

## **Corporate Governance Guidelines**

The Board of Directors of Hanger, Inc. (the "Company"), acting together with its Corporate Governance and Nominating Committee, has developed and adopted certain corporate governance guidelines (these "Guidelines") establishing a common set of principles to assist the Board and its committees in fulfilling their responsibilities to the Company's stockholders to monitor the overall corporate performance of the Company, including the oversight of management and the Company's strategic and business planning processes. These Guidelines are designed to provide the Company with an effective corporate governance framework that reflects a set of core values that provide the foundation for the Company's governance and management systems.

In recognition of the continuing evolution of the Company's business and corporate governance best practices, the Board of Directors (the "Board") will review and, if appropriate, revise these Guidelines from time to time. These Guidelines are intended to be reviewed in connection with the Company's Certificate of Incorporation, By-Laws and other governing documents.

### **Role of the Board of Directors and Management**

The Company's business is conducted by its employees, managers and officers, under the direction of the Company's Chief Executive Officer ("CEO") and the oversight of the Board, to enhance the long-term value of the Company for its stockholders. The Board is elected by the Company's stockholders to oversee management and to assure that the long-term interests of the stockholders are being served.

### **Responsibilities of the Board of Directors**

The Board reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. In addition to its general oversight of management, the Board (either directly or through its committees) also performs a number of specific functions, including:

1. Representing the interests of the Company's stockholders in maintaining and enhancing the success of the Company's business, including optimizing long-term returns to increase stockholder value;
2. Selecting, evaluating and compensating a well-qualified CEO of high integrity, and overseeing CEO succession planning;
3. Providing counsel and oversight on the selection, evaluation, development and compensation of senior management;
4. Reviewing, approving and interacting with senior management with respect to the Company's significant financial and business strategies and transactions and major corporate actions, including strategic planning, management development and succession, operating performance and stockholder returns;
5. Reviewing, understanding and approving the Company's financial statements and reports, and overseeing the establishment and maintenance of controls, processes and procedures to promote accuracy, integrity and clarity in financial and other disclosures;
6. Assessing major risks facing the Company and reviewing options for their mitigation;
7. Overseeing the establishment and maintenance of the Company's governance and compliance processes and procedures to promote the conduct of the Company's business with the highest standards of responsibility, ethics and integrity; and
8. Providing general advice and counsel to the CEO and other senior management in connection with issues arising during the course of managing the Company's business.

### **Board Composition and Selection; Director Independence**

### **Board Size**

The Board size will be within the limits prescribed by the Company's By-Laws, which currently provide that the Board may have no fewer than five and no more than eleven members. The Board will review the specific number of Board members from time to time and adjust the size of the Board as necessary and appropriate to promote the best overall interests of the Company and its stockholders, taking into account the size and breadth of the Company's business.

### **Board Composition and Selection**

Board composition will be determined so that the Board will possess, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives. The Corporate Governance and Nominating Committee shall be responsible for establishing criteria for selecting potential directors, taking into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoints and industry knowledge. The Corporate Governance and Nominating Committee will look for individuals who have displayed the highest personal and professional ethics, integrity and values and sound business judgment.

The Corporate Governance and Nominating Committee, with the input of the Chairman of the Board (the "Chairman") and CEO, will recommend to the Board: (i) nominees for Board membership to fill vacancies or newly created directorships, and (ii) the persons to be nominated by the Board for election by the Company's stockholders at the Company's Annual Meeting of Stockholders.

The Corporate Governance and Nominating Committee has adopted a policy pursuant to which a stockholder who has owned at least 2% of the Company's outstanding shares of common stock for at least one year may recommend a director candidate that the Corporate Governance and Nominating Committee will consider when there is a vacancy on the Board either as a result of a director resignation or an increase in the size of the Board. Such recommendation must be made in writing addressed to the chair of the Corporate Governance and Nominating Committee at the Company's principal executive offices and must be received by the chair at least 120 days prior to the anniversary date of the release of the prior year's proxy statement. There will not be any difference between the manner in which the Corporate Governance and Nominating Committee evaluates a nominee timely recommended by a stockholder and the manner in which the Corporate Governance and Nominating Committee evaluates any other nominee, except that in no event will a candidate recommended by a stockholder be recommended for nomination by the Corporate Governance and Nominating Committee if such nominee is not independent as defined in the New York Stock Exchange ("NYSE") listing standards. The Corporate Governance and Nominating Committee shall have sole discretion as to whether to nominate the individual recommended by a stockholder.

### **Board Leadership**

The Board shall elect a Chairman who shall have primary responsibility for scheduling Board meetings, calling special meetings when necessary, setting or proposing the agenda for each meeting, and conducting Board meetings, as well as for carrying out such other duties as are specified for such office in the Company's By-Laws. This responsibility does not, however, diminish the responsibilities of each Board member to raise appropriate agenda items, or to propose meetings. The CEO may also serve as the Chairman, as the Board has the authority to choose the Chairman in any way it deems best for the Company.

