

WELLS FARGO & COMPANY/MN
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Product Supplement No. EQUITY INDICES MITTS-1
(To Series S Prospectus Supplement dated January 24, 2018

and Prospectus dated April 27, 2018)

November 16, 2018

Market Index Target-Term Securities® “MITTS” Linked to One or More Equity Indices

MITTS are senior unsecured debt securities issued by Wells Fargo & Company (“**Wells Fargo**”). Any payments due on MITTS, including any repayment of principal, will be subject to the credit risk of Wells Fargo. MITTS may not guarantee the full return of principal at maturity, and we will not pay interest on MITTS. Instead, the return on MITTS will be based on the performance of an underlying “**Market Measure**,” which will be an equity index or a basket of equity indices.

If the value of the Market Measure increases from its Starting Value to its Ending Value (each as defined below), you will receive at maturity a cash payment per unit (the “**Redemption Amount**”) that equals the principal amount plus a multiple (the “**Participation Rate**”) of that increase. The Participation Rate will be greater than or equal to 100%. The Redemption Amount may also be subject to a specified cap (the “**Capped Value**”).

If the value of the Market Measure does not change or decreases from its Starting Value to its Ending Value, you will receive a Redemption Amount that is no less than the minimum redemption amount per unit (the “**Minimum Redemption Amount**”). The Minimum Redemption Amount may be less than or equal to the principal amount. If the Minimum Redemption Amount is less than the principal amount, you may lose a portion of your investment in MITTS.

This product supplement describes the general terms of MITTS, the risk factors to consider before investing, the general manner in which they may be offered and sold, and other relevant information.

For each offering of MITTS, we will provide you with a pricing supplement (which we refer to as a “**term sheet**”) that will describe the specific terms of that offering, including the specific Market Measure, the Participation Rate, the Minimum Redemption Amount, and any applicable Capped Value, and certain related risk factors. The term sheet will identify, if applicable, any additions or changes to the terms specified in this product supplement.

MITTS will be issued in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The term sheet may also set forth a minimum number of units that you must purchase.

Unless otherwise specified in the applicable term sheet, MITTS will not be listed on a securities exchange or quotation system.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“**MLPF&S**”) and one or more of its affiliates may act as our agents to offer MITTS and will act in a principal capacity in such role.

The MITTS are not deposits or other obligations of a depository institution and are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other governmental agency of the United States or any other jurisdiction.

The MITTS have complex features and investing in the MITTS involves risks not associated with an investment in conventional debt securities. Potential purchasers of MITTS should consider the information in “Risk Factors” beginning on page PS-6 of this product supplement. You may lose a portion of your investment in the MITTS.

None of the Securities and Exchange Commission (the “SEC”), any state securities commission, or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this product supplement, the prospectus supplement, or the prospectus. Any representation to the contrary is a criminal offense.

Merrill Lynch & Co.

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MITTS® and “Market Index Target-Term Securitie®” are registered service marks of Bank of America Corporation, the parent corporation of MLPF&S.

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SUMMARY

The information in this “Summary” section is qualified in its entirety by the more detailed explanation set forth elsewhere in this product supplement, the prospectus supplement, and the prospectus, as well as the applicable term sheet. Neither we nor MLPF&S have authorized any other person to provide you with any information different from the information set forth in these documents. If anyone provides you with different or inconsistent information about the MITTS, you should not rely on it.

Key Terms:

MITTS are senior debt securities issued by Wells Fargo, and are not guaranteed or insured by the FDIC or secured by collateral. They rank equally with all of our other unsecured senior debt from time to time outstanding. **Any payments due on MITTS, including any repayment of principal, are subject to our credit risk.**

General:

The return on MITTS will be based on the performance of a Market Measure. If the value of the applicable Market Measure decreases, you will receive at least the Minimum Redemption Amount specified in the applicable term sheet. If the Minimum Redemption Amount is less than the principal amount, you may lose a portion of your investment in MITTS.

Each issue of MITTS will mature on the date set forth in the applicable term sheet. We cannot redeem MITTS at any earlier date. We will not make any payments on MITTS until maturity, and you will not receive any interest payments.

The Market Measure may consist of one or more of the following:

- U.S. broad-based equity indices;
- U.S. sector or style-based equity indices;
- non-U.S. or global equity indices; or
- any combination of the above.

Market Measure:

The Market Measure may consist of a group, or “**Basket**,” of the foregoing. We refer to each equity index included in any Basket as a “**Basket Component**.” If the Market Measure to which your MITTS are linked is a Basket, the Basket Components will be set forth in the applicable term sheet.

Market Measure Performance:

The performance of the Market Measure will be measured according to the percentage change of the Market Measure from its Starting Value to its Ending Value.

Unless otherwise specified in the applicable term sheet:

The “**Starting Value**” will be the closing level of the Market Measure on the date when the MITTS are priced for initial sale to the public (the “**pricing date**”).

If the Market Measure consists of a Basket, the Starting Value will be equal to 100. See “Description of MITTS—Basket Market Measures.”

The “**Ending Value**” will equal the average of the closing levels of the Market Measure on each calculation day during the Maturity Valuation Period (each as defined below).

If the Market Measure consists of a Basket, the Ending Value will be determined as described in “Description of MITTS—Basket Market Measures—Ending Value of the Basket.”

If a Market Disruption Event (as defined under “Description of MITTS—Market

Disruption Events”) occurs and is continuing on a scheduled calculation day, or if certain other events occur, the calculation agent will determine the Ending Value as set forth in the section “Description of MITTS—The Starting Value and the Ending Value—Ending Value” and “—Basket Market Measures—Ending Value of the Basket.”

Participation Rate:

The rate at which investors participate in any increase in the value of the Market Measure, as calculated below. The Participation Rate will be equal to or greater than 100%, and will be set forth in the applicable term sheet. If the Participation Rate is 100%, your participation in any upside performance of the Market Measure will not be leveraged.

Capped Value:

The maximum Redemption Amount, if one is applicable to your MITTS. If a Capped Value is applicable to your MITTS, any positive return on the MITTS is limited to the return represented by the Capped Value specified in the applicable term sheet. We will determine the applicable Capped Value on the pricing date of each issue of MITTS.

Redemption Amount at Maturity:

At maturity, you will receive a Redemption Amount that is greater than the principal amount if the value of the Market Measure increases from the Starting Value to the Ending Value. However, in no event will the Redemption Amount exceed the Capped Value, if applicable. If the value of the Market Measure does not change or decreases from the Starting Value to the Ending Value, you will receive at least the Minimum Redemption Amount, and if the Minimum Redemption Amount is less than the principal amount, your investment may result in a loss.

Any payments due on the MITTS, including any repayment of principal, are subject to our credit risk as issuer of MITTS.

The Redemption Amount, denominated in U.S. dollars, will be calculated as follows:

Minimum Redemption Amount:

The Redemption Amount will not be less than the Minimum Redemption Amount per unit.

The Minimum Redemption Amount may be less than or equal to the principal amount, as specified in the applicable term sheet.

Principal at Risk:

If the Minimum Redemption Amount for your MITTS is less than the principal amount, you may lose a portion of the principal amount of the MITTS. Further, if you sell your MITTS prior to maturity, you may find that the market value per MITTS is less than the price that you paid for the MITTS, and could be less than the Minimum Redemption Amount.

Calculation Agents:

The calculation agents will make all determinations associated with the MITTS. Unless otherwise set forth in the applicable term sheet, we or one of our affiliates may act as the calculation agent, or we may appoint MLPF&S or one of its affiliates to act as calculation agent for the MITTS. Alternatively, we (or one of our affiliates) and MLPF&S (or one of its affiliates) may act as joint calculation agents for the MITTS. See the section entitled “Description of MITTS—Role of the Calculation Agent.”

Agents:

MLPF&S and one or more of its affiliates will act as our agents in connection with each offering of MITTS and will receive an underwriting discount based on the number of units of MITTS sold. None of the agents is your fiduciary or adviser solely as a result of the making of any offering of MITTS, and you should not rely upon this product supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase MITTS.

Listing:

Unless otherwise specified in the applicable term sheet, the MITTS will not be listed on a securities exchange or quotation system.

This product supplement relates only to MITTS and does not relate to any equity index that comprises the Market Measure described in any term sheet. You should read carefully the entire prospectus, prospectus supplement, and product supplement, together with the applicable term sheet, to understand fully the terms of your MITTS, as well as the tax and other considerations important to you in making a decision about whether to invest in any MITTS. In particular, you should review carefully the section in this product supplement entitled “Risk Factors,” which highlights a number of risks of an investment in MITTS, to determine whether an investment in MITTS is appropriate for you. If information in this product supplement is inconsistent with the prospectus or prospectus supplement, this product supplement will supersede those documents. However, if information in any term sheet is inconsistent with this product supplement, that term sheet will supersede this product supplement.

Neither we nor any agent is making an offer to sell MITTS in any jurisdiction where the offer or sale is not permitted.

This product supplement and the accompanying prospectus supplement and prospectus are not an offer to sell these MITTS to anyone, and are not soliciting an offer to buy these MITTS from anyone, in any jurisdiction where the offer or sale is not permitted.

Certain capitalized terms used and not defined in this product supplement have the meanings ascribed to them in the prospectus supplement and prospectus. Unless otherwise indicated or unless the context requires otherwise, all references in this product supplement to “we,” “us,” “our,” or similar references are to Wells Fargo.

You are urged to consult with your own attorneys and business and tax advisers before making a decision to purchase any MITTS.

RISK FACTORS

Your investment in MITTS is subject to investment risks, many of which differ from those of a conventional debt security. Your decision to purchase MITTS should be made only after carefully considering the risks, including those discussed below, together with the risk information in the applicable term sheet, in light of your particular circumstances. MITTS are not an appropriate investment for you if you are not knowledgeable about the material terms of MITTS or investments in equity or equity-based securities in general.

General Risks Relating to MITTS

You may not receive a positive return on your investment and, if the Minimum Redemption Amount is less than the principal amount per unit, then your investment may result in a loss. The return on the MITTS will be based on the performance of the Market Measure. If the value of the Market Measure decreases from the Starting Value to the Ending Value, you will not receive any positive return on your MITTS, and if the Minimum Redemption Amount is less than the principal amount, your investment will result in a loss.

Your return on the MITTS may be less than the yield on a conventional fixed or floating rate debt security of comparable maturity. There will be no periodic interest payments on MITTS as there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. Any return that you receive on MITTS may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in MITTS may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

Any positive return on your investment is limited to the return represented by the Capped Value, if applicable, and may be less than a comparable investment directly in the Market Measure. If specified in the applicable term sheet, the appreciation potential of MITTS will be limited to the Capped Value. In such a case, you will not receive a Redemption Amount greater than the Capped Value, regardless of the extent of the increase in the value of the Market Measure. In contrast, a direct investment in the Market Measure (or the securities included in the Market Measure) would allow you to receive the full benefit of any appreciation in the value of the Market Measure (or those underlying securities).

In addition, unless otherwise set forth in the applicable term sheet, the Ending Value will not reflect the value of dividends paid, or distributions made, on the securities included in the Market Measure or any other rights associated with those securities. Thus, any return on the MITTS will not reflect the return you would realize if you actually owned the securities underlying the Market Measure.

Additionally, the Market Measure may consist of one or more equity indices that are calculated in a non-U.S. currency and include securities traded in a non-U.S. currency. If the value of that currency strengthens against the U.S. dollar during the term of your MITTS, you may not obtain the benefit of that increase, which you would have received if you had owned the securities included in the index or indices.

The MITTS are subject to our credit risk. The MITTS are our obligations and are not, either directly or indirectly, an obligation of any third party. Any amounts payable under the MITTS are subject to our creditworthiness, and you will have no ability to pursue the issuers of any securities represented by the Market Measure for payment. As a result, our actual and perceived creditworthiness may affect the value of the MITTS and, in the event we were to default on our obligations, you may not receive any amounts owed to you under the terms of the MITTS.

Holders of the MITTS have limited rights of acceleration. Payment of principal on the MITTS may be accelerated only in the case of payment defaults that continue for a period of 30 days or certain events of bankruptcy or insolvency, whether voluntary or involuntary. If you purchase the MITTS, you will have no right to accelerate the payment of principal on the MITTS if we fail in the performance of any of our obligations under the MITTS, other than the obligations to pay principal and interest on the MITTS. See “Description of Notes—Events of Default and Covenant Breaches” in the accompanying prospectus supplement.

Holders of the MITTS could be at greater risk for being structurally subordinated if we convey, transfer or lease all or substantially all of our assets to one or more of our subsidiaries. Under the indenture, we may convey, transfer or lease all or substantially all of our assets to one or more of our subsidiaries. In that event, third-party creditors of our subsidiaries would have additional assets from which to recover on their claims while holders of the MITTS would be structurally subordinated to creditors of our subsidiaries with respect to such assets. See “Description of Notes—Consolidation, Merger or Sale” in the accompanying prospectus supplement.

The estimated value of the MITTS will be determined by our affiliate’s pricing models, which may differ from those of MLPF&S or other dealers.

The estimated value of the MITTS will be set forth in the applicable term sheet and will be determined for us by our affiliate, Wells Fargo Securities, LLC (“WFS”), using its proprietary pricing models and related market inputs and assumptions. Based on these pricing models and related market inputs and assumptions, WFS will determine an estimated value for the MITTS by estimating the value of the combination of hypothetical financial instruments that would replicate the payout on the MITTS, which combination will consist of a non-interest bearing, fixed-income bond (the “**debt component**”) and one or more derivative instruments underlying the economic terms of the MITTS (the “**derivative component**”).

The estimated value of the debt component will be based on a reference interest rate, determined by WFS as of a date near the time of calculation, that will generally track our secondary market rates. The reference interest rate to be used in the calculation of the estimated value of the debt component may be higher or lower than our secondary market rates at the time of that calculation. Because the reference interest rate is generally higher than the assumed funding rate that is used to determine the economic terms of the MITTS, using the reference interest rate to value the debt component will generally result in a lower estimated value of the MITTS than if we had used the assumed funding rate. WFS will calculate the estimated value of the derivative component based on a proprietary derivative-pricing model, which will generate a theoretical price for the derivative instruments that constitute the derivative component based on various inputs including, but not limited to, market measure performance; interest rates; volatility of the market measure; correlation among basket components (if applicable); time remaining to maturity; dividend yields on the securities included in or held by the market measure; currency exchange rates (if applicable); volatility of currency exchange rates (if applicable); and correlation between currency exchange rates and the market measure (if applicable). These inputs may be market-observable or may be based on assumptions made by WFS in its discretion.

The estimated value of the MITTS will not be an independent third-party valuation and certain inputs to these models may be determined by WFS in its discretion. WFS’s views on these inputs may differ from those of MLPF&S and other dealers, and WFS’s estimated value of the MITTS may be higher, and perhaps materially higher, than the estimated value of the MITTS that would be determined by MLPF&S or other dealers in the market. WFS’s models and its inputs and related assumptions may prove to be wrong and therefore not an accurate reflection of the value of the MITTS.

The estimated value of the MITTS on the pricing date, based on WFS's proprietary pricing models, will be less than the public offering price. The public offering price of the MITTS will include certain costs that are borne by you. Because of these costs, the estimated value of the MITTS on the pricing date will be less than the public offering price. The costs included in the public offering price will relate to selling, structuring, hedging and issuing the MITTS, as well as to our funding considerations for debt of this type. The costs related to selling, structuring, hedging and issuing the MITTS will include the underwriting discount, the projected profit that our hedge counterparty (which may be MLPF&S or one of its affiliates) will expect to realize for assuming risks inherent in hedging our obligations under the MITTS and hedging and other costs relating to the offering of the MITTS. Our funding considerations will be reflected in the fact that we will determine the economic terms of the MITTS based on an assumed funding rate that will generally be lower than our secondary market rates. If the costs relating to selling, structuring, hedging and issuing the MITTS were lower, or if the assumed funding rate we will use to determine the economic terms of the securities were higher, the economic terms of the MITTS would be more favorable to you and the estimated value would be higher.

The public offering price you pay for the MITTS will exceed the initial estimated value. If you attempt to sell the MITTS prior to maturity, their market value may be lower than the price you paid for them and lower than the initial estimated value. This is due to, among other things, the assumed funding rate used to determine the economic terms of the MITTS, and the inclusion in the public offering price of the underwriting discount and the estimated cost of hedging our obligations under the MITTS (which includes a hedging related charge as described in the applicable term sheet). These factors, together with customary bid ask spreads, other transaction costs and various credit, market and economic factors over the term of the MITTS, including changes in the level of the Market Measure, are expected to reduce the price at which you may be able to sell the MITTS in any secondary market and will affect the value of the MITTS in complex and unpredictable ways.

The initial estimated value does not represent the price at which we, MLPF&S or any of our respective affiliates would be willing to purchase your MITTS in any secondary market (if any exists) at any time. The value of your MITTS at any time after issuance will vary based on many factors that cannot be predicted with accuracy, including the performance of the Market Measure, our creditworthiness and changes in market conditions. MLPF&S has advised us that any repurchases by them or their affiliates are expected to be made at prices determined by reference to their pricing models and at their discretion, and these prices will include MLPF&S's trading commissions and mark-ups. If you sell your MITTS to a dealer other than MLPF&S in a secondary market transaction, the dealer may impose its own discount or commission.

We cannot assure you that there will be a trading market for your MITTS. If a secondary market exists, we cannot predict how the MITTS will trade, or whether that market will be liquid or illiquid. The development of a trading market for MITTS will depend on various factors, including our financial performance and changes in the value of the Market Measure. The number of potential buyers of your MITTS in any secondary market may be limited. There is no assurance that any party will be willing to purchase your MITTS at any price in any secondary market.

We anticipate that one or more of the agents will act as a market-maker for MITTS, but none of them is required to do so and may cease to do so at any time. Any price at which an agent may bid for, offer, purchase, or sell any MITTS may be higher or lower than the applicable public offering price, and that price may differ from the values determined by pricing models that it may use, whether as a result of dealer discounts, mark-ups, or other transaction costs. These bids, offers, or transactions may adversely affect the prices, if any, at which the MITTS might otherwise trade in the market. In addition, if at any time any agent were to cease

acting as a market-maker for any issue of MITTS, it is likely that there would be significantly less liquidity in that secondary market. In such a case, the price at which those MITTS could be sold likely would be lower than if an active market existed.

