectual property rights, to protect our trade secrets or know-how or to determine their scope, validity or enforceability. Enforcing or defending our proprietary technology is expensive, could cause us to divert resources and may not prove successful. Our protective measures may prove inadequate to protect our proprietary rights, and if we fail to enforce or protect our rights, we could lose valuable assets.

VI. Risks Related to Compliance, Environmental Regulations and Other Legal Matters

For as long as we are a “smaller reporting company,” we may take advantage of certain scaled disclosures available to Us and will be eligible to rely on reduced disclosure and reporting requirements applicable to smaller reporting companies.

We are a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K. We may continue to qualify as a “smaller reporting company,” which would allow us to continue to take advantage of many of the same exemptions from disclosure requirements, including presenting only the two most recent fiscal years of audited financial statements and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may continue to be a smaller reporting company if either (i) the market value of our stock held by non-affiliates is less than \$250 million or (ii) our annual revenue was less than \$100 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than \$700 million. To the extent we take advantage of such reduced disclosure obligations, it may also make comparison of our financial statements with other public companies difficult or impossible.

As of the date of the filing of this report, we are a “well-known seasoned issuer” as defined in Rule 405 of the Securities Act because our non-affiliated common stock public float was above \$700 million as of the relevant determination date. If we continue to qualify as a well-known seasoned issuer, we will no longer qualify as a smaller reporting company under the current rules of the SEC. Once we cease to be a smaller reporting company, we will not be eligible to take advantage of the scaled disclosures available to smaller reporting companies and will be subject to increased disclosure and compliance obligations, including accelerated reporting deadlines and associated attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, in addition to the requirement to furnish a report by management on, among other things, the effectiveness of our internal controls over financial reporting.

The loss of smaller reporting company status and compliance with such larger company disclosure obligations may increase our legal, accounting and financial compliance costs and cause management and other personnel to divert attention from operational and other business matters to devote additional time to public company reporting requirements.

If we, or any of our partially owned supply chain companies, fail to comply with environmental and safety regulations, we may be subject to significant fines or forced to cease our operations.

We are subject to federal, state and local environmental and safety laws and regulations in all of our operating locations, including laws and regulations of China, such as laws and regulations related to the development, manufacture and use of our products, the use of hazardous materials, the operation of our facilities, and the use of our real property. These laws and regulations govern the use, storage, discharge and disposal of hazardous materials during manufacturing, research and development, and sales demonstrations. If we, or any of our partially owned supply chain companies, fail to comply with applicable regulations, we could be subject to substantial liability for clean-up efforts, personal injury, fines or suspension or be forced to close or temporarily cease our operations, and/or suspend or terminate the development, manufacture or use of certain of our products, the use of our facilities, or the use of our real property, each of which could have a material adverse effect on our business, financial condition and results of operations.

The Chinese central government is demonstrating strong leadership to improve air quality and reduce environmental pollution. The central government encourages employees to report to the appropriate regulatory agencies possible safety or environmental violations but there may not be actual violations. These efforts have impacted manufacturing companies through mandatory shutdowns, increased inspections and regulatory reforms. In the first quarter of 2018, from February 27 to March 31 over 300 manufacturing companies were again intermittently shut down by the local government for a total of ten days, or 30 percent of the remaining calendar days, due to severe air pollution. Our shipments were delayed and our revenue for the quarter was negatively impacted. We expect that mandatory factory shutdowns may occur in the future. If the frequency of such shutdowns increases, especially at the end of a quarter, or if the total number of days of shutdowns prevents us from producing enough wafers to ship, then the shutdowns will have a material adverse effect on our manufacturing output, revenue and factory utilization. We believe the relocation of our gallium arsenide and germanium manufacturing lines mitigates our exposure to factory shutdowns. Each of our raw material supply chain companies could also be impacted by environmental related orders from the central government.

In addition, from time to time, the Chinese government issues new regulations, which may require additional actions on our part to comply. For example, on February 27, 2015, the China State Administration of Work Safety updated its list of hazardous substances. The previous list, which was published in 2002, did not restrict the materials that we use in our wafers. The new list added gallium arsenide. As a result of the newly published list, we were required to seek additional permits.