The Board may designate a lead independent director annually from amongst the independent directors to preside at the meetings of the executive sessions of the independent directors. In the circumstance where the responsibilities of the CEO and Chairman are vested in the same individual, or where the Chairman is not considered independent, the Board will designate such a lead independent director annually. The lead independent director is an independent and empowered director who works closely with the Chairman and the CEO, and serves as the principal liaison between the independent directors and the Chairman and the CEO in matters relating to the Board as a whole.

The primary responsibilities of the lead independent director are as follows:

- Preside at all meetings of the Board at which the Chairman is not present, and at executive sessions of the independent directors, and establish agendas for such executive sessions in consultation with the other directors and the Chairman, and provide feedback from such sessions to the Chairman;
- Review in advance, in consultation with the Chairman, the schedule and agenda for all Board meetings as well as materials distributed to the directors in connection with such meetings;
- Have the authority to call meetings of the independent directors as appropriate; and
- Be available, as deemed appropriate by the Board, for consultation and direct communication with stockholders.

If the Company does not have a lead independent director, but instead has only a Chairman who is an independent director, the responsibilities of the lead independent director set forth in these Guidelines will be performed by the independent Chairman.

### ***Independence of Directors***

The Board believes that the interests of the Company's stockholders will be best served by having a substantial number of objective, independent directors on the Board. A majority of the directors shall be independent directors that meet the independence rules of the NYSE as well as other applicable laws, regulations and rules.

The Board shall undertake an annual review of the independence of all non-employee directors. In advance of the Board meeting at which this review occurs, each non-employee director shall be asked to provide the Board with full information regarding the director's business and other relationships with the Company and its affiliates and with senior management and their affiliates to enable the Board to evaluate the director's independence.

### ***Other Board Service***

Recognizing the substantial time commitment required of directors, it is expected that directors will serve on the boards of other publicly-held entities only to the extent that, in the judgment of the Board, such services do not detract from a director's ability to devote the necessary time and attention to the Company. The Corporate Governance and Nominating Committee will, at least annually, review all directors' service on the boards of other publicly-held entities. The CEO shall not serve on the board of any for-profit entity without the express consent of the Board.

To avoid any potential conflict of interest, directors will not accept a seat on any additional publicly-held entity board without first reviewing the matter with the Corporate Governance and Nominating Committee.

### ***Change in Status***

A non-employee director who experiences a significant change in employment status (including retirement or a significant decrease in job responsibilities) from that when the director was most recently elected to the Board will promptly inform the Board of such change in status.

### ***Term Limits and Retirement Policy***

As a general policy, the CEO and other senior executives of the Company who are Board members will resign from the Board upon the termination of their employment with the Company. However, the Board may ask the former CEO to remain on the Board if it believes that an exception to this policy is in the best interests of the Company and its stockholders.

No director may stand for election after reaching age 72 unless the Board approves an exception to the guideline on a case-by-case basis.

The Board believes that experience as a Company director is a valuable asset. Therefore, directors are not subject to term limits except as a result of reaching the Board's mandatory retirement age of 72.

## **Executive Sessions of the Board**

An executive session of the independent directors will normally be held in conjunction with each meeting of the full Board. Additional executive sessions may be convened by the lead independent director at his or her discretion and will be convened if requested by any other director. The lead independent director will preside at all executive sessions and provide feedback to the Chairman as appropriate.

## **Board Committees**

### ***Committees***

The Board shall at all times have an Audit Committee, a Corporate Governance and Nominating Committee and a Compensation Committee, each comprised solely of independent directors, as well as such other committees as the Board may from time to time create.

### ***Committee Assignment and Rotation***

The Corporate Governance and Nominating Committee, in consultation with the Chairman and the CEO, will recommend committee assignments and committee rotation to the entire Board for final approval. Board members will rotate between committees from time to time as the Board deems appropriate.

### ***Committee Composition***

In addition to the requirement that a majority of the Board satisfy the independence standards discussed above, members of the Audit Committee and Compensation Committee must also satisfy any additional independence requirements imposed by the NYSE or the Securities and Exchange Commission.

Committee chairs shall be recommended by the Corporate Governance and Nominating Committee in consultation with the Chairman and CEO, and approved by the Board. Committee chairs will be responsible, in consultation with the Chairman, for scheduling committee meetings, setting meeting agendas, leading the conduct of each meeting, reporting the committee's findings and making recommendations to the full Board, and presenting resolutions requiring Board action. Committee chairs will confer with the Chairman and CEO in performing these duties.

### ***Committee Funding***

The Company will provide each Board committee with sufficient funds to discharge the committee's responsibilities in accordance with its charter.

## **Number and Scope of Board and Committee Meetings**

The Board will meet at least four times per year, including concurrently with the Annual Meeting of Stockholders. With input from the CEO and the lead independent director, the Chairman will establish the annual Board calendar and meeting dates, establish agenda items and schedules for each Board meeting, and determine the materials and information to be presented to the Board. Each Board meeting will include a financial and operating review. In addition, at least once annually, the Board will devote substantial time to reviewing each of the following matters: senior executive succession planning; the personal objectives and performance of the CEO; corporate controls and financial reporting policies and procedures (in consultation with the Audit Committee); the Board's effectiveness; and the Company's overall business strategy and strategic plan.