Unless otherwise stated in the term sheet, we will not list MITTS on any securities exchange or quotation system. Even if an application were made to list your MITTS, we cannot assure you that the application will be approved or that your MITTS will be listed and, if listed, that they will remain listed for their entire term. The listing of MITTS on any securities exchange or quotation system will not necessarily ensure that a trading market will develop, and if a trading market does develop, that there will be liquidity in the trading market.

The Redemption Amount will not reflect changes in the value of the Market Measure that occur other than during the Maturity Valuation Period. Changes in the value of the Market Measure during the term of MITTS other than during the Maturity Valuation Period will not be reflected in the calculation of the Redemption Amount. To calculate the Redemption Amount, the calculation agent will compare only the Ending Value to the Starting Value. No other values of the Market Measure will be taken into account. As a result, even if the value of the Market Measure has increased at certain times during the term of the MITTS, you may receive a Redemption Amount that, depending on the Minimum Redemption Amount, is less than the principal amount if the Ending Value is less than the Starting Value. In addition, the Ending Value will equal the average of the closing levels of the Market Measure on each calculation day during the Maturity Valuation Period, which may be less than the closing level of the Market Measure on any particular calculation day.

If your MITTS are linked to a Basket, changes in the levels of one or more of the Basket Components may be offset by changes in the levels of one or more of the other Basket Components. The Market Measure of your MITTS may be a Basket. In such a case, changes in the levels of one or more of the Basket Components may not correlate with changes in the levels of one or more of the other Basket Components. The levels of one or more Basket Components may increase, while the levels of one or more of the other Basket Components may decrease or not increase as much. Therefore, in calculating the value of the Market Measure at any time, increases in the level of one Basket Component may be moderated or wholly offset by decreases or lesser increases in the levels of one or more of the other Basket Components. If the weightings of the applicable Basket Components are not equal, adverse changes in the levels of the Basket Components that are more heavily weighted could have a greater impact upon the value of the Market Measure and, consequently, the return on your MITTS.

The respective publishers of the applicable indices may adjust those indices in a way that affects their levels, and these publishers have no obligation to consider your interests. Unless otherwise specified in the term sheet, we, the agents and our respective affiliates have no affiliation with any publisher of an index to which your MITTS are linked (each, an “**Index Publisher**”). Consequently, we have no control of the actions of any Index Publisher. The Index Publisher can add, delete, or substitute the securities included in that index or make other methodological changes that could change its level. A new security included in an index may perform significantly better or worse than the replaced security, and the performance will impact the level of the applicable index. Additionally, an Index Publisher may alter, discontinue, or suspend calculation or dissemination of an index. Any of these actions could adversely affect the value of your MITTS. The Index Publishers will have no obligation to consider your interests in calculating or revising any index.

Exchange rate movements may adversely impact the value of MITTS. If any security included in a Market Measure is traded in a currency other than U.S. dollars and, for purposes of the applicable index, is converted into U.S. dollars, then the value of the Market Measure may depend in part on the relevant exchange rates. If the value of the U.S. dollar

strengthens against the currencies of that index, the level of the applicable index may be adversely affected and the Redemption Amount may be reduced.

Exchange rate movements may be particularly impacted by existing and expected rates of inflation and interest rate levels; political, civil or military unrest; the balance of payments between countries; and the extent of governmental surpluses or deficits in the relevant countries and the United States. All of these factors are in turn sensitive to the monetary, fiscal, and trade policies pursued by the governments of those countries and the United States and other countries important to international trade and finance.

If you attempt to sell MITTS prior to maturity, their market value, if any, will be affected by various factors that interrelate in complex ways, and their market value may be less than the principal amount, and the Minimum Redemption Amount. The MITTS are not designed to be short-term trading instruments. The limited return of principal provided by the Minimum Redemption Amount will only apply if you hold the MITTS to maturity. You have no right to have your MITTS redeemed prior to maturity. If you wish to liquidate your investment in MITTS prior to maturity, your only option would be to sell them. At that time, there may be an illiquid market for your MITTS or no market at all. Even if you were able to sell your MITTS, there are many factors outside of our control that may affect their market value, some of which, but not all, are stated below. The impact of any one factor may be offset or magnified by the effect of another factor. These factors may interact with each other in complex and unpredictable ways. The following paragraphs describe a specific factor's expected impact on the market value of MITTS, assuming all other conditions remain constant.

Value of the Market Measure. We anticipate that the market value of MITTS prior to maturity generally will depend to a significant extent on the value of the Market Measure. In general, it is expected that the market value of MITTS will decrease as the value of the Market Measure decreases, and increase as the value of the Market Measure increases. However, as the value of the Market Measure increases, the market value of MITTS may decrease or may not increase at the same rate. If you sell your MITTS when the value of the Market Measure is less than, or not sufficiently above the applicable Starting Value, then you may receive less than the principal amount and the Minimum Redemption Amount of your MITTS.

In addition, if a Capped Value is specified in the applicable term sheet, because the Redemption Amount will not exceed that Capped Value, we do not expect that the MITTS will trade in any secondary market at a price that is greater than the Capped Value.

Volatility of the Market Measure. Volatility is the term used to describe the size and frequency of market fluctuations. Increases or decreases in the volatility of the Market Measure may have an adverse impact on the market value of MITTS. Even if the value of the Market Measure increases after the applicable pricing date, if you are able to sell your MITTS before their maturity date, you may receive substantially less than the amount that would be payable at maturity based on that value because of the anticipation that the value of the Market Measure will continue to fluctuate until the Ending Value is determined.

Economic and Other Conditions Generally. The general economic conditions of the capital markets in the United States, as well as geopolitical conditions and other financial, political, regulatory, and judicial events and related uncertainties that affect stock markets generally, may adversely affect the value of the Market Measure and the market value of MITTS. If the Market Measure includes one or more indices that have returns that are calculated based upon securities prices in one or more non-U.S. markets (a “**non-U.S. Market Measure**”), the value of your MITTS may also be adversely affected by similar events in the markets of the relevant foreign countries.

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Interest Rates. We expect that changes in interest rates will affect the market value of MITTS. In general, if U.S. interest rates increase, we expect that the market value of MITTS will decrease, and conversely, if U.S. interest rates decrease, we expect that the market value of MITTS will increase. In general, we expect that the longer the amount of time that remains until maturity, the more significant the impact of these changes will be on the value of the MITTS. In the case of non-U.S. Market Measures, the level of interest rates in the relevant foreign countries may also affect their economies and in turn the value of the non-U.S. Market Measure, and, thus, the market value of the MITTS may be adversely affected.

Dividend Yields. In general, if the cumulative dividend yields on the securities included in the Market Measure increase, we anticipate that the market value of MITTS will decrease.

Exchange Rate Movements and Volatility. If the Market Measure of your MITTS includes any non-U.S. Market Measures, changes in, and the volatility of, the exchange rates between the U.S. dollar and the relevant non-U.S. currency or currencies could have an adverse impact on the value of your MITTS, and the Redemption Amount may depend in part on the relevant exchange rates. In addition, the correlation between the relevant exchange rate and any applicable non-U.S. Market Measure reflects the extent to which a percentage change in that exchange rate corresponds to a percentage change in the applicable non-U.S. Market Measure, and changes in these correlations may have an adverse impact on the value of your MITTS.

- **Our Creditworthiness.** Our actual and perceived creditworthiness may affect the value of the MITTS.

Time to Maturity. There may be a disparity between the market value of the MITTS prior to maturity and their value at maturity. This disparity is often called a time “value,” “premium,” or “discount,” and reflects expectations concerning the value of the Market Measure prior to the maturity date. As the time to maturity decreases, this disparity may decrease, such that the value of the MITTS will approach the expected Redemption Amount to be paid at maturity.

Trading and hedging activities by us, the agents, and our respective affiliates may affect your return on the MITTS and their market value. We, the agents, and our respective affiliates may buy or sell the securities included in the Market Measure, futures or options contracts or exchange-traded instruments on the Market Measure or its component securities, or other listed or over-the-counter derivative instruments linked to the Market Measure or its component securities. We, the agents and our respective affiliates may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our obligations under MITTS. These transactions could adversely affect the value of these securities and, in turn, the value of a Market Measure in a manner that could be adverse to your investment in MITTS. On or before the applicable pricing date, any purchases or sales by us, the agents, and our respective affiliates, or others on our or their behalf (including for the purpose of hedging anticipated exposure) may increase the value of the Market Measure or its component securities. Consequently, the values of that Market Measure or the securities included in that Market Measure may decrease subsequent to the pricing date of an issue of MITTS, adversely affecting the market value of MITTS.

We, the agents, or one or more of our respective affiliates may also engage in hedging activities that could increase the value of the Market Measure on the applicable pricing date. In addition, these activities, including the unwinding of a hedge, may decrease the market value of your MITTS prior to maturity, including during the Maturity Valuation Period, and

may reduce the Redemption Amount. The agents, or one or more of their respective affiliates may purchase or otherwise acquire a long or short position in MITTS, and may hold or resell MITTS. For example, the agents may enter into these transactions in connection with any market making activities in which they engage. We cannot assure you that these activities will not adversely affect the value of the Market Measure or the market value of your MITTS prior to maturity or the Redemption Amount.

Our trading, hedging and other business activities, and those of the agents or one or more of our respective affiliates, may create conflicts of interest with you. We, the agents, or one or more of our respective affiliates may engage in trading activities related to the Market Measure and to securities included in the Market Measure that are not for your account or on your behalf. We, the agents, or one or more of our respective affiliates also may issue or underwrite other financial instruments with returns based upon the applicable Market Measure. These trading and other business activities may present a conflict of interest between your interest in MITTS and the interests we, the agents and our respective affiliates may have in our proprietary accounts, in facilitating transactions, including block trades, for our or their other customers, and in accounts under our or their management. These trading and other business activities, if they influence the value of the Market Measure or secondary trading in your MITTS, could be adverse to your interests as a beneficial owner of MITTS.

We, the agents, and our respective affiliates expect to enter into arrangements or adjust or close out existing transactions to hedge our obligations under the MITTS. We, the agents, or our respective affiliates also may enter into hedging transactions relating to other securities or instruments that we or they issue, some of which may have returns calculated in a manner related to that of a particular issue of MITTS. We may enter into such hedging arrangements with one or more of our subsidiaries or affiliates, or with one or more of the agents or their affiliates. Such a party may enter into additional hedging transactions with other parties relating to MITTS and the applicable Market Measure. This hedging activity is expected to result in a profit to those engaging in the hedging activity, which could be more or less than initially expected, or the hedging activity could also result in a loss. We, the agents, and our respective affiliates will price these hedging transactions with the intent to realize a profit, regardless of whether the value of MITTS increases or decreases or whether the Redemption Amount on the MITTS is more or less than the principal amount of the MITTS. Any profit in connection with such hedging activities will be in addition to any other compensation that we, the agents, and our respective affiliates receive for the sale of MITTS, which creates an additional incentive to sell MITTS to you.

There may be potential conflicts of interest involving the calculation agent. We may appoint and remove the calculation agent. We or one of our affiliates may be the calculation agent or act as joint calculation agent for MITTS and, as such, will determine the Starting Value, the Ending Value, and the Redemption Amount. Under some circumstances, these duties could result in a conflict of interest between our status as issuer and our responsibilities as calculation agent. These conflicts could occur, for instance, in connection with the calculation agent's determination as to whether a Market Disruption Event has occurred, or in connection with judgments that the calculation agent would be required to make if the publication of an index is discontinued. See the sections entitled "Description of MITTS—Market Disruption Events," "—Adjustments to an Index," and "—Discontinuance of an Index." The calculation agent will be required to carry out its duties in good faith and using its reasonable judgment. However, because we or one of our affiliates may serve as the calculation agent, potential conflicts of interest could arise. In addition, we may appoint MLPF&S or one of its affiliates to act as the calculation agent or as joint calculation agent for the MITTS. As the calculation agent or joint calculation agent, MLPF&S or one of its affiliates will have discretion in making various determinations that affect your MITTS. The exercise of this discretion by the calculation agent could adversely affect the value of your MITTS and may present the calculation agent with a conflict of interest of the kind described under "—Trading

and hedging activities by us, the agents, and our respective affiliates may affect your return on the MITTS and their market value” and “—Our trading, hedging and other business activities, and those of the agents or one or more of our respective affiliates, may create conflicts of interest with you” above.

You will be required to recognize taxable income on the MITTS prior to maturity. If you are a U.S. holder of a note, you will be required to recognize taxable interest income in each year that you hold the note, even though you will not receive any payment in respect of the note prior to maturity (or earlier sale, exchange or retirement). In addition, any gain you recognize will be treated as ordinary interest income rather than capital gain. You should review the section of this product supplement entitled “United States Federal Tax Considerations.”

Risks Relating to the Market Measures

You must rely on your own evaluation of the merits of an investment linked to the applicable Market Measure. In the ordinary course of business, we, the agents, and our respective affiliates may have expressed views on expected movements in a Market Measure or the securities included in the Market Measure, and may do so in the future. These views or reports may be communicated to our clients and clients of these entities. However, these views are subject to change from time to time. Moreover, other professionals who deal in markets relating to a Market Measure may at any time have significantly different views from our views and the views of these entities. For these reasons, you are encouraged to derive information concerning a Market Measure and its component securities from multiple sources, and you should not rely on our views or the views expressed by these entities.

You will have no rights as a security holder, you will have no rights to receive any of the securities represented by the Market Measure, and you will not be entitled to dividends or other distributions by the issuers of those securities. MITTS are our debt securities. They are not equity instruments, shares of stock, or securities of any other issuer. Investing in MITTS will not make you a holder of any of the securities represented by the Market Measure. You will not have any voting rights, any rights to receive dividends or other distributions, or any other rights with respect to those securities. As a result, the return on your MITTS may not reflect the return you would realize if you actually owned those securities and received the dividends paid or other distributions made in connection with them. Additionally, the levels of certain indices reflect only the prices of the securities included in that index and do not take into consideration the value of dividends paid on those securities. Your MITTS will be paid in cash and you have no right to receive any of those securities.

If the Market Measure to which your MITTS are linked includes equity securities traded on foreign exchanges, your return may be affected by factors affecting international securities markets. The value of securities traded outside of the U.S. may be adversely affected by a variety of factors relating to the relevant securities markets. Factors which could affect those markets, and therefore the return on your MITTS, include:

Market Liquidity and Volatility. The relevant foreign securities markets may be less liquid and/or more volatile than U.S. or other securities markets and may be affected by market developments in different ways than U.S. or other securities markets.

Political, Economic, and Other Factors. The prices and performance of securities of companies in foreign countries may be affected by political, economic, financial, and social factors in those regions. Direct or indirect government intervention to stabilize a particular securities market and cross-shareholdings in companies in the relevant foreign markets may affect prices and the volume of trading in those markets. In addition, recent or future changes in government, economic, and fiscal policies in the

relevant jurisdictions, the possible imposition of, or changes in, currency exchange laws, or other laws or restrictions, and possible fluctuations in the rate of exchange between currencies, are factors that could adversely affect the relevant securities markets. The relevant foreign economies may differ from the U.S. economy in economic factors such as growth of gross national product, rate of inflation, capital reinvestment, resources, and self-sufficiency.

In particular, many emerging nations are undergoing rapid change, involving the restructuring of economic, political, financial and legal systems. Regulatory and tax environments may be subject to change without review or appeal, and many emerging markets suffer from underdevelopment of capital markets and tax systems. In addition, in some of these nations, issuers of the relevant securities face the threat of expropriation of their assets, and/or nationalization of their businesses. The economic and financial data about some of these countries may be unreliable.

Publicly Available Information. There is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the SEC. In addition, accounting, auditing, and financial reporting standards and requirements in foreign countries differ from those applicable to U.S. reporting companies.

Unless otherwise set forth in the applicable term sheet, we and the agents do not control any company included in any Market Measure and have not verified any disclosure made by any other company. We, the agents, or our respective affiliates currently, or in the future, may engage in business with companies included in a Market Measure, and we, the agents, or our respective affiliates may from time to time own securities of companies included in a Market Measure. However, none of us, the agents, or any of our respective affiliates has the ability to control the actions of any of these companies or has undertaken any independent review of, or made any due diligence inquiry with respect to, any of these companies, unless (and only to the extent that) the securities of us, the agents, or our respective affiliates are represented by that Market Measure. In addition, unless otherwise set forth in the applicable term sheet, none of us, the agents, or any of our respective affiliates is responsible for the calculation of any index represented by a Market Measure. Unless otherwise specified therein, any information in the applicable term sheet regarding the Market Measure will be derived from publicly available information. You should make your own investigation into the Market Measure.

Unless otherwise set forth in the applicable term sheet, none of the Index Publishers, their affiliates, or any companies included in the Market Measure will be involved in any offering of MITTS or will have any obligation of any sort with respect to MITTS. As a result, none of those companies will have any obligation to take your interests as holders of MITTS into consideration for any reason, including taking any corporate actions that might adversely affect the value of the securities represented by the Market Measure or the value of MITTS.

Our business activities and those of the agents relating to the companies represented by a Market Measure or the MITTS may create conflicts of interest with you. We, the agents, and our respective affiliates, at the time of any offering of MITTS or in the future, may engage in business with the companies represented by the Market Measure, including making loans to, equity investments in, or providing investment banking, asset management, or other services to those companies, their affiliates, and their competitors.

In connection with these activities, any of these entities may receive information about those companies that we will not divulge to you or other third parties. We, the agents, and our respective affiliates have published, and in the future may publish, research reports on one or more of these companies. The agents may also publish research reports relating to our or our affiliates' securities, including the MITTS. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding your MITTS. Any of these activities may adversely affect the value of the Market Measure and, consequently, the market value of your MITTS. None of us, the agents, or any of our respective affiliates makes any representation to any purchasers of the MITTS regarding any matters whatsoever relating to the issuers of the securities included in a Market Measure. Any prospective purchaser of the MITTS should undertake an independent investigation of the companies included in the Market Measure to a level that, in its judgment, is appropriate to make an informed decision regarding an investment in the MITTS. The composition of the Market Measure does not reflect any investment recommendations from us, the agents, or our respective affiliates.

Historical levels of the Market Measure should not be taken as an indication of the future performance of the Market Measure during the term of the MITTS. Accordingly, any historical or hypothetical values of the Market Measure do not provide an indication of the future performance of the Market Measure.

Other Risk Factors Relating to the Applicable Market Measure

The applicable term sheet may set forth additional risk factors as to the Market Measure that you should review prior to purchasing MITTS.