We face litigation and legal proceedings which could adversely affect our business, financial condition, results of operations or cash flows.

We are subject to lawsuits, investigations and claims in the normal course of our business, which can be expensive, lengthy, and disruptive to normal business operations. As described under the heading in the “Legal Proceedings” section elsewhere in this report, we, along with our Chief Executive Officer, Morris Young, and our Chief Financial Officer, Gary Fischer, are the subject of a complaint alleging violations of federal securities laws. Our current and former directors and certain officers, are also the subject of a derivative lawsuit arising from the same allegations. In the future, we could be subject to other proceedings. This litigation and any other regulatory proceedings or claims may be time consuming, could cause us to incur significant defense costs, are disruptive to our normal business operations, and could damage our reputation or adversely affect our stock price. In the event there is an adverse ruling in any legal or regulatory proceeding or action, we may be required to make payments to third parties that could have a material adverse effect on our business, financial condition, results of operations or cash flows. Further, if we become involved in other class action litigation in the future, it could result in substantial costs and diversion of our management’s attention and resources, thus harming our business. For additional information regarding certain of the matters in which we are involved, see Item 1, “Legal Proceedings,” contained in Part II of this report.

We could be subject to suits for personal injuries caused by hazardous materials.

In 2005, a complaint was filed against us alleging personal injury, general negligence, intentional tort, wage loss and other damages, including punitive damages, as a result of exposure of plaintiffs to high levels of gallium arsenide in gallium arsenide wafers, and methanol. Other current and/or former employees could bring litigation against us in the future. Although we have in place engineering, administrative and personnel protective equipment programs to address these issues, our ability to expand or continue to operate our present locations could be restricted or we could be required to acquire costly remediation equipment or incur other significant expenses if we were found liable for failure to comply with environmental and safety regulations. Existing or future changes in laws or regulations in the United States or China may require us to incur significant expenditures or liabilities, or may restrict our operations. In addition, our employees could be exposed to chemicals or other hazardous materials at our facilities and we may be subject to lawsuits seeking damages for wrongful death or personal injuries allegedly caused by exposure to chemicals or hazardous materials at our facilities.

Litigation is inherently uncertain and while we would expect to defend ourselves vigorously, it is possible that our business, financial condition, results of operations or cash flows could be affected in any particular period by litigation pending and any additional litigation brought against us. In addition, future litigation could divert management’s attention from our business and operations, causing our business and financial results to suffer. We could incur defense or settlement costs in excess of the insurance covering these litigation matters, or that could result in significant judgments against us or cause us to incur costly settlements, in excess of our insurance limits.

We are subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must include in our Annual Report on Form 10-K a report of management on the effectiveness of our internal control over financial reporting. Ongoing compliance with this requirement is complex, costly and time-consuming and it extends to our companies in China. If: (1) we fail to maintain effective internal control over financial reporting; or (2) our management does not timely assess the adequacy of such internal control, we could be subject to regulatory sanctions and the public’s perception of us may be adversely impacted.

We need to continue to improve or implement our systems, procedures and controls.

We rely on certain manual processes for data collection and information processing, as do our joint venture companies. If we fail to manage these procedures properly or fail to effectively manage a transition from manual processes to automated processes, our systems and controls may be disrupted. To manage our business effectively, we may need to implement additional management information systems, further develop our operating, administrative, financial and accounting systems and controls, add experienced senior level managers, and maintain close coordination among our executive, engineering, accounting, marketing, sales and operations organizations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f) of the Exchange Act, adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

Item 6. Exhibits

a. Exhibits

Exhibit Number	Description
10.1(1)	Form of Lock-Up Agreement (April 2026).
31.1	Certification by Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance.
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

(1) Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the Securities and Exchange Commission on April 21, 2026.

† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of AXT, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 14, 2026

AXT, INC.

By: /s/ MORRIS S. YOUNG
Morris S. Young
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

/s/ GARY L. FISCHER
Gary L. Fischer
Chief Financial Officer and Corporate Secretary
(Principal Financial Officer and Principal Accounting Officer)