Each committee chair will determine, in consultation with the Chairman, the agenda, the frequency and length of the meetings for his or her committee.

Each director is expected to attend in person all meetings of the Board and any committee(s) of which he or she is a member and to review all meeting materials circulated prior to each meeting. Each director is welcome to attend the meetings of any committee(s) of which he or she is not a member. Directors may

attend meetings by phone with the prior consent of the Chairman if they are unable to attend in person due to circumstances beyond their control. Directors must attend the annual meeting of the Company's stockholders unless the Chairman gives prior consent to a Director's absence in an extenuating circumstance.

### **Director Compensation**

Non-employee directors and committee chairs shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Compensation Committee. Compensation for non-employee directors and committee chairs shall be consistent with the reasonable practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board's objectivity. The Compensation Committee shall periodically review and report to the Board with respect to director compensation and benefits.

Directors who are employees shall receive no additional compensation for serving as directors.

### **Director Access to Management and Independent Advisors**

The Board is expected to be highly interactive with members of the Company's senior management, and the Board and its individual members have access to individual senior executives of the Company. The Company also maintains an environment that permits senior managers to contact Board members directly.

It is the policy of the Board that executive officers and other members of senior management who report directly to the CEO be present at Board and/or committee meetings at the invitation of the Board or committee members. The Board encourages such executive officers and senior management to make presentations or to include in discussions at Board meetings managers and other employees who (i) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (ii) are individuals with high potential whom such executive officers and senior management believe the directors should have the opportunity to meet and evaluate.

The Board as a whole, as well as any committee of the Board, is authorized to engage and consult with independent advisors, as is necessary and appropriate, without consulting management, and the cost and expenses associated with such advisors will be borne by the Company. Individual directors are not authorized to so engage independent advisors.

### **Ethics and Conflicts of Interest**

The Company has adopted comprehensive standards of business conduct and ethics. The Board expects the Company's directors, as well as its officers and employees, to act ethically at all times and in compliance with the Company's standards. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the CEO and the Chairman. If a significant conflict exists and cannot be resolved, it is expected that the director should resign. All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board shall resolve any conflict of interest question involving any executive officer of the Company, and the CEO shall resolve any conflict of interest issue involving any other officer of the Company.

### **Director Orientation and Continuing Education**

The Board shall ensure a comprehensive orientation program for newly elected directors. The Corporate Governance and Nominating Committee shall oversee and maintain this orientation program.

Directors are expected to continue educating themselves in matters relating to domestic and international markets, accounting and finance, leadership, crisis response, industry practices, general management, strategic planning and corporate governance, and the Company shall reimburse directors for the reasonable out-of-pocket costs and expenses they incur in connection with continuing education, subject to any limitations and conditions that the Corporate Governance and Nominating Committee deems appropriate and may prescribe from time to time. In order to further the education of the directors and their

understanding of the Company and its operations, reviews of aspects of the Company's operations will be presented by appropriate executives from time to time as part of the agenda of regular Board meetings.

### **Management Succession and CEO Compensation**

The Board shall develop and maintain an appropriate succession plan with respect to the position of CEO, to address both succession in the ordinary course of business and contingency planning in the case of unexpected events. The Corporate Governance and Nominating Committee is responsible for making recommendations to the Board about succession planning for the CEO.

The Compensation Committee is responsible for establishing annual and long-term performance goals for the CEO and for evaluating his or her performance against such goals. At least annually, the independent directors will, in conjunction with the Compensation Committee, review the performance of the CEO in light of the Company's goals and objectives.

### **Annual Performance Self-Assessment of the Board and its Committees**

The Board will conduct a self-assessment at least annually to determine whether it and its committees are functioning effectively. The Corporate Governance and Nominating Committee will manage the annual evaluation processes.

### **Stock Ownership Guidelines**

The Corporate Governance and Nominating Committee has established stock ownership guidelines for the members of the Board. Each director is expected to hold shares of Company common stock with a value of at least \$250,000 within five years of joining the Board. Shares that count towards satisfaction of these guidelines include: (1) shares owned outright by the director or his or her immediate family members residing in the same household; and (2) restricted shares or restricted share units granted under the Company's employee plans. These guidelines may be waived at the discretion of the Corporate Governance and Nominating Committee for directors joining the Board from government, academia, or similar professions, or in other situations that the Corporate Governance and Nominating Committee may deem appropriate.

### **Stockholder Access to Directors**

The Company encourages stockholders to communicate with directors. The Corporate Governance and Nominating Committee will maintain procedures for stockholders to communicate directly to a particular director, the non-management directors as a group, the lead independent director or the full Board. The Company may screen emails to directors for relevance.

### **Institutional Investor Interaction**

The Company's management continually communicates with its major institutional investors and sends feedback to the Board. If an investor requests contact with the Board, management refers the request to the lead independent director for his or her recommendation and any necessary action by the Board.

### **Limitation**

Nothing in these Guidelines is intended to expand the fiduciary obligations of Board members beyond those provided for under applicable law.

Last Revised: August 15, 2012