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USE OF PROCEEDS and hedging

We will use the net proceeds we receive from each sale of MITTS for the purposes described in the accompanying prospectus under “Use of Proceeds” and the prospectus supplement under “Supplemental Use of Proceeds.” In addition, we expect that we or our affiliates may use a portion of the net proceeds to hedge our obligations under the MITTS.

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DESCRIPTION OF MITTS

General

Each issue of MITTS will be part of a series of medium-term notes entitled “Medium-Term Notes, Series S” that will be issued under the indenture, as amended and supplemented from time to time. The indenture is described more fully in the prospectus and prospectus supplement. The following description of MITTS supplements and, to the extent it is inconsistent with, supersedes the description of the general terms and provisions of the MITTS and debt securities set forth under the headings “Description of Notes” in the prospectus supplement. These documents should be read in connection with the applicable term sheet.

The maturity date of the MITTS and the aggregate principal amount of each issue of MITTS will be stated in the term sheet. If the scheduled maturity date is not a business day, we will make the required payment on the next business day, and no interest will accrue as a result of such delay.

We will not pay interest on MITTS. Depending on the terms of the MITTS, they may not provide for the full return of principal at maturity. MITTS will be payable only in U.S. dollars.

Prior to the maturity date, MITTS are not redeemable at our option or repayable at the option of any holder. MITTS are not subject to any sinking fund.

We will issue MITTS in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The CUSIP number for each issue of MITTS will be set forth in the applicable term sheet. You may transfer MITTS only in whole units.

Payment at Maturity

At maturity, subject to our credit risk as issuer of MITTS, you will receive a Redemption Amount, denominated in U.S. dollars. The “**Redemption Amount**” will be calculated as follows:

¶ If the Ending Value is greater than the Starting Value, then the Redemption Amount will equal:

If so specified in the applicable term sheet, the Redemption Amount will not exceed a “**Capped Value**” set forth in the term sheet.

¶ If the Ending Value is equal to or less than the Starting Value, then the Redemption Amount will equal:

The Redemption Amount will not be less than the Minimum Redemption Amount per unit.

The “**Participation Rate**” will be equal to or greater than 100%, unless otherwise set forth in the applicable term sheet. If the applicable term sheet specifies that the Participation

Rate is 100%, your participation in any upside performance of the Market Measure will not be leveraged.

The “**Minimum Redemption Amount**” may be less than or equal to the principal amount, as specified in the applicable term sheet. If the Minimum Redemption Amount is less than the principal amount and the Ending Value is less than the Starting Value, you will lose a portion of your investment in MITTS.

Each term sheet will provide examples of Redemption Amounts based on a range of hypothetical Ending Values.

The term sheet will set forth information as to the applicable Market Measure, including information as to the historical values of the Market Measure. However, historical values of the Market Measure are not indicative of its future performance or the performance of your MITTS.

An investment in MITTS does not entitle you to any ownership interest, including any voting rights, dividends paid, or other distributions made, in the securities of any of the companies included in a Market Measure.

The Starting Value and the Ending Value

Starting Value

Unless otherwise specified in the term sheet, the “**Starting Value**” will be the closing level of the Market Measure on the pricing date.

If the Market Measure consists of a Basket, the Starting Value will be equal to 100. See “—Basket Market Measures.”

Ending Value

Unless otherwise specified in the term sheet, the “**Ending Value**” will equal the average of the closing levels of the Market Measure determined on each calculation day during the Maturity Valuation Period.

The “**Maturity Valuation Period**” means the period consisting of one or more calculation days shortly before the maturity date. The timing and length of the period will be set forth in the term sheet.

A “**calculation day**” means any Market Measure Business Day during the Maturity Valuation Period on which a Market Disruption Event has not occurred.

Unless otherwise specified in the applicable term sheet, a “**Market Measure Business Day**” means a day on which (1) the New York Stock Exchange (the “**NYSE**”) and The Nasdaq Stock Market, or their successors, are open for trading and (2) the applicable index or any successor is calculated and published.

If (i) a Market Disruption Event occurs on a scheduled calculation day during the Maturity Valuation Period or (ii) any scheduled calculation day is determined by the calculation agent not to be a Market Measure Business Day by reason of an extraordinary event, occurrence, declaration, or otherwise (any such day in either (i) or (ii) being a “**non-calculation day**”), the closing level of the Market Measure for the applicable non-calculation day will be the closing level of the Market Measure on the next calculation day that occurs during the Maturity Valuation Period. For example, if the first and second scheduled calculation days during the Maturity Valuation Period are non-calculation days, then the closing level of the Market

Measure on the next calculation day will also be the closing level for the Market Measure on the first and second scheduled calculation days during the Maturity Valuation Period. If no further calculation days occur after a non-calculation day, or if every scheduled calculation day during the Maturity Valuation Period is a non-calculation day, then the closing level of the Market Measure for that non-calculation day and each following non-calculation day (or for all the scheduled calculation days during the Maturity Valuation Period, if applicable) will be determined (or, if not determinable, estimated) by the calculation agent in a commercially reasonable manner on the last scheduled calculation day during the Maturity Valuation Period, regardless of the occurrence of a Market Disruption Event on that last scheduled calculation day.

If the Market Measure consists of a Basket, the Starting Value and the Ending Value of the Basket will be determined as described in “—Basket Market Measures.”

Market Disruption Events

For an index, “**Market Disruption Event**” means one or more of the following events, as determined by the calculation agent in its sole discretion:

- (A) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange where the securities included in an index trade (without taking into account any extended or after-hours trading session), in 20% or more of the securities which then compose the index or any successor index; and
- (B) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange that trades options contracts or futures contracts related to the index (without taking into account any extended or after-hours trading session), whether by reason of movements in price otherwise exceeding levels permitted by the relevant exchange or otherwise, in options contracts or futures contracts related to the index, or any successor index.

For the purpose of determining whether a Market Disruption Event has occurred:

- (1) a limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange;
- (2) a decision to permanently discontinue trading in the relevant futures or options contracts related to the index, or any successor index, will not constitute a Market Disruption Event;
- (3) a suspension in trading in a futures or options contract on the index, or any successor index, by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts, or (c) a disparity in bid and ask quotes relating to those contracts will constitute a suspension of or material limitation on trading in futures or options contracts related to the index;
- (4) a suspension of or material limitation on trading on the relevant exchange will not include any time when that exchange is closed for trading under ordinary circumstances; and
- (5) if applicable to indices with component securities listed on the NYSE, for the purpose of clause (A) above, any limitations on trading during significant market

fluctuations under NYSE Rule 80B, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self-regulatory organization or the SEC of similar scope as determined by the calculation agent, will be considered “material.”

Adjustments to an Index

After the applicable pricing date, an Index Publisher may make a material change in the method of calculating an index or in another way that changes the index such that it does not, in the opinion of the calculation agent, fairly represent the level of the index had those changes or modifications not been made. In this case, the calculation agent will, at the close of business in New York, New York, on each date that the closing level is to be calculated, make adjustments to the index. Those adjustments will be made in good faith as necessary to arrive at a calculation of a level of the index as if those changes or modifications had not been made, and calculate the closing level of the index, as so adjusted.

Discontinuance of an Index

After the pricing date, an Index Publisher may discontinue publication of an index to which an issue of MITTS is linked. The Index Publisher or another entity may then publish a substitute index that the calculation agent determines, in its sole discretion, to be comparable to the original index (a “**successor index**”). If this occurs, the calculation agent will substitute the successor index as calculated by the relevant Index Publisher or any other entity and calculate the Ending Value as described under “—The Starting Value and the Ending Value” or “—Basket Market Measure,” as applicable. If the calculation agent selects a successor index, the calculation agent will give written notice of the selection to the trustee, to us and to the holders of the MITTS.

If an Index Publisher discontinues publication of the index before the end of the Maturity Valuation Period and the calculation agent does not select a successor index, then on each day that would have been a calculation day, until the earlier to occur of:

- the determination of the Ending Value; and

- a determination by the calculation agent that a successor index is available,

the calculation agent will compute a substitute level for the index in accordance with the procedures last used to calculate the index before any discontinuance as if that day were a calculation day. The calculation agent will make available to holders of the MITTS information regarding those levels by means of Bloomberg L.P., Thomson Reuters, a website, or any other means selected by the calculation agent in its reasonable discretion.

If a successor index is selected or the calculation agent calculates a level as a substitute for an index, the successor index or level will be used as a substitute for all purposes, including for the purpose of determining whether a Market Disruption Event exists.

Notwithstanding these alternative arrangements, any modification or discontinuance of the publication of any index to which your MITTS are linked may adversely affect trading in the MITTS.

Basket Market Measures

If the Market Measure to which your MITTS are linked is a Basket, the Basket Components will be set forth in the term sheet. We will assign each Basket Component a

weighting (the “**Initial Component Weight**”) so that each Basket Component represents a percentage of the Starting Value of the Basket on the pricing date. We may assign the Basket Components equal Initial Component Weights, or we may assign the Basket Components unequal Initial Component Weights. The Initial Component Weight for each Basket Component will be stated in the term sheet.

Determination of the Component Ratio for Each Basket Component

The “**Starting Value**” of the Basket will be equal to 100. We will set a fixed factor (the “**Component Ratio**”) for each Basket Component on the pricing date, based upon the weighting of that Basket Component. The Component Ratio for each Basket Component will equal:

the Initial Component Weight (expressed as a percentage) for that Basket Component, multiplied by 100; *divided by*

- the closing level of that Basket Component on the pricing date.

Each Component Ratio will be rounded to eight decimal places.

The Component Ratios will be calculated in this way so that the Starting Value of the Basket will equal 100 on the pricing date. The Component Ratios will not be revised subsequent to their determination on the pricing date, except that the calculation agent may in its good faith judgment adjust the Component Ratio of any Basket Component in the event that Basket Component is materially changed or modified in a manner that does not, in the opinion of the calculation agent, fairly represent the value of that Basket Component had those material changes or modifications not been made.

The following table is for illustration purposes only, and does not reflect the actual composition, Initial Component Weights, or Component Ratios, which will be set forth in the term sheet.

Example: The **hypothetical** Basket Components are Index ABC, Index XYZ, and Index RST, with their Initial Component Weights being 50.00%, 25.00% and 25.00%, respectively, on a **hypothetical** pricing date:

Basket Component	Initial Component Weight	Hypothetical Closing Level ⁽¹⁾	Hypothetical Component Ratio ⁽²⁾	Initial Basket Value Contribution
Index ABC	50.00%	500.00	0.10000000	50.00
Index XYZ	25.00%	2,420.00	0.01033058	25.00
Index RST	25.00%	1,014.00	0.02465483	<u>25.00</u>
Starting Value				100.00

(1) This column sets forth the **hypothetical** closing level of each Basket Component on the **hypothetical** pricing date. The **hypothetical** Component Ratio for each Basket Component equals its Initial Component Weight (expressed as (2) a percentage) multiplied by 100, and then divided by the **hypothetical** closing level of that Basket Component on the **hypothetical** pricing date,

with the result rounded to eight decimal places.

Unless otherwise stated in the term sheet, if a Market Disruption Event occurs on the pricing date as to any Basket Component or the pricing date is determined by the calculation agent not to be a Market Measure Business Day for any Basket Component by reason of an extraordinary event, occurrence, declaration or otherwise, the calculation agent will establish the closing level of that Basket Component (the “**Basket Component Closing Level**”), and thus its Component Ratio, based on the closing level of that Basket Component on the first Market Measure Business Day following the pricing date on which no Market Disruption Event occurs for that Basket Component. In the event that a Market Disruption Event occurs for that Basket Component on the pricing date and on each day to and including the second scheduled Market Measure Business Day following the pricing date, the calculation agent (not later than the close of business in New York, New York on the second scheduled Market Measure Business Day following the pricing date) will estimate the Basket Component Closing Level, and thus the applicable Component Ratio, in a manner that the calculation agent considers commercially reasonable. The final term sheet will provide the Basket Component Closing Level, a brief statement of the facts relating to the establishment of the Basket Component Closing Level (including the applicable Market Disruption Event(s)), and the applicable Component Ratio.

For purposes of determining whether a Market Disruption Event has occurred as to any Basket Component, “Market Disruption Event” will have the meaning stated above in “—Market Disruption Events.”

Ending Value of the Basket

The calculation agent will calculate the value of the Basket for a calculation day by summing the products of the Basket Component Closing Level on that calculation day and the Component Ratio for each Basket Component. The value of the Basket will vary based on the increase or decrease in the level of each Basket Component. Any increase in the level of a Basket Component (assuming no change in the level of the other Basket Component or Basket Components) will result in an increase in the value of the Basket. Conversely, any decrease in the level of a Basket Component (assuming no change in the level of the other Basket Component or Basket Components) will result in a decrease in the value of the Basket.

The “**Ending Value**” of the Basket will equal the average value of the Basket on each calculation day during the Maturity Valuation Period.

Unless otherwise specified in the term sheet, if, for any Basket Component (an “**Affected Basket Component**”), (i) a Market Disruption Event occurs on a scheduled calculation day during the Maturity Valuation Period or (ii) any scheduled calculation day is determined by the calculation agent not to be a Market Measure Business Day by reason of an extraordinary event, occurrence, declaration, or otherwise (any such day in either (i) or (ii) being a “**non-calculation day**”), the calculation agent will determine the closing levels of the Basket Components for such non-calculation day, and as a result, the Ending Value, as follows:

The closing level of each Basket Component that is not an Affected Basket Component will be its closing level on such non-calculation day.

The closing level of each Basket Component that is an Affected Basket Component for the applicable non-calculation day will be determined in the same manner as described in the fifth paragraph of subsection “—The Starting Value and the Ending Value—Ending Value,” provided that references to “Market Measure” will be references to “Basket Component.”

Role of the Calculation Agent

The calculation agent has the sole discretion to make all determinations regarding MITTS as described in this product supplement, including determinations regarding the Starting Value, the Ending Value, the Market Measure, the Redemption Amount, any Market Disruption Events, a successor index, Market Measure Business Days, business days, calculation days, non-calculation days, and determinations related to any adjustments to, or discontinuance of, any index. Absent manifest error, all determinations of the calculation agent will be conclusive for all purposes and final and binding on you and us, without any liability on the part of the calculation agent.

We or one of our affiliates may act as the calculation agent, or we may appoint MLPF&S or one of its affiliates as the calculation agent for each issue of MITTS. Alternatively, we (or one of our affiliates) and MLPF&S (or one of its affiliates) may act as joint calculation agents for the MITTS. When we refer to a “calculation agent” in this product supplement or in any term sheet, we are referring to the applicable calculation agent or joint calculation agents, as the case may be. However, we may change the calculation agent at any time without notifying you. The identity of the calculation agent will be set forth in the applicable term sheet.

Same-Day Settlement and Payment

MITTS will be delivered in book-entry form only through The Depository Trust Company against payment by purchasers of MITTS in immediately available funds. We will pay the Redemption Amount in immediately available funds so long as the MITTS are maintained in book-entry form.

Events of Default and Acceleration

Events of default are defined in the indenture. If such an event occurs and is continuing, unless otherwise stated in the term sheet, the amount payable to a holder of MITTS upon any acceleration permitted under the indenture will be equal to the Redemption Amount described under the caption “—Payment at Maturity,” determined as if the date of acceleration were the sole calculation day. If a bankruptcy proceeding is commenced in respect of us, your claim may be limited under applicable bankruptcy law. In case of a default in payment of MITTS, whether at their maturity or upon acceleration, they will not bear a default interest rate. For additional discussion of these matters, please see the discussion in the prospectus supplement under the headings “Modification and Waiver” beginning on page S-25 and “—Events of Default and Covenant Breaches” beginning on page S-26 of the accompanying prospectus supplement.

Listing

Unless otherwise specified in the applicable term sheet, the MITTS will not be listed on a securities exchange or quotation system.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

MLPF&S and one or more of its affiliates may act as our agents for any offering of the MITTS. The agents may act on either a principal basis or an agency basis, as set forth in the applicable term sheet. Each agent will be a party to the distribution agreement described in the “Plan of Distribution (Conflicts of Interest)” on page S-34 of the accompanying prospectus supplement.

Each agent will receive an underwriting discount that is a percentage of the aggregate principal amount of the MITTS sold through its efforts, which will be set forth in the applicable term sheet. You must have an account with the applicable agent in order to purchase the MITTS.

None of the agents is acting as your fiduciary or adviser solely as a result of the making of any offering of the MITTS, and you should not rely upon this product supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase any MITTS. You should make your own investment decision regarding the MITTS after consulting with your legal, tax, and other advisers.

MLPF&S and its affiliates may use this product supplement, the prospectus supplement, and the prospectus, together with the applicable term sheet, in market-making transactions for any MITTS after their initial sale solely for the purpose of providing investors with the description of the terms of the MITTS that were made available to investors in connection with the initial distribution of the MITTS. Secondary market investors should not, and will not be authorized to rely on these documents for information regarding Wells Fargo or for any purpose other than that described in the immediately preceding sentence.

Neither we nor any agent is making an offer to sell the MITTS in any jurisdiction where the offer or sale is not permitted. This product supplement and the accompanying prospectus supplement and prospectus are not an offer to sell these MITTS to anyone, and are not soliciting an offer to buy these MITTS from anyone, in any jurisdiction where the offer or sale is not permitted.

Selling Restrictions

Prohibition of Sales to EEA Retail Investors

The MITTS may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the MITTS offered so as to enable an investor to decide to purchase or subscribe the MITTS.

United Kingdom

MLPF&S has represented and agreed that:

- in relation to any MITTS which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any MITTS other than to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage, or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the MITTS would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the issuer;
- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any MITTS in circumstances in which section 21(1) of the FSMA does not apply to the issuer; and
 - (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the MITTS in, from or otherwise involving the United Kingdom.
 - (c)

Argentina

The MITTS are not and will not be marketed in Argentina by means of a public offer of securities, as such term is defined under Sections 2 and 83 of the Argentine Capital Markets Law No. 26,831, as securities. No application has been or will be made with the Argentine Comisión Nacional de Valores, the Argentine securities governmental authority, to offer the MITTS in Argentina.

Brazil

The information contained in this product supplement and in the accompanying prospectus supplement and prospectus does not constitute a public offering or distribution of securities in Brazil and no registration or filing with respect to any securities or financial products described in these documents has been made with the Comissão de Valores Mobiliários (the “CVM”). No public offer of securities or financial products described in this product supplement or in the accompanying prospectus supplement and prospectus should be made in Brazil without the applicable registration at the CVM.

Chile

The MITTS have not been registered with the Superintendency of Securities and Insurance of Chile, and the MITTS may not be offered or sold to persons in Chile, except in circumstances which do not result in an offer to the public in Chile, within the meaning of Chilean Law.

The People’s Republic of China

These offering documents have not been filed with or approved by the People’s Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan) authorities, and is not an offer of securities (whether public offering or

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private placement) within the meaning of the Securities Law or other pertinent laws and regulations of the People's Republic of China. These offering documents shall not be offered to the general public if used within the People's Republic of China, and the MITTS so offered cannot be sold to anyone that is not a qualified purchaser of the People's Republic of China. MLPF&S has represented, warranted and agreed that the MITTS are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China, except under circumstances that will result in compliance with applicable laws and regulations.

France

This product supplement and accompanying prospectus have not been approved by the *Autorité des marchés financiers* ("AMF"). Each of the selling agents has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, the MITTS to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France this product supplement, the accompanying prospectus supplement or prospectus, or any other offering material relating to the MITTS, and that such offers, sales and distributions have been and will be made in France only to (a) providers of the investment service of portfolio management for the account of third parties, (b) qualified investors (*investisseurs qualifiés*) acting for their own account, (c) a restricted group of investors (*cercle restreint d'investisseurs*) acting for their own account and/or (d) other investors in circumstances which do not require the publication by the offeror of a prospectus pursuant to the French Code monétaire et financier and the Règlement général of the AMF all as defined in, and in accordance with, Articles L.411-2, D.411-1, D.411-4, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier and other applicable regulations. The direct or indirect resale of the MITTS to the public in France may be made only as provided by, and in accordance with, Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code monétaire et financier.

Mexico

The MITTS have not been and will not be registered in the National Securities Registry (Registro Nacional de Valores). Therefore, the MITTS may not be offered or sold in the United Mexican States ("Mexico") by any means except in circumstances which constitute a private offering (oferta privada) pursuant to Article 8 of the Securities Market Law (Ley del Mercado de Valores) and its regulations. All applicable provisions of the Securities Market Law must be complied with in respect to anything done in relation to the MITTS in, from or otherwise involving Mexico.

New Zealand

No offeree of the MITTS shall directly or indirectly offer, sell or deliver any MITTS, or distribute the offering documents or any advertisement in relation to any offer of the MITTS, in New Zealand other than to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money, or who are each required to pay a minimum subscription price of at least NZ\$500,000 for the MITTS (excluding any amounts lent by the issuer or any of its affiliates) before the allotment of those MITTS, or who in all the circumstances can properly be regarded as having been selected otherwise than as members of the public, or in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand.

Philippines

THE MITTS BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE PHILIPPINES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO

REGISTRATION REQUIREMENTS UNDER THE SECURITIES REGULATION CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Switzerland

The MITTS may not be offered, sold or advertised directly or indirectly into or in Switzerland except in a manner which will not result in a public offering within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations (“CO”). Neither this product supplement or the accompanying prospectus supplement and prospectus nor any other offering or marketing materials relating to the MITTS have been prepared with regard to the disclosure standards for prospectuses under article 652a or 1156 CO, and therefore do not constitute a prospectus within the meaning of article 652a or 1156 CO. Neither this product supplement nor the accompanying prospectus supplement and prospectus nor any other offering or marketing materials relating to the MITTS may be distributed, published or otherwise made available in Switzerland except in a manner which will not constitute a public offering of the MITTS into or in Switzerland.

Taiwan

The MITTS may be made available for purchase outside Taiwan by investors residing in Taiwan (either directly or through properly licensed Taiwan intermediaries acting on behalf of such investors) but may not be offered or sold in Taiwan.

Uruguay

The MITTS have not been registered under the Uruguayan Securities Market Law or recorded in the Uruguayan Central Bank. The MITTS are not available publicly in Uruguay and are offered only on a private basis. No action may be taken in Uruguay that would render any offering of the MITTS a public offering in Uruguay. No Uruguayan regulatory authority has approved the MITTS or passed on our solvency. In addition, any resale of the MITTS must be made in a manner that will not constitute a public offering in Uruguay.

Los valores no han sido registrados bajo la Ley de Mercado de Valores de la República Oriental del Uruguay o registrados ante el Banco Central del Uruguay. Los valores no son ofrecidos en forma pública en Uruguay y lo son únicamente en forma privada. Ninguna acción puede ser adoptada en Uruguay en relación a estos valores que resulte en que esta oferta de valores sea una oferta pública de valores en Uruguay. Ninguna autoridad regulatoria del Uruguay ha aprobado estos valores o se ha manifestado sobre nuestra solvencia. Adicionalmente, cualquier reventa de estos valores debe ser realizada en forma tal que no constituya oferta pública de valores en el Uruguay.

Venezuela

The MITTS have not been registered with the Comisión Nacional de Valores de Venezuela and are not being publicly offered in Venezuela. No document related to the offering of the MITTS, including this product supplement and the accompanying prospectus, shall be interpreted to constitute an offer of securities or an offer or the rendering of any investment advice, securities brokerage, and/or banking services in Venezuela. Investors wishing to acquire the MITTS may use only funds located outside of Venezuela.

UNITED STATES FEDERAL TAX CONSIDERATIONS

The following is a discussion of the material U.S. federal income and certain estate tax consequences of the ownership and disposition of the MITTS.

It applies to you only if you purchase a note for cash in the initial offering at the “issue price,” which is the first price at which a substantial amount of the MITTS is sold to the public, and hold the note as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “**Code**”). It does not address all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax consequences, or if you are an investor subject to special rules, such as:

- a financial institution;
- a “regulated investment company”;
- a “real estate investment trust”;
- a tax-exempt entity, including an “individual retirement account” or “Roth IRA”;
- a dealer or trader subject to a mark-to-market method of tax accounting with respect to the MITTS;
- a person holding a note as part of a “straddle” or conversion transaction or who has entered into a “constructive sale” with respect to a note;
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar; or
- an entity classified as a partnership for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the MITTS, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the MITTS or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the MITTS to you.

We will not attempt to ascertain whether any issuer of a security that is a component of an index included in the Market Measure (an “**index underlying security**”) should be treated as a “U.S. real property holding corporation” (“**USRPHC**”) within the meaning of Section 897 of the Code. If the issuer of an index underlying security were so treated, certain adverse U.S. federal income tax consequences might apply to you if you are a non-U.S. holder (as defined below) upon the sale, exchange or other disposition of the MITTS. You should refer to information filed with the Securities and Exchange Commission or another governmental authority by the issuers of the index underlying securities and consult your tax adviser regarding the possible consequences to you if an issuer of an index underlying security is or becomes a USRPHC.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date of this product supplement, changes to any of which subsequent to the date of this product supplement may affect the tax consequences described herein, possibly with retroactive effect. This discussion does not address the effects of any applicable state, local or non-U.S. tax laws or the potential application of the Medicare tax on net investment income. You should consult your tax adviser concerning the application of U.S. federal income and estate tax laws to your

particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction.

This discussion is subject to any additional discussion regarding U.S. federal taxation contained in the applicable term sheet. Accordingly, you should also consult the applicable term sheet for any additional discussion of U.S. federal taxation with respect to the specific MITTS offered thereunder.

Tax Treatment of the MITTS

Unless otherwise indicated in the applicable term sheet, the MITTS should be treated as “**contingent payment debt instruments**” for U.S. federal income tax purposes, and the discussion herein is based on this treatment.

Tax Consequences to U.S. Holders

This section applies only to U.S. holders. You are a “**U.S. holder**” if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or

- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Legislation enacted in 2017 modified the rules regarding the timing of income to be recognized by accrual method taxpayers. Under this legislation, if you are an accrual method taxpayer, notwithstanding the discussion below, you may be required to include original issue discount (“**OID**”) and other income on a note no later than the relevant item is taken into account as revenue in an applicable financial statement. You should consult your tax adviser concerning the application of these rules in your particular situation.

Interest Accruals on the MITTS. Pursuant to rules governing the tax treatment of contingent payment debt instruments (the “**contingent debt regulations**”), you will be required to accrue interest income on the MITTS on a constant yield basis, based on a comparable yield as described below, regardless of whether you use the cash or accrual method of accounting for U.S. federal income tax purposes. Accordingly, you will be required to include interest in your taxable income each year in which you hold the MITTS even though the MITTS do not provide for a payment until maturity (or earlier retirement).

Under the contingent debt regulations you must accrue an amount of ordinary interest income, as OID for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the MITTS that equals the product of:

- the adjusted issue price (as defined below) of the MITTS as of the beginning of the accrual period,
- the comparable yield (as defined below) of the MITTS, adjusted for the length of the accrual period, and

a fraction, the numerator of which is the number of days during the accrual period that you held the MITTS and the denominator of which is the number of days in the accrual period.

The “**adjusted issue price**” of a note is generally its issue price increased by any interest income previously accrued.

As used in the contingent debt regulations, the term “**comparable yield**” means the greater of (i) the annual yield we would pay, as of the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to those of the MITTS and (ii) the applicable federal rate.

The contingent debt regulations require that we provide to U.S. holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments (the “**projected payment schedule**”) on the MITTS. This schedule must produce a yield to maturity that equals the comparable yield.

We generally will provide the comparable yield and projected payment schedule (or information about where to obtain them) for an offering of MITTS in the applicable term sheet. For U.S. federal income tax purposes, you are required under the contingent debt regulations to use the comparable yield and the projected payment schedule established by us in determining interest accruals and adjustments in respect of a note, unless you timely disclose and justify the use of a different comparable yield and projected payment schedule to the Internal Revenue Service (“**IRS**”).

The comparable yield and the projected payment schedule will not be used for any purpose other than to determine your interest accruals and adjustments thereto in respect of a note for U.S. federal income tax purposes. They will not constitute a projection or representation by us regarding the actual amount that will be paid on a note.

Fixing of the Contingent Payment at Maturity. Special rules may apply if the contingent payment at maturity becomes fixed more than six months prior to the date such payment is due. For this purpose, a payment will be treated as fixed if the remaining contingencies with respect to it are remote or incidental. Under these rules, you would be required to account for the difference between the originally projected payment and the fixed payment in a reasonable manner over the period to which the difference relates. In addition, you would be required to make adjustments to, among other things, your accrual periods and your tax basis in the MITTS. The character of any gain or loss on a sale, exchange or retirement of your MITTS also might be affected. You should consult your tax adviser regarding the application of these rules.

Sale, Exchange or Retirement of the MITTS. You will recognize taxable gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount received and your adjusted tax basis in the note. Any gain recognized will be treated as ordinary interest income, and any loss will be ordinary loss to the extent of previous interest inclusions and capital loss thereafter. If you are a non-corporate U.S. holder, any loss you recognize will not be treated as a non-deductible miscellaneous itemized deduction. Any capital loss you recognize may be subject to limitations. Moreover, if you recognize a loss that meets certain thresholds you may be required to file a disclosure statement with the IRS.

Your adjusted tax basis in a note generally will be equal to your original purchase price for the note, increased by any interest income you previously accrued.

Tax Consequences to Non-U.S. Holders

This section applies only to non-U.S. holders. You are a “**non-U.S. holder**” if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

an individual who is classified as a nonresident alien;

- a foreign corporation; or
- a foreign estate or trust.

You are not a non-U.S. holder for purposes of this discussion if you are (i) an individual who is present in the United States for 183 days or more in the taxable year of disposition or (ii) a former citizen or resident of the United States. If you are or may become such a person during the period in which you hold a note, you should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the MITTS.

Treatment of Income and Gain on the MITTS. Subject to the discussions above concerning Section 897 of the Code and below concerning Section 871(m) of the Code and FATCA, you will not be subject to U.S. federal income or withholding tax in respect of the MITTS, provided that:

you do not own, directly or by attribution, ten percent or more of the total combined voting power of all classes of our stock entitled to vote;

you are not a controlled foreign corporation related, directly or indirectly, to us through stock ownership;

- you are not a bank receiving interest under Section 881(c)(3)(A) of the Code; and

you provide to the applicable withholding agent an appropriate IRS Form W-8 on which you certify under penalties of perjury that you are not a U.S. person.

Possible Withholding Under Section 871(m) of the Code

Section 871(m) of the Code and the Treasury regulations thereunder (“**Section 871(m)**”) impose a 30% (or lower treaty rate) withholding tax on certain “dividend equivalents” paid or deemed paid to non-U.S. holders with respect to certain financial instruments linked to U.S. equities (“**underlying securities**”), as defined under the applicable Treasury regulations, or indices that include underlying securities. Section 871(m) generally applies to “specified equity linked instruments” (“**specified ELIs**”), which are financial instruments that substantially replicate the economic performance of one or more underlying securities, as determined based on tests set forth in the applicable Treasury regulations and discussed further below. Section 871(m) provides certain exceptions to this withholding regime, in particular for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (“**qualified indices**”) as well as financial instruments that track such indices (“**qualified index securities**”).

Although the Section 871(m) regime is effective as of 2017, the regulations and IRS Notice 2018-72 phase in the application of Section 871(m) as follows:

For financial instruments issued prior to January 1, 2021, Section 871(m) will generally apply only to financial instruments that have a “delta” of one.

For financial instruments issued in 2021 and thereafter, Section 871(m) will apply if either (i) the “delta” of the relevant financial instrument is at least 0.80, if it is a “simple” contract, or (ii) the financial instrument meets a “substantial equivalence” test, if it is a “complex” contract.

Delta is generally defined as the ratio of the change in the fair market value of a financial instrument to a small change in the fair market value of the number of shares of the underlying security. The “substantial equivalence” test measures

whether a complex contract tracks its “initial hedge” (shares of the underlying security that would fully hedge the contract) more closely than would a “benchmark” simple contract with a delta of 0.80.

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The calculations are generally made at the “calculation date,” which is the earlier of (i) the time of pricing of the note, i.e., when all material terms have been agreed on, and (ii) the issuance of the note. However, if the time of pricing is more than 14 calendar days before the issuance of the note, the calculation date is the date of the issuance of the note. In those circumstances, information regarding our final determinations for purposes of Section 871(m) may be available only after you agree to acquire a note. As a result, you should acquire such a note only if you are willing to accept the risk that the note is treated as a specified ELI subject to withholding.

If the terms of a note are subject to a “significant modification,” the note generally will be treated as reissued for this purpose at the time of the significant modification, in which case the MITTS could become specified ELIs at that time.

If a note is a specified ELI, withholding in respect of dividend equivalents will, depending on the applicable withholding agent’s circumstances, generally be required either (i) on the underlying dividend payment date or (ii) when cash payments are made on the note or upon the date of maturity, lapse or other disposition of the note by you, or possibly upon certain other events. Depending on the circumstances, the applicable withholding agent may withhold the required amounts from payments on the note, from proceeds of the retirement or other disposition of the note, or from your other cash or property held by the withholding agent.

The dividend equivalent amount will include the amount of any actual or, under certain circumstances, estimated dividend. If the dividend equivalent amount is based on the actual dividend, it will be equal to the product of: (i) in the case of a “simple” contract, the per-share dividend amount, the number of shares of an underlying security and the delta; or (ii) in the case of a “complex” contract, the per-share dividend amount and the initial hedge. The dividend equivalent amount for a specified ELI issued prior to January 1, 2021 that has a “delta” of one will be calculated in the same manner as (i) above, using a “delta” of one. The per-share dividend amount will be the actual dividend (including any special dividends) paid with respect to a share of the underlying security.

We will not be required to pay any additional amounts in respect of amounts withheld under Section 871(m).

Depending on the terms of a note and whether or not it is issued on or after January 1, 2021, the term sheet may contain additional information relevant to Section 871(m), such as whether the note references a qualified index or qualified index security; whether it is a “simple” contract; the “delta” and the number of shares multiplied by delta (for a simple contract); and whether the “substantial equivalence test” is met and the initial hedge (for a complex contract).

Prospective purchasers of the MITTS should consult their tax advisers regarding the potential application of Section 871(m) to a particular note. Our determination is binding on non-U.S. holders, but it is not binding on the IRS. The Section 871(m) regulations require complex calculations to be made with respect to MITTS linked to U.S. equities and their application to a specific issue of MITTS may be uncertain. Accordingly, even if we determine that certain MITTS are not specified ELIs, the IRS could challenge our determination and assert that withholding is required in respect of those MITTS. Moreover, your consequences under Section 871(m) may depend on your particular circumstances. For example, if you enter into other transactions relating to a Market Measure, you could be subject to withholding tax or income tax liability under Section 871(m) even if the MITTS are not specified ELIs subject to Section 871(m) as a general matter. Non-U.S. holders should consult their tax advisers regarding the application of Section 871(m) in their particular circumstances.

U.S. Federal Estate Tax

Individual non-U.S. holders and entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers) should consider the U.S. federal estate tax implications of an investment in the MITTS. Absent an applicable treaty benefit, a note will be treated as U.S.-situs property subject to U.S. federal estate tax if payments on the note if received by the decedent at the time of death would have been subject to U.S. federal withholding tax (even if the Form W-8 certification requirement described above were satisfied and not taking into account an elimination of such U.S. federal withholding tax due to the application of an income tax treaty). You should consult your tax adviser regarding the U.S. federal estate tax consequences of an investment in the MITTS in your particular situation and the availability of benefits provided by an applicable estate tax treaty, if any.

Backup Withholding and Information Reporting

Information returns generally will be filed with the IRS with respect to amounts treated as interest on the MITTS and may be filed with the IRS in connection with the payment of proceeds from a sale, exchange or other disposition of the MITTS. If you fail to provide certain identifying information (such as an accurate taxpayer identification number if you are a U.S. holder) or meet certain other conditions, you may also be subject to backup withholding at the rate specified in the Code. If you are a non-U.S. holder that provides an appropriate IRS Form W-8, you will generally establish an exemption from backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the relevant information is timely furnished to the IRS.

FATCA

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. Withholding under these rules (if applicable) applies to payments on the MITTS of amounts treated as interest and certain dividend equivalents (as defined above) under Section 871(m) and, for dispositions after December 31, 2018, to payments of gross proceeds of the disposition (including upon retirement) of the MITTS. If withholding applies to the MITTS, we will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and non-U.S. holders should consult their tax advisers regarding the potential application of FATCA to the MITTS.

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ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing, or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (“**ERISA**”) (a “**Plan**”), should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorizing an investment in the MITTS. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we, the agents, and certain of our respective subsidiaries and affiliates may be each considered a party in interest within the meaning of ERISA, or a disqualified person (within the meaning of the Code), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also “**Plans**”). Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the MITTS are acquired by or with the assets of a Plan with respect to which we or any of our affiliates is a party in interest, unless the MITTS are acquired under an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions (“**PTCEs**”) issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding, or disposition of the MITTS. Those exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain arm’s length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the “**Service Provider Exemption**”).

Because we may be considered a party in interest with respect to many Plans, the MITTS may not be purchased, held, or disposed of by any Plan, any entity whose underlying assets include plan assets by reason of any Plan’s investment in the entity (a “**Plan Asset Entity**”) or any person investing plan assets of any Plan, unless such purchase, holding, or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding, or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the MITTS will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the MITTS that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such MITTS on behalf of or with plan assets of any Plan or any plan subject to similar laws or (b) its purchase, holding, and disposition are eligible for exemptive relief or such purchase, holding, and disposition are not prohibited by ERISA or Section 4975 of the Code or similar laws.

Further, any person acquiring or holding the MITTS on behalf of any plan or with any plan assets shall be deemed to represent on behalf of itself and such plan that (x) the plan is paying no more than, and is receiving no less than, adequate consideration within the meaning of Section 408(b)(17) of ERISA in connection with the transaction or any redemption of the MITTS, (y) none of us, MLPF&S or any other agent directly or indirectly exercises any discretionary authority or control or renders investment advice or otherwise acts in a fiduciary capacity with respect to the assets of the plan within the meaning of ERISA and (z) in making the foregoing representations and warranties, such person has applied sound business

principles in determining whether fair market value will be paid, and has made such determination acting in good faith.

The fiduciary investment considerations summarized above generally apply to employee benefit plans maintained by private-sector employers and to individual retirement accounts and other arrangements subject to Section 4975 of the Code, but generally do not apply to governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA). However, these other plans may be subject to similar provisions under applicable federal, state, local, foreign, or other regulations, rules, or laws (“**similar laws**”). The fiduciaries of plans subject to similar laws should also consider the foregoing issues in general terms as well as any further issues arising under the applicable similar laws.

Each purchaser or holder of the MITTS acknowledges and agrees that:

- the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary
- (i) or adviser of the purchaser or holder with respect to (a) the design and terms of the MITTS, (b) the purchaser or holder’s investment in the MITTS, or (c) the exercise of or failure to exercise any rights we have under or with respect to the MITTS;
- (ii) we and our affiliates have acted and will act solely for our own account in connection with (a) all transactions relating to the MITTS and (b) all hedging transactions in connection with our obligations under the MITTS;
- (iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;
- (iv) our interests may be adverse to the interests of the purchaser or holder; and
- (v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Purchasers of the MITTS have exclusive responsibility for ensuring that their purchase, holding, and disposition of the MITTS do not violate the prohibited transaction rules of ERISA or the Code or any similar regulations applicable to governmental or church plans, as described above.

This discussion is a general summary of some of the rules which apply to benefit plans and their related investment vehicles. This summary does not include all of the investment considerations relevant to Plans and other benefit plan investors such as governmental, church, and foreign plans and should not be construed as legal advice or a legal opinion. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the MITTS on behalf of or with “plan assets” of any Plan or other benefit plan investor consult with their legal counsel prior to directing any such purchase.

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Total

(\$)

William W. McCarten

168,750

70,000

238,750

(Chairman)

W. Robert Grafton

93,750

70,000

—

163,750

(Lead Director & Audit Committee Chairperson)

Daniel J. Altobello

83,750

70,000

4,502

158,252

(Compensation Committee Chairperson)

Maureen L. McAvey
68,750

70,000

—

138,750

(Director)

Gilbert T. Ray
78,750

70,000

10,000

158,750

(Nominating and Governance Committee Chairperson)

Bruce D. Wardinski
68,750

70,000

—
138,750

(Director)

(1) Messrs. Brugger and Williams are not included in this table because they were employees of the Company in 2013 and thus received no separate compensation for services as directors.

The amounts set forth in this column represent the grant-date fair value of unrestricted stock awards to our non-employee directors. Each non-employee director was granted 6,917 fully vested shares of common stock on (2) May 15, 2013. Such shares had a market value of \$70,000 on such date, based on the closing price for shares of our common stock on the NYSE on such day. The fair market value of such shares was recognized as compensation expense on the grant date.

The non-employee directors are permitted to elect to defer the receipt of the annual unrestricted stock award. Those non-employee directors who elect to defer such awards were instead granted an award of deferred stock units. The deferred stock units will be settled in shares of stock in a lump sum six months after the director ceases to be a member of our Board of Directors. Messrs. Grafton and Ray and Ms. McAvey elected to receive deferred stock units and Messrs. McCarten, Altobello and Wardinski elected to receive shares of common stock.

(3) Reimbursement for lodging, meals, parking and certain other expenses at one of our hotels or other hotels or resorts.

Cash Compensation

We compensate our directors through an annual retainer as opposed to per meeting fees. We have structured their compensation in this manner in order to simplify and clarify director compensation as each of our three standing committees was comprised of the same five independent directors in 2013 and often a meeting might discuss matters involving the area of responsibility of more than one committee. In July of each year, our Compensation Committee reviews the compensation of our non-employee directors.

In 2013, our Compensation Committee engaged F.W. Cook to conduct a study of compensation paid to non-employee directors of comparable public companies. Based on this review, the annual cash retainer for Board service was increased by \$7,500 (from \$65,000 to \$72,500) effective July 1, 2013. Therefore, the cash retainer paid was \$32,500 for the six months ended June 30, 2013, and \$36,250 for the six months ended December 31, 2013. The additional retainers for our Chairman, Committee Chairs and the Lead Director remain unchanged.

The following chart reflects the annual cash retainers paid to our non-employee directors in 2013.

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Name	Annual Fee for Board Membership	Annual Fee for Committee Chairs & Lead Director	Total Cash Fees Paid
William W. McCarten (Chairman)	\$68,750	\$100,000	\$168,750
W. Robert Grafton ⁽¹⁾ (Lead Director & Audit Committee Chairperson)	\$68,750	\$25,000	\$93,750
Daniel J. Altobello (Compensation Committee Chairperson)	\$68,750	\$15,000	\$83,750
Maureen L. McAvey (Director)	\$68,750	\$—	\$68,750
Gilbert T. Ray (Nominating and Governance Committee Chairperson)	\$68,750	\$10,000	\$78,750
Bruce D. Wardinski (Director)	\$68,750	\$—	68,750

(1) The additional annual retainer for our lead director is \$10,000 and the additional annual retainer for the Audit Committee Chairperson is \$15,000.

Equity Compensation

As part of their regular annual compensation, each of our non-employee directors receives a grant of fully vested shares of common stock each year. The non-employee directors may elect to defer the receipt of the annual stock award. Those non-employee directors who elect to defer such awards will instead be granted an award of deferred stock units and the deferred stock units will be settled in shares of common stock in a lump sum six months after the director ceases to be a member of our Board of Directors. On May 15, 2013, we issued (i) 6,917 shares of common stock to each of those directors electing to receive the equity award and (ii) 6,917 deferred stock units to each of those directors electing to defer the equity award, both of which had a value of \$70,000, based on the closing stock price for our common stock on the NYSE on such day. Based on the review of director compensation conducted in July 2013 by F.W. Cook, the annual equity grant value was increased from \$70,000 to \$77,500, to be effective for the grant made at the 2014 annual meeting.

Expenses and Perquisites

We reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of our Board of Directors or its committees or attending continuing professional education classes.

In addition, each of the members of our Board of Directors is entitled to reimbursement for up to \$10,000 per annum of lodging, meals, parking and certain other expenses at all of our hotels as well as at other hotels and resorts. The purpose of this policy is to encourage our directors to visit our hotels and other hotels in order to maintain and enhance their knowledge of our portfolio and the lodging industry. All of such reimbursement was considered taxable income to the director who stayed at the hotel or resort and is disclosed in the “All Other Compensation” column of the chart entitled “Director Compensation.”

Stock Ownership Policy for Directors

Under our stock ownership policy, an ownership target is set for each of our non-employee directors. The ownership target establishes, on an annual basis, the number of shares each non-employee director should hold of Company stock. If a non-employee director holds less than the ownership target, he or she is restricted from selling any shares of Company stock until such time as he or she holds shares in excess of the ownership target, except as needed to pay personal taxes related to the issuance of Company stock from equity compensation grants, and except for shares that the director has purchased on the open market.

We count towards this minimum equity ownership policy owned shares and deferred stock units. The ownership target for a non-employee director is determined by multiplying the annual fee for Board membership for that year by five and then dividing that result by the average closing price of the Company’s common stock during the first 10 trading

days of the same calendar year (\$11.54 per share for 2014). Each of our non-employee directors holds shares in excess of his or her 2014 ownership target, except for Mr. Wardinski, who holds shares below the ownership target because he was appointed to our Board of Directors in January 2013 and has not had sufficient time to accumulate shares equal to his ownership target.

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our “named executive officers” for 2013 were as follows:

Name	Title
Mark W. Brugger	President and Chief Executive Officer ⁽¹⁾
John L. Williams	Former President and Chief Operating Officer ⁽²⁾
Robert D. Tanenbaum	Executive Vice President and Chief Operating Officer ⁽³⁾
Sean M. Mahoney	Executive Vice President and Chief Financial Officer
William J. Tennis	Executive Vice President and General Counsel

⁽¹⁾ Mr. Brugger was appointed to the position of President effective May 1, 2013.

⁽²⁾ Mr. Williams' employment ended effective May 1, 2013.

⁽³⁾ Mr. Tanenbaum's employment commenced on April 1, 2013 and he was appointed Chief Operating Officer effective May 1, 2013.

Our executive compensation program has been designed to meet the following objectives:

• to be straightforward, transparent and market-based;

• to create proper incentives for our executive team to achieve corporate and individual performance objectives and maximize long-term stockholder value; and

• to comply with sound corporate governance practices.

Our executive compensation program consists of base salary, annual cash incentive compensation opportunities, annual long-term equity incentive grants and limited perquisites offered to all employees.

Company Highlights

In 2013, the overall lodging industry profited from the continuing recovery in lodging fundamentals and our high-quality hotel portfolio proved to be well-positioned to benefit from the larger industry's success. The Company was able to deliver total stockholder returns of 33 percent while taking meaningful steps to position the Company for the future. We continued to successfully execute on our strategic objectives, including an intense focus on asset management, capital investment, and balance sheet management.

We realized several significant accomplishments in 2013, including:

• Commenced a \$140 million capital expenditure program, which transformed and upgraded eight of our core hotels.

• The capital expenditure program was substantially completed as scheduled in February 2014.

• Sale of a non-core hotel for proceeds of approximately \$76 million

• Raised approximately \$165 million through three separate secured financings at attractive fixed interest rates

• Paid four quarterly dividends totaling \$0.34 per share, returning approximately \$65 million to stockholders

• Our RevPAR, excluding our New York City hotels under renovation, increased 5.3% from 2012.

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2013 Compensation Overview

Highlighted below are the key components of our executive compensation program, the purpose of each component and the process for determining each component.

Compensation Component	Description and Purpose	Process/Highlights
Base Salary	<ul style="list-style-type: none"> Fixed compensation necessary to attract and retain executive talent. Based on competitive market, individual role, experience, performance and potential. 	<ul style="list-style-type: none"> Executive base salaries are reviewed in the fourth quarter each year. Refer to the subsection entitled "Base Salary" under the discussion of "Compensation Elements" for a three-year history of base salaries for the named executive officers.
Annual Cash Incentive Compensation	<p>Performance-based cash incentives that reward achievement of annual performance objectives.</p> <ul style="list-style-type: none"> Tied to Company's business plan and individual goals. <p>Based 70% on Adjusted Funds From Operations (AFFO) per share, 25% on individual objectives, and 5% based on hotel market share performance.</p>	<ul style="list-style-type: none"> In 2013, our AFFO per share was \$0.73 resulting in a payout of 100% of target for this component. Our hotel market share performance resulted in a payout of 96% of target for this component. The executives achieved the maximum for their individual objectives, with the exception of Mr. Brugger who achieved 80% of maximum. Actual bonuses paid in 2013 ranged from 115% to 125% of each executive's target opportunity. Refer to the subsection entitled "Cash Incentive Compensation Program" under the discussion of "Compensation Elements" for more detail.
Long-Term Equity Incentive Compensation	<p>Aligns executive compensation with total stockholder return over multi-year performance and vesting periods.</p> <ul style="list-style-type: none"> 50% of long-term equity incentives are earned based on Company performance relative to peers. 	<ul style="list-style-type: none"> Grants are made in the first quarter each year. <p>Grants made in 2013 were 50% in performance stock units (PSUs) that are earned ranging from 0% to 150% of a target number of PSUs based on our total stockholder return relative to a peer group over a three-year performance period and 50% in restricted stock that vests over three years.</p> <p>Refer to the subsection entitled "Long-Term Equity Incentive Compensation Program" under the discussion of "Compensation Elements" for more detail.</p>
Benefits and Limited Perquisites	<ul style="list-style-type: none"> Named executive officers participate in the same benefits plans as all other employees. Designed to attract and retain high-performing employees. Includes health and dental insurance, term life insurance, disability coverage and a 401(k) plan match. 	<ul style="list-style-type: none"> All employee plans are reviewed annually As a member of our Board of Directors, Mr. Brugger is entitled to reimbursement of \$10,000 for certain hotel stays, which he has never used.

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Target Direct Compensation Mix

The following charts illustrate the target mix between direct compensation elements (base salary, annual cash bonus and long-term equity incentives in the form of restricted stock (RSUs) and PSUs) for our Chief Executive Officer and the average of our other named executive officers.

* Other NEOs include Messrs. Mahoney, Tanenbaum and Tennis. Excludes restricted stock award granted to Mr. Tanenbaum upon his appointment to Chief Operating Officer.

Compensation Best Practices

Our executive compensation program incorporates the following best practices:

• Our executives' total compensation opportunity is primarily based on performance, awarded through our annual and long-term incentive compensation programs.

• No guarantees of minimum cash incentive payments.

• Our Chief Executive Officer receives 60% of total compensation in the form of long-term equity incentives. Other named executive officers receive approximately half of total compensation in the form of long-term equity incentives.

• No dividends are paid on unvested stock awards unless and until the awards actually vest.

• Double-trigger for any change in control payments under severance agreements.

• Named executive officers are required to accumulate and hold a meaningful amount of stock.

• No perquisites to named executive officers that are not otherwise provided to all employees, except for Mr. Brugger in his capacity as a member of our Board of Directors.

• Our Compensation Committee retains and meets regularly with an independent compensation consultant to advise on executive and director compensation.

• Our Compensation Committee regularly reviews the Company's incentive compensation plans to ensure they are designed to create and maintain stockholder value and do not encourage excessive risk.

• Clawback policy in effect to recover amounts inappropriately paid in the event of a restatement of our financial statements.

• Anti-hedging policies in effect to prohibit short sales and the purchase or sale of puts, calls or other derivative securities of the Company.

• Prohibition of pledging of Company securities unless our Compensation Committee gives prior approval.

• Our programs are designed to be financially efficient from tax, accounting, cash flow and share dilution perspectives.

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Compensation Committee Procedures, Compensation Consultant, Input of Named Executive Officers on Compensation and Stockholder Advisory Resolution

Our Compensation Committee is responsible for determining the amount and composition of compensation paid to our Chief Executive Officer and all other executive officers. Our Compensation Committee exercises its independent discretion in reviewing and approving the executive compensation program as a whole, as well as specific compensation levels for each executive officer.

In determining executive compensation for 2013, our Compensation Committee considered the overwhelming stockholder support for the “say-on-pay” proposal received at the 2012 annual meeting of stockholders. As a result, our Compensation Committee continued to apply the same effective principles and philosophy it has used in previous years in determining executive compensation and will continue to consider stockholder concerns and feedback in the future. Further, at the 2013 annual meeting of stockholders, stockholders again overwhelmingly endorsed the Company's executive compensation by voting 96% in favor of such compensation.

Independent Consultant

F.W. Cook advises our Compensation Committee on compensation program design and the amounts we should pay to our executives. They provide our Compensation Committee with information on executive compensation trends, best practices and advice for potential improvements to the executive compensation program. F.W. Cook also advises our Compensation Committee on the design of the compensation program for non-employee directors. F.W. Cook does not work for management, receives no compensation from the Company other than for its work in advising our Compensation Committee, and maintains no other economic relationships with the Company. As part of the process of assessing the effectiveness of the Company's compensation programs, F.W. Cook receives input from our Chief Executive Officer regarding the Company's strategic goals and the manner in which the compensation plans should support these goals.

Annual Process

In the fourth quarter of each year, our Compensation Committee reviews the total compensation of each of our executive officers for the prior year, including an estimate of the incentive plan compensation for the current year, a summary of all executive severance agreements and a calculation of potential change-in-control costs. Our Compensation Committee, at this meeting, also reviews appropriate compensation studies and surveys. After the review, our Compensation Committee finalizes and approves the design of the compensation plan for the upcoming year.

Our Compensation Committee engages F.W. Cook to provide a benchmarking study of executive officer compensation compared to competitive sets. Following the review of the study and considering the skill level of each executive, our Compensation Committee sets an appropriate base salary for the executive officers along with target bonuses and equity awards for the following year.

Subsequent to the end of the year, once the financial results for the prior year are available and the annual budget for the current year is finalized, our Compensation Committee reviews the achievement of the formulaic components of the cash incentive program and individual objectives. Based on this review, our Compensation Committee finalizes and approves the annual cash incentive compensation for the prior year. Additionally, our Compensation Committee finalizes the structure of the current year annual cash incentive compensation program and the amount and structure of the long-term incentive awards.

We believe our programs are effectively designed and working well in alignment with the interests of our stockholders and are instrumental to achieving our business strategy. We do not believe the compensation structure for our named executive officers in 2014 will change materially from 2013.

Use of Competitive Sets

Each year, our Compensation Committee conducts a review of the executive compensation program in terms of both design and compensation levels. This includes a competitive analysis of our compensation practices versus those of our peers with a focus on other lodging REITs and, to a lesser extent, non-lodging REITs. Our primary competitive set is comprised of nine lodging-focused, self-managed REITs. We typically review the executive compensation practices at Host Hotels & Resorts, Inc. (NYSE: HST), but we exclude this information from our competitive set as HST is substantially larger than us. We confirm that our compensation levels are in line with the overall market by evaluating

our compensation against a secondary competitive set comprised of eleven similarly-sized self-managed, non-lodging REITs which invest in a variety of assets, including office,

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apartment and retail properties. While the compensation practices of the non-lodging REIT competitive set is reviewed for reference, our Compensation Committee focuses predominantly on the lodging REIT competitive set when making compensation decisions.

The REITs in each competitive set are:

Lodging REIT Competitive Set

Company	Ticker Symbol
Ashford Hospitality Trust	AHT
Chesapeake Lodging Trust	CHSP
Felcor Lodging Trust	FCH
LaSalle Hotel Properties	LHO
Pebblebrook Hotel Trust	PEB
RLJ Lodging	RLJ
Ryman Hospitality Properties, Inc.	RHP
Strategic Hotels and Resorts, Inc.	BEE
Sunstone Hotel Investors, Inc.	SHO

Non-Lodging REIT Competitive Set

Company	Ticker Symbol
Brandywine Realty Trust	BDN
Colonial Properties Trust	CLP
Corporate Office Properties Trust	OFC
DCT Industrial	DCT
East Group Properties, Inc.	EGP
EPR Properties	EPR
First Industrial Realty Trust	FR
Mack-Cali Realty Corporation	CLI
Medical Properties Trust	MPW
Sun Communities, Inc.	SUI
Washington REIT	WRE

In 2013, F.W. Cook conducted a competitive analysis of executive compensation levels against our competitive sets to assist our Compensation Committee in making compensation decisions with respect to target pay opportunities for our executives for 2013. As we target our total compensation to be competitive with that of our competitive sets, we seek to ensure that approximately half of the compensation paid to our executives is in the form of equity; as a result, our executives' cash compensation may be targeted at a level below or above the median cash compensation paid to members of our competitive sets. We generally attempt to pay base salaries at levels competitive with that of our competitive sets.

Our executives' actual compensation for 2013 compared to the 2012 compensation of executives in our competitive sets is as follows:

Lodging REIT Competitive Set

Executive	Benchmark	Base Salary	Annual Cash Incentive	Equity	Total Compensation
Mr. Brugger	Chief Executive Officer	6 th of 10	10 th of 10	7 th of 10	9 th lowest of 10
Mr. Tanenbaum	Top Operations/Asset Management Officer ⁽¹⁾	5 th of 7	6 th of 7	7 th of 7	7 th lowest of 7
Mr. Mahoney	Chief Financial Officer	8 th of 10	9 th of 9	6 th of 10	7 th lowest of 9
Mr. Tennis	General Counsel ⁽¹⁾	3 rd of 4	4 th of 4	3 rd of 4	4 th lowest of 4

- (1) Certain of the companies included in the Lodging REIT and Non-Lodging REIT Competitive Sets do not publicly report compensation for a Top Operations/Asset Management Officer or General Counsel.

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Non-Lodging REIT Competitive Set

Executive	Benchmark	Base Salary	Annual Cash Incentive	Equity	Total Compensation
Mr. Brugger	Chief Executive Officer	3 rd of 12	7 th of 12	3 rd of 12	4 th lowest of 12
Mr. Tanenbaum	Top Operations/Asset Management Officer	3 rd of 9	5 th of 9	6 th of 9	6 th lowest of 9
Mr. Mahoney	Chief Financial Officer	6 th of 12	7 th of 12	5 th of 12	7 th lowest of 12
Mr. Tennis	General Counsel	3 rd of 4	3 rd of 4	2 nd of 4	2 nd lowest of 4

Combined Competitive Sets

Executive	Benchmark	Base Salary	Annual Cash Incentive	Equity	Total Compensation
Mr. Brugger	Chief Executive Officer	50 th -75 th Percentile	25 th -50 th Percentile	50 th -75 th Percentile	25 th -50 th Percentile
Mr. Tanenbaum	Top Operations/Asset Management Officer	50 th -75 th Percentile	25 th -50 th Percentile	< 25 th Percentile	< 25 th Percentile
Mr. Mahoney	Chief Financial Officer	25 th -50 th Percentile	< 25 th Percentile	50 th -75 th Percentile	25 th -50 th Percentile
Mr. Tennis	General Counsel	< 25 th Percentile	< 25 th Percentile	25 th -50 th Percentile	25 th -50 th Percentile

The tables above reflect our relative ranking in actual compensation for 2013 versus peer group data for 2012. However, the Committee primarily uses the competitive data to set prospective target pay opportunities. Actual compensation may be above or below these targets, based on actual performance. Furthermore, the realized value of equity compensation will likely vary from the target value depending on our stockholder return performance, both on an absolute basis and, with respect to the PSUs, relative to the peer group. With respect to target pay opportunities: Our Compensation Committee reviewed the market data prepared by F.W. Cook, including the fact that Mr. Brugger's total compensation opportunity was below the median, and concluded to make no increase for 2013 and 2014. In addition, our Compensation Committee decided to award Mr. Brugger an annual cash incentive award for 2013 of 115% of target based on performance results against the annual cash incentive program measures as described in more detail under the subsection entitled "Cash Incentive Compensation Program" under the discussion of "Compensation Elements" below. In reaching this conclusion our Compensation Committee relied on several factors: The total stockholder return for the Company in 2013 was 33%, equivalent to the return of the Lodging REIT Competitive Set (with the addition of Host Hotels & Resorts) and substantially higher than the Non-Lodging REIT Competitive Set. This demonstrates improvement that is likely to be reflected in our 3-year total stockholder return in ensuing years.

As discussed below (see "Individual Performance Objectives"), under Mr. Brugger's leadership, the Company achieved the common objectives of all executive officers, and Mr. Brugger achieved each of his personal objectives.

In addition to achieving the goals for the Company and himself established in the beginning of the year, Mr. Brugger also led the Company in achieving the accomplishments of the Company set forth above under 2013 Performance Highlights.

Mr. Brugger's annual cash incentive for 2012 was reduced by 50% from the amount earned at the discretion of our Compensation Committee as it took into consideration the Company's relative one-year total stockholder return ending on December 31, 2012 being below that of the lodging REIT competitive set.

With the implementation in 2013 of PSUs, 50% of Mr. Brugger's long-term incentive compensation for 2013 is tied directly to our 3-year total stockholder return relative to our peers. The actual earned value of his long-term incentive compensation at the end of the 3-year performance period may be higher or lower than the grant date fair value of the award as disclosed in the summary compensation table, based on our absolute and relative total stockholder return

performance.

Mr. Brugger has extensive experience in lodging, real estate and public company finance and management gained almost 20 years as a real estate executive including valuable experience in his role as Chief Executive Officer of the Company for over 5 years.

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Our Compensation Committee determined the compensation for Mr. Tanenbaum, as the newly appointed Chief Operating Officer, based on several factors. Our Compensation Committee believed that the compensation should be attractive in order for Mr. Tanenbaum to accept the position of Chief Operating Officer and should reflect Mr. Tanenbaum's over 20 years of experience in the lodging industry. Our Compensation Committee targeted the compensation of Mr. Tanenbaum to be near the median of the lodging REIT competitive set.

Our Compensation Committee concluded that, in light of Mr. Mahoney's experience as Chief Financial Officer, each of the major elements of Mr. Mahoney's compensation, as well as his total compensation, for 2013 should be targeted near the median in each of the various competitive sets.

Target pay opportunities for Mr. Tennis were set with reference to the market data, but also taking into consideration his experience in the lodging industry. Our Compensation Committee believes that Mr. Tennis' target compensation opportunity is appropriate in light of his responsibilities and significant knowledge gained over his two decades of experience in the lodging industry.

Stockholder Advisory Resolution

During our 2013 Annual Meeting, stockholders were provided the opportunity to cast votes to approve a non-binding advisory resolution on executive compensation (a "say-on-pay" proposal). We recommended that stockholders vote in favor of the say-on-pay proposal. Approximately 96% of stockholders voting at the 2013 Annual Meeting voted to approve the non-binding advisory resolution on executive compensation.

Compensation Elements

Our compensation program seeks to promote our compensation philosophy and objectives through an appropriate mix of four core elements of compensation:

1. base salary;
2. cash incentive compensation program;
3. long-term incentive compensation; and
4. benefits and limited perquisites.

1. Base Salary

We review our executives' base salaries annually in the fourth quarter of each calendar year.

Our primary compensation philosophy is to target our total compensation to be competitive with that of our competitive sets and to ensure that approximately half of the compensation paid to our senior executives is in the form of equity. As a result, our executives' cash compensation may be targeted at a level below or above the median cash compensation paid to members of our competitive sets, with a primary focus on the lodging REIT competitive set.

During our annual compensation review, we generally attempt to set the base salaries within the range of base salaries paid to members of our competitive sets. However, we adjust base salaries to reflect each executive's assigned responsibilities, relevant level of experience and individual performance compared to other members of the competitive sets.

The base salaries for 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Mark W. Brugger	\$725,000	\$725,000	\$725,000
Robert D. Tanenbaum ⁽¹⁾	\$400,000	\$400,000	\$—
Sean M. Mahoney	\$400,000	\$386,000	\$375,000
William J. Tennis	\$350,000	\$340,000	\$330,000

⁽¹⁾ Mr. Tanenbaum's employment commenced on April 1, 2013 and he was appointed Chief Operating Officer effective May 1, 2013.

For the calendar year 2014, our Compensation Committee determined that there would be no increase in the base salary for Mr. Brugger and that it was appropriate to increase Mr. Mahoney's base salary and Mr. Tennis' base salary by approximately 3% based on the median base salary among the competitive sets. The base salary increases for Mr. Mahoney and Mr. Tennis are also consistent with the cost-of-living base salary increases for all other employees of the Company. The respective base salaries for Messrs. Brugger, Mahoney, Tanenbaum and Tennis are in the median range of the lodging REIT competitive set.

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2. Cash Incentive Compensation Program

We maintain an annual cash incentive compensation program pursuant to which our executive officers are eligible to earn cash bonuses based upon their achievement of certain objective corporate goals as well as certain individual goals set by our Compensation Committee at the beginning of that fiscal year. To date, no cash incentive compensation has been paid to our executives other than in accordance with this program.

The performance measures and weightings established by our Compensation Committee for 2013 under our cash incentive compensation program are set forth below.

Components of Cash Incentive Compensation Program	Weighting	Actual Achievement
Adjusted Funds From Operations per share (AFFO per share) ⁽¹⁾	70%	Target
Hotel Market Share Performance	5%	96% of Target
Achievement of certain individual performance objectives	25%	Various ⁽²⁾

We compute the AFFO component of the cash incentive program by adjusting Funds From Operations (or FFO), which we calculate in accordance with the standards established by NAREIT, for certain non-cash items. Refer to (1) "Non-GAAP Financial Measures" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2013. In addition, the Budget AFFO per share excludes the income tax provision and corporate bonus expense.

(2) See "Individual Performance Objectives" below for further discussion.

The annual incentive opportunity ranges for 2013 and the actual cash incentive compensation earned and paid for 2013 performance as a percentage of base salary were as follows:

	2013 Cash Incentive Opportunity			2013 Cash Incentive Earned	
	Threshold	Target	Maximum	% Base Salary	\$ Value
Mark W. Brugger	60	% 120	% 240	% 137.92	% \$999,889
Robert D. Tanenbaum	40	% 80	% 160	% 99.85	% \$300,923
Sean M. Mahoney	40	% 80	% 160	% 99.85	% \$385,428
William J. Tennis	40	% 80	% 160	% 99.85	% \$339,496
AFFO Per Share					

The AFFO component of our cash incentive compensation program is determined by calculating how well the Company performed against the AFFO target, which is based on the 2013 budget approved by our Board of Directors. The following table illustrates the threshold, target, and maximum AFFO per share objectives for the 2013 cash incentive program.

Performance Level	AFFO/Share	Cash Incentive Payout (as % of Target)
<Threshold	< \$ 0.62	0%
Threshold	\$ 0.62	50%
Target	\$ 0.73	100%
Maximum	\$ 0.84	200%

For performance that falls between threshold and the target or between the target and maximum, bonuses are calculated based on a linear interpolation for achievement in between each of those performance levels, with the maximum that a named executive officer could earn being 200% of the target. In 2013, the senior executives earned 100% of target under this component based on AFFO per share of \$0.73.

Hotel Market Share Performance

The Hotel Market Share Performance component of our cash incentive compensation program is based on the achievement of established goals for each hotel's market penetration relative to its respective competitive set, as measured by Smith Travel Research, a third party research firm. This component incents the management team to focus on relative performance of the hotel regardless of the economic environment. For each of the 27 hotels we owned on January 1, 2013 that achieved the market share penetration goal, the executives earned 1/27 of the

maximum opportunity for this component of their bonus. In 2013, 13 of the 27 hotels achieved their market share penetration goal; therefore, the senior executives earned ninety-six percent of target (forty-eight percent of maximum) for this component.

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Individual Performance Objectives

Twenty-five percent of each executive's annual cash incentive is based on achievement of individual objectives. Our Compensation Committee established individual objectives for each of the executive officers, which objectives varied by individual depending on their specific responsibilities.

The executive officers shared several common objectives in 2013. These common objectives were to achieve the 2013 budget, execute the Company's \$140 million capital expenditure program, maintain conservative leverage, ensure capacity for the pending acquisition of the Hilton Garden Inn Times Square expected in mid-2014, complete the repositioning and brand conversion of the Lexington Hotel, execute the repositioning plan of the four hotels acquired in 2012 and complete an analysis of the capital needs of another major hotel in our portfolio.

The other objectives were personal to each executive officer and varied based upon the executive's position and responsibilities as they related to the Company's overall business plan. A summary of each executive's objectives is as follows:

Mr. Brugger's objectives primarily involved providing leadership in achieving the Company's 2013 objectives, implementing a strategic plan for the Company that was established by our Board of Directors prior to 2013, focusing the Company's associates on accomplishing the top priorities, recruiting a Chief Operating Officer, establishing priorities for capital expenditures while putting in place resources to complete the capital projects and developing a plan to articulate the Company's strategy to its investors.

Mr. Tanenbaum's objectives primarily involved establishing and implementing revenue maximization strategies, improving operating profit margins, developing a process for monitoring and completing capital expenditures, completing the renovation of the Lexington Hotel New York and completing the design, scope and execution of the property improvement plans for the Westin Washington D.C. City Center, Westin San Diego, Hilton Boston Downtown and Hilton Burlington.

Mr. Mahoney's objectives primarily involved maintaining the leverage targets established by our Board of Directors, completing the financing of one or more hotels, continuing the professional development of himself and his direct reports, managing the Company's investor relations and evaluating corporate-level opportunities.

Mr. Tennis' objectives primarily involved advising senior management on, and managing the process for, all hotel acquisitions, dispositions and other transactions, overseeing certain legal proceedings, overseeing the legal documentation for all financings and refinancings and assessing and advising on the Company's corporate governance policies, risk management policies and executive compensation.

Our Compensation Committee requested that each of the executives prepare a report summarizing individual achievements relative to individual business objectives, and our Compensation Committee asked our Chief Executive Officer to provide his assessment of each officer and a self-assessment of his own performance. Following the review of the reports and a detailed discussion with our Chief Executive Officer regarding each of the other officers, our Compensation Committee concluded that each of the executives substantially completed all of the individual objectives and that each executive, except for Mr. Brugger, earned a maximum payout for the individual component of each executive's bonus. Our Compensation Committee concluded that Mr. Brugger earned 80% of the maximum payout for the individual performance component of his bonus.

3. Long-Term Incentive Compensation

Generally, we target providing approximately half of each executive's total compensation opportunity in the form of long-term equity incentives. However, our Compensation Committee determines, in its sole discretion, the actual amount of equity to be awarded to our executive officers each year reflecting our performance in the prior year, individual performance and competitive levels of long-term incentive compensation among our competitive sets. On this basis, our Compensation Committee determined that Mr. Bugger's long-term equity incentive award should be approximately 60% of his total compensation in order to further align his compensation with the total stockholder return of the Company.

We generally grant equity awards annually in March. We grant equity awards to align the interests of our executives with those of our stockholders, and to create incentives for our executives to protect and grow shareholder value, including through maintenance and growth of our dividend. Our executive officers are not guaranteed any minimum number of shares of restricted stock or other equity grants.

Types of Awards

Since our formation, we have issued shares of restricted stock. Commencing in 2013, based on a recommendation from F.W. Cook, we granted an award to each executive officer that consisted of 50% restricted stock and 50% performance stock units, or PSUs. From 2010 to 2012, we granted awards consisting of 75% restricted stock and 25% market stock units, or MSUs. Each of these types of awards is described in more detail below.

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Restricted Stock

Our restricted stock awards vest in three equal annual installments from the date of grant. All dividends on unvested shares accrue and are paid out only when the underlying restricted shares vest.

Performance Stock Units.

PSUs entitle each executive officer to earn shares of common stock subject to the achievement of certain levels of total stockholder return relative to the total stockholder return of a peer group over a three-year performance period. PSUs vest at the end of the three-year performance period. Dividends are not paid currently on the common stock underlying the PSUs; instead, the dividends are treated as "re-invested" and are only earned to the extent the underlying PSU is also earned. The peer group used for purposes of calculating the relative performance of the Company's stock is the same as the Lodging REIT Competitive Set referred to above, with the addition of Host Hotels & Resorts.

Each executive officer is granted a target number of PSUs. The actual number of PSUs earned will range from zero to 150% based on the Company's percentile rank relative to the peer group at the end of the three-year performance period. The total stockholder return of the Company and each of the the peer group companies is equal to the ratio of (x) the 30-day average closing price of common stock as of the last day of the performance period, plus reinvested dividends to (y) the 30-day average closing price of common stock as of the grant date. Based on this ratio, the Company's relative total stockholder return percentile within the peer group is determined and the number of PSUs earned is calculated in accordance with the following:

DRH Relative TSR Percentage Rank*	Percent of Target PSUs Earned
< 30th Percentile	0%
30th Percentile	50%
50th Percentile	100%
> or Equal to 75th Percentile	150%

* Linear interpolation for performance between the 30th and 50th percentile and for performance between the 50th and 75th percentile

PSUs are settled at the end of the three-year performance period by the issuance of a share of common stock for every PSU earned.

Our Compensation Committee decided to incorporate PSUs into our long-term incentive program in an effort to create stronger pay-for-performance alignment. Our Compensation Committee has evaluated several long-term incentive alternatives over the years to determine a mix that best supports our objectives and is effective for us, given our REIT structure. Our Compensation Committee believes that PSUs align our interests with those of stockholders because they calibrate earned compensation to our performance relative to our peers, which are investment alternatives for our stockholders. As compared to time-based restricted stock, PSUs reward both absolute and relative total stockholder return.

Market Stock Units

We granted MSUs to each executive officer in 2010, 2011 and 2012. MSUs are restricted stock units that are earned three years from the date of grant, subject to the achievement of certain levels of total stockholder return over the performance period (the "Performance Period"). At the end of the Performance Period the actual number of MSUs earned is converted to shares of common stock based on the closing stock price on the vesting date. The Performance Period for MSUs granted in 2011 will end on February 27, 2014 and the Performance Period for MSUs granted in 2012 will end on February 27, 2015. We do not pay current dividends on the shares of common stock underlying the MSUs; instead, the dividends are effectively "re-invested" as each of the executive officers is credited with an additional number of MSUs that have a fair market value (based on the closing stock price on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares.

Each executive officer was granted a target number of MSUs which is adjusted to reflect dividends paid during the Performance Period (the "Target Award"). The actual number of MSUs that will be earned, if any, is equal to the Target Award multiplied by a conversion ratio. The conversion ratio is calculated by dividing (a) the 30-day average closing price of our common stock on the last day of the Performance Period plus dividends paid by (b) the 30-day average closing price of our common stock on the grant date. The Target Award is then multiplied by the conversion ratio. The

maximum payout to an executive officer under an award is equal to 150% of the Target Award and no shares are earned if the conversion ratio is less than 50%.

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2013 Long-Term Equity Grants

	Restricted Stock Awards	PSU Awards		
		Threshold	Target	Maximum
Mark W. Brugger	\$1,200,000	\$—	\$1,200,000	\$1,800,000
Robert D. Tanenbaum	\$475,000	\$—	\$225,000	\$337,500
Sean M. Mahoney	\$400,000	\$—	\$400,000	\$600,000
William J. Tennis	\$275,000	\$—	\$275,000	\$412,500

Our Compensation Committee granted Mr. Tanenbaum a long-term equity incentive upon his appointment to Chief Operating Officer in May 2013, which consisted of 50% restricted stock and 50% PSUs. In addition, Mr. Tanenbaum was granted an additional restricted stock award in November 2013 to provide increased retention and alignment with the Company, as well as to reward for his significant impact on improving the Company's asset management function.

4. Perquisites and other benefits

We have not implemented a pension program and we have very limited perquisites. Our named executive officers, along with all of our employees on a non-discriminatory basis, receive: (i) health and dental insurance with the Company paying 100% of the premiums, (ii) a \$200,000 group term life insurance policy, and (iii) long-term and short-term disability coverage. We maintain a retirement savings plan for all of our employees under section 401(k) of the Code. All of our employees, including our named executive officers, benefit from the same company matching formula. In addition, subject to certain limitations, Mr. Brugger, as a member of our Board of Directors, is entitled to reimbursement of up to \$10,000 of lodging, meals, parking and certain other expenses at all of our hotels and at other hotels.

Severance Agreements

We have entered into severance agreements with each of our named executive officers. In structuring these agreements, our Compensation Committee reviewed the severance agreements and policies as well as the employment contracts for the eight largest lodging self-managed REITs that were then currently SEC reporting companies. In addition, F.W. Cook reviewed the proposed components of the severance agreements on behalf of our Compensation Committee and provided advice on current market practices and emerging best practices regarding severance agreements. Our Compensation Committee also engaged its own legal counsel to represent the Company in the negotiation of the form of severance agreements with management.

The severance agreements provide each named executive officer with certain severance benefits if his employment ends under certain circumstances. We believe that the severance agreements will benefit us by helping to retain the executives and by allowing them to focus on their duties without the distraction of the concern for their personal situations in the event of a termination of their employment, especially in connection with a possible change in control of the Company. Further detail regarding the severance agreements is provided as part of the Senior Executive Compensation Summary below.

Mr. Williams, our Former President and Chief Operating Officer, separated from the Company effective May 1, 2013. In connection with his separation, Mr. Williams entered into a separation agreement (the "Separation Agreement") with the Company, which provided that the Company make the following cash payments to Mr. Williams (less applicable deductions): (1) \$1,962,000 representing a severance payment and (2) \$145,333 as his prorated target annual cash incentive. In addition, Mr. Williams' outstanding equity awards vested upon his separation.

Discussion of Certain Compensation Policies

Stock Ownership Policy for Senior Executives

We believe that it is important to align the interests of senior management with those of our stockholders. As one concrete step to ensure such alignment, we have a stock ownership policy for each of our senior executive officers, which is similar to the stock ownership policy for our non-executive directors.

Under our stock ownership policy, an ownership target is set for each of our named executive officers. The ownership target establishes, on an annual basis, the number of shares each covered executive should hold of Company stock. If an executive holds less than the ownership target, he or she is restricted from selling any Company stock until such time as he or she holds shares in excess of the ownership target, except as needed to pay personal taxes related to the

vesting of equity compensation awards, and except for shares which the executive has purchased on the open market.

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We count towards this ownership target only those shares that are owned by an executive, including shares purchased or awarded under our equity compensation program to the extent that such shares are fully vested and otherwise continue to be owned by the executive. The ownership target for an executive is determined by calculating a multiple (4 in the case of the Chief Executive Officer and 3 in the case of all other executive officers) of that executive's base salary for the year and then dividing that result by the average closing price of the Company's common stock during the first 10 trading days of the same calendar year (\$11.54 per share for 2014). Mr. Brugger and Mr. Mahoney each hold shares in excess of their respective ownership target. Mr. Tennis and Mr. Tanenbaum, neither of whom have sold any shares, each hold shares below the ownership target because they have not had sufficient time to accumulate shares equal to their respective ownership target.

Clawback Policy

Our Board of Directors has adopted a policy that, in the event of a restatement of our financial results, our Board of Directors will review all cash incentive plan compensation that was paid to the named executive officers on the basis of having met or exceeded specific performance targets for performance periods. If the bonuses paid pursuant to such cash incentive program compensation would have been lower had the bonuses been calculated based on such restated results, it is the policy of our Board of Directors to seek to recoup, for the benefit of the Company, the portion of the excess cash incentive program compensation that was received by any individual executive who engaged in fraud, intentional misconduct or illegal behavior in connection with the financial results that were restated. Notwithstanding anything stated or implied in the foregoing, our Board of Directors will, in its reasonable business judgment, decide whether to pursue such recoupment from an individual based on those factors that our Board of Directors believes to be reasonable.

Hedging, Short Sales, and Pledging Policies

Our board of directors has adopted policies pursuant to which members of the Board of Directors, each named executive officer and certain other executives are prohibited from selling any securities of the Company that are not owned at the time of the sale ("short sale"); purchasing or selling puts, calls or other derivative securities of the Company at any time; and pledging Company securities as collateral for a loan unless the Compensation Committee has given approval.

Tax Deductibility of Executive Compensation

Section 162(m) of the Code limits the deductibility on DiamondRock's tax return of compensation over \$1 million to certain of our corporate officers unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by our stockholders. Because DiamondRock is a real estate investment trust that generally does not pay corporate income taxes, the loss of deductibility of compensation does not have a significant adverse impact on us. In 2013, \$5.0 million was not deductible under Section 162(m).

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COMPENSATION COMMITTEE REPORT OF EXECUTIVE COMPENSATION

The undersigned members of the Compensation Committee of the Board of Directors of DiamondRock Hospitality Company submit this report in connection with our review of the Compensation Discussion and Analysis section of this Proxy Statement for the fiscal year ended December 31, 2013.

The Compensation Committee notes that we have oversight responsibilities only. We rely without independent verification on the information provided to us and on the representations made by management. Accordingly, our oversight does not provide an independent basis to determine whether the Compensation Discussion and Analysis section of this Proxy Statement is accurate and complete. We also note that management has the primary responsibility for the preparation of the Compensation Discussion and Analysis section of this Proxy Statement. We, however, have reviewed the Compensation Discussion and Analysis and have discussed it with management; and in reliance on the reviews and discussions referred to above, we recommended to our Board of Directors that the Compensation Discussion and Analysis section of this Proxy Statement be included in this Proxy Statement.

Submitted by the Compensation
Committee

Daniel J. Altobello, Chairman
W. Robert Grafton
Maureen L. McAvey
Gilbert T. Ray
Bruce D. Wardinski

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SENIOR EXECUTIVE COMPENSATION SUMMARY

Summary Compensation Table

The following table sets forth the information required by Item 402 of Regulation S-K promulgated by the Securities and Exchange Commission. The amounts shown represent the compensation paid to our named executive officers for the years shown as consideration for services rendered to the Company.

With respect to long-term equity incentive awards, the dollar amounts indicated in the table under "Share Awards" are the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718. With respect to performance-based restricted share awards, the dollar value computed is based on the probable outcome of the performance conditions as of the grant date of the award.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation(\$) ⁽⁴⁾	Total (\$)
Mark W. Brugger President and Chief Executive Officer	2013	725,000	2,400,000	999,889	33,849	4,158,738
	2012	725,000	2,000,000	478,553	42,489	3,246,042
	2011	650,000	2,000,000	648,587	37,290	3,335,877
John L. Williams Former President and Chief Operating Officer ⁽¹⁾	2013	181,667	—	145,333	1,983,131	2,310,131
	2012	545,000	850,000	287,792	54,000	1,736,792
Robert D. Tanenbaum Executive Vice President and Chief Operating Officer ⁽²⁾	2011	525,000	850,000	419,087	40,756	1,834,843
	2013	300,000	700,000	300,923	30,005	1,330,928
Sean M. Mahoney Executive Vice President and Chief Financial Officer	2012	—	—	—	—	—
	2011	—	—	—	—	—
William J. Tennis Executive Vice President and General Counsel	2013	386,000	800,000	385,428	33,849	1,605,277
	2012	375,000	660,000	396,043	39,864	1,470,907
	2011	350,000	550,000	279,391	26,623	1,206,014
	2013	340,000	550,000	339,496	28,011	1,257,507
	2012	330,000	500,000	287,528	38,298	1,155,826
	2011	315,000	500,000	207,448	24,020	1,046,468

(1) Mr. William's employment with the Company ended on May 1, 2013.

(2) Mr. Tanenbaum's employment with the Company commenced on April 1, 2013 and he was appointed Chief Operating Officer effective May 1, 2013.

The amounts reported under this column include time-based restricted stock awards and performance-based stock awards (MSUs and PSUs), which are described above under the heading "3. Long-Term Incentive Compensation." MSUs were granted in 2011 and 2012 and PSUs were granted in 2013. The assumptions used in determining the grant date fair values of the equity awards are set forth in Note 7 to our consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2013. In the case of

(3) performance-based stock awards, the fair values were determined based on probable outcome. The table above shows the dollar value of the PSUs assuming that on the grant date of the awards, the target level of performance was probable. The value of the PSUs and MSUs are dependent on the Company's performance over a three-year period and there is no assurance that the target value of the awards will be earned. The maximum dollar value of the PSUs granted in 2013 are as follows: Mr. Brugger - \$1,800,000, Mr. Tanenbaum - \$337,500, Mr. Mahoney - \$600,000 and Mr. Tennis - \$412,500.

(4)

All other compensation represents the employer 401(k) match, health insurance premiums, life and disability insurance premiums and reimbursement of certain compensatory payments to our executive officers and, for those officers who are also directors, vacations at hotels either owned by us or other hotels. The amount for Mr. Williams includes his separation of \$1,962,000 as described above in the subsection entitled "Severance Agreements." In addition to the Perquisites and Other Benefits set forth below, Messrs. Brugger and Tanenbaum received certain travel benefits in 2013 of less than \$10,000 each. The following chart sets forth the perquisites and all other benefits received by our executive officers during 2013.

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	Perquisites	Other Benefits		
	Hotel Reimbursement	401-K Employer Match	Medical and Dental Insurance Premiums	Life and Disability Insurance Premiums
Mark W. Brugger	\$—	\$10,200	\$22,533	\$1,116
John L. Williams	\$—	\$10,200	\$10,664	\$267
Robert D. Tanenbaum	n/a	\$10,200	\$18,867	\$938
Sean M. Mahoney	n/a	\$10,200	\$22,533	\$1,116
William J. Tennis	n/a	\$10,200	\$16,695	\$1,116

Grants of Plan-Based Awards

The following table sets forth information with respect to plan-based incentive awards granted in 2013 to our named executive officers.

Name	Grant Date	Estimated Future Payouts Under Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards	
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Number of Stock or Units (#)(3)	Grant Date of Fair Value of Stock and Option Awards (\$)(4)
Mark W. Brugger	3/5/2013	435,000	870,000	1,740,000	—	—	—	—	—
	3/5/2013	—	—	—	—	—	—	132,159	1,200,000
	3/5/2013	—	—	—	0	125,654	188,481	—	1,200,000
Sean M. Mahoney	3/5/2013	154,400	308,800	617,600	—	—	—	—	—
	3/5/2013	—	—	—	—	—	—	44,053	400,000
	3/5/2013	—	—	—	0	41,885	62,827	—	400,000
Robert D. Tanenbaum	5/15/2013	160,000	320,000	640,000	—	—	—	—	—
	5/15/2013	—	—	—	—	—	—	22,233	225,000
	5/15/2013	—	—	—	0	21,614	32,421	—	225,000
	11/13/2013	—	—	—	—	—	—	21,720	250,000
William J. Tennis	3/5/2013	136,000	272,000	544,000	—	—	—	—	—
	3/5/2013	—	—	—	—	—	—	30,286	275,000
	3/5/2013	—	—	—	0	28,796	43,194	—	275,000

At a compensation committee meeting held on February 19, 2014, we awarded each of our named executive officers, pursuant to the 2013 cash incentive compensation program, the following amounts: Mr. Brugger — (1) \$999,889; Mr. Mahoney — \$385,428; Mr. Tanenbaum — \$300,923; and Mr. Tennis — \$339,496. These amounts are reported as “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table.

(2) Represents PSU awards. See “3. Long-Term Incentive Compensation” above for a description of the PSU awards.

(3) Represents restricted stock awards, which vest over three years beginning February 27, 2014.

(4) Represents the grant date fair value of the PSU awards as determined in accordance with FASB ASC Topic 718 using the Monte Carlo simulation method.

Outstanding Equity Awards

The following table sets forth information with respect to outstanding equity awards held by the named executive officers as of December 31, 2013. The aggregate dollar values indicated in the table below for equity incentive plan

awards are the market or payout values and not the ASC 718 values or the compensation expense recognized by the Company on its financial statements for fiscal year 2013 with respect to its long-term equity incentive plan awards.

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Name	Option Awards				Stock Awards			Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Plan (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(2) (#)	Market Value of Shares or Units of Stock That Have Not Vested(4) (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(3) (#)	Market or Payout Value Of Unearned Shares, Units or Other Rights That Have Not Vested(4) (\$)
Mark W. Brugger	64,199	—	12.59	March 4, 2018	276,889	3,198,068	288,638	3,333,769
John L. Williams	64,199	—	12.59	March 4, 2018	—	—	40,580	468,699
Robert D. Tanenbaum	—	—	—		43,953	507,657	32,955	380,630
Sean M. Mahoney	20,770	—	12.59	March 4, 2018	89,444	1,033,078	93,615	1,081,253
William J. Tennis	—	—	—		66,469	767,717	68,137	786,982

(1) Represents Stock Appreciation Rights issued in 2008, which are fully vested and expire in 2018.

(2) The restricted stock awards vest on the following schedule:

	Date of Grant	Number of Shares or Units Remaining to Vest	Vesting Date
Mark W. Brugger	March 4, 2011	43,104 shares	February 27, 2014
	March 5, 2012	50,813 shares	February 27, 2014
	March 5, 2012	50,813 shares	February 27, 2015
	March 5, 2013	44,053 shares	February 27, 2014
	March 5, 2013	44,053 shares	February 27, 2015
	March 5, 2013	44,053 shares	February 27, 2016
Robert D. Tanenbaum	May 15, 2013	7,411 shares	February 27, 2014
	May 15, 2013	7,411 shares	February 27, 2015
	May 15, 2013	7,411 shares	February 27, 2016
	November 13, 2013	7,240 shares	February 27, 2015
	November 13, 2013	7,240 shares	February 27, 2016
	November 13, 2013	7,240 shares	February 27, 2017
Sean M. Mahoney	March 4, 2011	11,854 shares	February 27, 2014
	March 5, 2012	16,768 shares	February 27, 2014
	March 5, 2012	16,769 shares	February 27, 2015
	March 5, 2013	14,684 shares	February 27, 2014

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	March 5, 2013	14,684 shares	February 27, 2015
	March 5, 2013	14,685 shares	February 27, 2016
William J. Tennis	March 4, 2011	10,776 shares	February 27, 2014
	March 5, 2012	12,703 shares	February 27, 2014
	March 5, 2012	12,704 shares	February 27, 2015
	March 5, 2013	10,095 shares	February 27, 2014
	March 5, 2013	10,095 shares	February 27, 2015
	March 5, 2013	10,096 shares	February 27, 2016

Represents MSU and PSU awards, which are described at “3. Long-Term Incentive Compensation” above. The units (3) reported as follows: 101.7% of target for the 2011 MSU awards, 113.8% of target for the 2012 MSU awards and 150% of target for the 2013 PSU awards.

(4) Calculated using \$11.55 per share, our stock price on the NYSE as of the close of trading on December 31, 2013.

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Option Exercises and Stock Vested for the year ended December 31, 2013

Name	Number of Shares Acquired on Vesting of Restricted Stock Awards	Number of Shares Acquired on Vesting of MSUs	Value Realized on Vesting
Mark W. Brugger	141,537	46,310	\$1,609,888
John L. Williams	128,409	26,242	\$1,397,443
Sean M. Mahoney	44,495	15,436	\$512,897
William J. Tennis	39,353	15,436	\$467,442

(1) The number of shares acquired on vesting and the value of those shares do not reflect the withholding of shares to satisfy federal and state income tax withholdings.

We have omitted tabular information regarding pension benefits and nonqualified deferred compensation as we do not maintain any pension or deferred compensation plans.

Severance Agreements

Pursuant to the severance agreements in place with each of our named executive officers, each of them will be entitled to receive cash severance benefits under his severance agreement if we terminate such executive's employment without cause or such executive resigns with good reason. These severance agreements have so-called "double triggers" as the executives are not entitled to receive any cash severance benefits if, following a change of control, they remain in their position or they resign without demonstrating good reason. If the executive officers are entitled to receive cash severance benefits, they will receive a lump sum payment equal to three times, with respect to Mr. Brugger, or two times, with respect to each of the other executive officers, the sum of (x) his then current base salary and (y) his target bonus under our annual cash incentive compensation program.

In addition, if we terminate such executive's employment without cause or such executive resigns with good reason, or if the executive dies or becomes disabled, the executive (or his family) will be entitled to (i) a pro-rated bonus for the year of termination under our cash incentive program at target, (ii) continued life, health and disability insurance coverage for himself, his spouse and dependents for eighteen months and (iii) the immediate vesting of any unvested portion of any restricted stock award and any MSUs or PSUs previously issued to the executive. Although the executive can retain his MSUs and PSUs, he will not receive any payment until the end of the performance period and the amount paid will be paid based on actual performance. In addition, Stock Appreciation Rights (SARs) and Dividend Equivalent Rights (DERs) granted in 2008 may be exercised by the holder, or his estate, until the expiration dates of such awards. Following a change in control, if an executive is terminated without cause or resigns for good reason, the SARs and DERs may continue to be exercised until the earlier of the expiration date of the award or the fifth anniversary of the vesting. Upon a change in control, regardless of whether there has been a termination of employment, the Company will determine the number of MSUs and PSUs earned based on the performance period immediately prior to the change in control.

In the event that the executive retires and has been designated as an eligible retiree by our Board of Directors, the executive will be eligible to continue to vest in any outstanding unvested restricted stock awards, MSUs and PSUs, but the executive will not receive any cash severance or any continued life, health, or disability coverage for himself or his spouse or dependents.

For the agreements entered into prior to 2009, which include the agreements for Messrs. Brugger and Mahoney, in the event that the severance benefits described above are paid in connection with a change in control of the Company and deemed "excess parachute payments" under Section 280G of the Code, the executives, may be eligible to receive a tax "gross up" payment equal to the additional taxes, if any, imposed on the executive under Section 4999 of the Code in respect of such excess parachute payments. This excise tax gross up is available only to the extent that the value of the severance benefits payable to an executive equals or exceeds 110% of the maximum amount the executive could have received without being subject to any excise tax under Section 4999 of the Code (the "safe harbor"). In the event that the value of the severance benefits payable to an executive is subject to the excise tax but does not equal or exceed 110%

of the “safe harbor”, the amount of the severance benefits will be reduced to an amount that does not trigger excise taxes. Under the agreements for Messrs. Tennis and Tanenbaum, no excise tax gross-up protection is provided. The following table sets forth a summary of our payment obligations pursuant to the severance agreements:

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	Terminated For Cause or Resigned Without Good Reason ⁽¹⁾⁽²⁾	Death or Disability	Terminated without Cause or Resigned with Good Reason ⁽¹⁾⁽²⁾	Retirement ⁽³⁾
Pro-rated cash incentive plan compensation at target	No	Yes	Yes	Yes
Cash severance	No	No	Yes	No
Continued medical and dental benefits	No	Yes	Yes	No
Continued vesting of restricted stock	No	No	No	Yes
Immediate vesting of restricted stock	No	Yes	Yes	No
Continued vesting of MSUs and PSUs	No	Yes	No	No
Immediate vesting of MSUs and PSUs	No	Yes	Yes	No
Modified tax-gross up	N.A.	N.A.	(4)	N.A

“Cause” shall mean a determination by our Board of Directors in good faith that any of the following events have occurred: (i) indictment of the executive of, or the conviction or entry of a plea of guilty or nolo contendere by the executive to, any felony or misdemeanor involving moral turpitude (and in the case of Mr. Tennis, failure to be admissible as a member of the bar of any state); (ii) the executive engaging in conduct which constitutes a material breach of a fiduciary duty or duty of loyalty, including without limitation, misappropriation of our funds or property other than the occasional, customary and de minimis use of our property for personal purposes; (iii) the executive’s willful failure or gross negligence in the performance of his assigned duties, which failure or gross negligence continues for more than 15 days following the executive’s receipt of written notice of such willful failure or gross negligence from our Board of Directors; (iv) any act or omission of the executive that has a demonstrated and material adverse impact on our reputation for honesty and fair dealing or any other conduct of the executive that would reasonably be expected to result in material injury to our reputation; or (v) willful failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by us to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the willful inducement of others to fail to cooperate or to produce documents or other materials.

“Good Reason” for termination shall mean the occurrence of one of the following events, without the executive’s prior written consent: (i) a material diminution in the executive’s duties or responsibilities or any material demotion from the executive’s current position with us, including, without limitation: (A) if the executive is the Chief Executive Officer (or CEO), either discontinuing his direct reporting to our Board of Directors or a committee thereof or discontinuing the direct reporting to the CEO by each of the senior executives responsible for finance, legal, acquisition and operations or (B) if the executive is not the CEO, discontinuing the executive reporting directly to the CEO; (ii) if the executive is a member of our Board of Directors, our failure to nominate the executive as one of our directors; (iii) a requirement that the executive work principally from a location outside the 50-mile radius from our current address, except for required travel on our business to the extent substantially consistent with the executive’s business travel obligations as of the date of the agreement; (iv) failure to pay the executive any compensation or benefits or to honor any indemnification agreement to which the executive is entitled within 15 days of the date due; or (v) the occurrence of any of the following events or conditions in the year immediately following a change in control: (A) a reduction in the executive’s annual base salary or annual cash incentive plan opportunity as in effect immediately prior to the change in control; (B) the failure by us to obtain an agreement, reasonably satisfactory to the executive, from any of our successors or assigns to assume and agree to adopt the severance agreement for a period of at least two years from the change in control.

“Retirement” shall mean a retirement by the executive if the executive has been designated as an eligible retiree by our Board of Directors, in its sole discretion.

(4)

Messrs. Brugger and Mahoney are eligible to receive an excise tax gross-up, which is only applicable if the executive is terminated without cause or resigns for good reason following a change in control. Messrs. Tennis and Tanenbaum are not entitled to receive an excise tax gross up.

Cost of Termination under Severance Agreements

The following chart sets forth the cost that we would have incurred if each of our executive officers were terminated as of December 31, 2013 under the terms of our severance agreements, assuming a stock price of \$11.55, the closing market price on the NYSE on December 31, 2013:

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	Cash Severance	Prorated Target Bonus for Year of Termination	Continued Medical and Dental Benefits(1)	Value of Unvested Shares(2)	Value of Unvested MSUs and PSUs(3)	Cost of Excise Tax Gross Up(4)	Total Cost of Termination
Terminated For Cause or Resigned without Good Reason							
Mark W. Brugger	\$—	\$—	\$—	100% forfeited	100% forfeited	n.a.	\$—
Robert D. Tanenbaum	\$—	\$—	\$—	100% forfeited	100% forfeited	n.a.	\$—
Sean M. Mahoney	\$—	\$—	\$—	100% forfeited	100% forfeited	n.a.	\$—
William J. Tennis	\$—	\$—	\$—	100% forfeited	100% forfeited	n.a.	\$—
Terminated without Cause or Resigned with Good Reason (without a change of control)							
Mark W. Brugger	\$4,350,000	\$725,000	\$35,474	\$3,328,782	\$3,333,769	n.a.	\$11,773,025
Robert D. Tanenbaum	\$1,440,000	\$320,000	\$35,474	\$511,437	\$380,630	n.a.	\$2,687,541
Sean M. Mahoney	\$1,389,600	\$308,800	\$35,474	\$1,074,205	\$1,081,253	n.a.	\$3,889,332
William J. Tennis	\$1,224,000	\$272,000	\$26,717	\$799,693	\$786,982	n.a.	\$3,109,392
\$21,459,290							
Terminated without Cause or Resigned with Good Reason (following a change of control)							
Mark W. Brugger	\$4,350,000	\$725,000	\$35,474	\$3,328,782	\$3,333,769	\$—	\$11,773,025
Robert D. Tanenbaum	\$1,440,000	\$320,000	\$35,474	\$511,437	\$380,630	n.a.	\$2,687,541
Sean M. Mahoney	\$1,389,600	\$308,800	\$35,474	\$1,074,205	\$1,081,253	\$—	\$3,889,332
William J. Tennis (5)	\$733,891	\$272,000	\$26,717	\$799,693	\$786,982	n.a.	\$2,619,283
\$20,969,181							
Death or Disability							
Mark W. Brugger	\$—	\$725,000	\$35,474	\$3,328,782	\$3,333,769	n.a.	\$7,423,025
Robert D. Tanenbaum	\$—	\$320,000	\$35,474	\$511,437	\$380,630	n.a.	\$1,247,541
Sean M. Mahoney	\$—	\$308,800	\$35,474	\$1,074,205	\$1,081,253	n.a.	\$2,499,732
William J. Tennis	\$—	\$272,000	\$26,717	\$799,693	\$786,982	n.a.	\$1,885,392
\$13,055,690							
Retirement							
Mark W. Brugger	\$—	\$725,000	\$—	\$3,328,782	\$3,333,769	n.a.	\$7,387,551
Robert D. Tanenbaum	\$—	\$320,000	\$—	\$511,437	\$380,630	n.a.	\$1,212,067
Sean M. Mahoney	\$—	\$308,800	\$—	\$1,074,205	\$1,081,253	n.a.	\$2,464,258
William J. Tennis	\$—	\$272,000	\$—	\$799,693	\$786,982	n.a.	\$1,858,675
\$12,922,551							

(1) The cost of the medical and dental insurance is based on the average cost paid by us for health insurance for a family with dependent children during 2013. The actual amount will vary based on the cost of health insurance at the time of termination whether the individual is single or married and whether the individual has dependent children.

(2) The number of shares of unvested stock is as of December 31, 2013 and the value of such shares is calculated using \$11.55 per share, the closing price on the NYSE for our stock on December 31, 2013.

(3) For valuation purposes, we have assumed the December 31, 2013 stock price of \$11.55, and that the 2011 MSU awards would be earned at 101.7% of target, 113.8% of target for the 2012 MSU awards and 150% of target for the 2013 PSU awards. However, except in the case of a change in control, MSUs and PSUs will not be earned and

converted into shares of common stock until the end of the performance period.

The cost of the excise tax gross up is an estimate based on a number of assumptions, including: (i) DiamondRock is subject to a change of control on December 31, 2013, (ii) all the named executive officers are terminated on (4) December 31, 2013 without cause following that change of control, (iii) all the named executive officers receive cash incentive compensation for 2013 using the target percentage for each executive officer and (iv) the change of control occurs at a price equal to our closing stock price on December 31, 2013.

(5) The amount of severance benefits payable to Mr. Tennis is subject to the excise tax, therefore his cash severance has been reduced by \$490,109 so that the payment does not trigger the excise tax.

Under our severance agreements, the executives are not entitled to any accrued vacation pay or continued life or disability insurance following a severance event.

The severance agreements contain non-competition covenants that apply during the term and for 12 months after the expiration or termination of such executive's employment with us to the extent that the executive receives a cash severance payment. The non-competition covenants restrict the executives from working for any lodging-oriented real estate investment company located in the United States. The non-competition covenants will not apply following a change of control.

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INFORMATION ABOUT OUR INDEPENDENT ACCOUNTANTS

KPMG LLP served as our independent accountants for the fiscal years ended December 31, 2013 and 2012.

Aggregate fees for professional services rendered by KPMG LLP for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Audit Fees		
Recurring audit	\$282,000	\$349,000
Quarterly reviews	70,000	70,000
Comfort letters, consents and assistance with documents filed with the SEC	—	141,936
Subtotal	352,000	560,936
Audit-Related Fees		
Audits required by lenders and others	216,000	216,000
Tax-Related Fees	—	—
All Other Fees	—	—
Total	\$568,000	\$776,936

Auditor Fees Policy

Our Audit Committee has adopted a policy concerning the pre-approval of audit and non-audit services to be provided by KPMG LLP, our independent accountants. The policy requires that all services provided by KPMG LLP to us, including audit services, audit-related services, tax services and other services, must be pre-approved by our Audit Committee. In some cases, pre-approval is provided by the full Audit Committee for up to a year, and relates to a particular category or group of services and is subject to a particular budget. In other cases, specific pre-approval is required. Our Audit Committee has delegated authority to the Chairman of the Audit Committee to pre-approve additional services, and any such pre-approvals must then be communicated to the full Audit Committee. Our Audit Committee approved all audit and non-audit services provided to us by KPMG LLP during 2013 and 2012. We believe the individuals who were not KPMG LLP's full-time, permanent employees performed less than 50% of the hours expended by KPMG, LLP during the audit of our financial statements.

Policy for Hiring Members of our Audit Engagement Team

Our Audit Committee has a policy regarding the hiring of audit engagement team members to address the potential for impairment of auditor independence when partners and other members of our audit engagement team accept employment with us. Under the policy, we may not hire any individuals below the partner level who were members of our audit engagement team within two years of completion of the most recent audit in which they participated. In addition, we may not hire any partners who were members of our audit engagement team within three years of completion of the most recent audit in which they participated. In all such cases, our Audit Committee must determine that the relationship is in the best interests of stockholders. In addition, we may not appoint a director who is affiliated with, or employed by, our present or former auditor until three years after the affiliation or auditing relationship has ended.

Other Company Accountants and Auditors

We have engaged PricewaterhouseCoopers LLP as our internal auditors. The purpose of the internal audit program is to provide our Audit Committee and our management with ongoing assessments of our risk management processes and to review the effectiveness and design of internal controls at our properties and our corporate office. Aggregate fees for professional services rendered by PricewaterhouseCoopers LLP for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
PricewaterhouseCoopers LLP Fees		
Internal audit	\$415,000	\$450,000
Other fees	45,404	140,148
Total	\$460,404	\$590,148

Our Audit Committee approved all audit and non-audit services provided to us by PricewaterhouseCoopers LLP during 2013 and 2012.

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AUDIT COMMITTEE REPORT

The undersigned members of the Audit Committee of the Board of Directors of DiamondRock Hospitality Company (or DiamondRock) submit this report in connection with the Audit Committee's review of the financial reports for the fiscal year ended December 31, 2013. We note that we have oversight responsibilities only and that we are not acting as experts in accounting and auditing. We rely without independent verification on the information provided to us and on the representations made by management and the independent auditors. Accordingly, our oversight does not provide an independent basis to determine that DiamondRock's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States or that the audit of DiamondRock's consolidated financial statements by independent auditors has been carried out in accordance with auditing standards generally accepted in the United States. Management has the primary responsibility for the preparation, presentation and integrity of DiamondRock's 2013 consolidated financial statements and the overall reporting process, including the systems of internal control, and has represented to us that DiamondRock's 2013 consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The independent registered public accounting firm is responsible for auditing our financial statements. We:

1. have reviewed and discussed with management and KPMG LLP the audited financial statements for DiamondRock for the fiscal year ended December 31, 2013;
2. have discussed with representatives of KPMG LLP the matters required to be discussed with them under the provisions of PCAOB Auditing Standard No. 16 (Communication with Audit Committees), as modified or supplemented; and
3. have received the written disclosures and the letter from the independent auditors required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and have discussed with KPMG LLP the auditors' independence from the Company and management.

In reliance on the reviews and discussions referred to above, we recommended to our Board of Directors that the audited financial statements be included in DiamondRock's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the SEC.

Submitted by the Audit Committee:

W. Robert Grafton, Chairperson
Daniel J. Altobello
Maureen L. McAvey
Gilbert T. Ray
Bruce D. Wardinski

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PRINCIPAL AND MANAGEMENT STOCKHOLDERS

The table below shows the amount of our common stock beneficially owned as of March 14, 2014 by (i) each director and nominee for director, (ii) our Chief Executive Officer, our Chief Financial Officer and the two other most highly compensated executive officers of the Company whose compensation exceeded \$100,000 during the fiscal year ended December 31, 2013 (the “named executive officers”), (iii) all of our directors, director nominees and named executive officers as a group; and (iv) each person known by us to be the beneficial owner of more than 5% of our outstanding common stock (the “5% Holders”). Such information with regard to 5% Holders is based on a review of statements filed with the SEC pursuant to Sections 13(d), 13(f) and 13(g) of the Exchange Act with respect to our common stock.

The number of shares of common stock “beneficially owned” by each stockholder is determined under rules issued by the SEC regarding the beneficial ownership of securities. This information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership of common stock includes (i) any shares as to which the person or entity has sole or shared voting power or investment power and (ii) any shares as to which the person or entity has the right to acquire beneficial ownership within 60 days after March 14, 2014, including any shares which could be purchased by the exercise of options at or within 60 days after March 14, 2014.

Each executive officer of the Company may vote his or her unvested shares of restricted stock so they are deemed to be “beneficially owned” by the relevant executive officer under the relevant SEC rules. However, the directors have no right to vote the shares of common stock underlying the deferred stock units granted to them, as such deferred stock units merely represent our unsecured obligation to deliver such underlying shares in the future; thus such underlying shares are not deemed to be “beneficially owned” by the relevant director.

Unless otherwise indicated, all shares are owned directly, and the indicated individual has sole voting and investment power. Unless otherwise indicated, the address of each named person is c/o DiamondRock Hospitality Company, 3 Bethesda Metro Center, Suite 1500, Bethesda, MD 20814.

Name of Beneficial Owner	Beneficial Ownership Number of Shares		Percent (1)	
Directors and named executive officers:				
William W. McCarten	328,087	(2)	*	
Mark W. Brugger	904,213	(3)	*	
Daniel J. Altobello	56,113		*	
W. Robert Grafton	35,145	(4)	*	
Maureen L. McAvey	27,066	(5)	*	
Gilbert T. Ray	26,953	(6)	*	
Bruce D. Wardinski	9,349		*	
Robert D. Tanenbaum	70,807	(7)	*	
Sean M. Mahoney	336,354	(8)	*	
William J. Tennis	145,572	(9)	*	
Directors and named executive officers as a group (10 persons)	1,939,659		1.0	%
5% Holders:				
The Vanguard Group, Inc. ⁽¹⁰⁾	25,124,865		12.8	%
Cohen & Steers, Inc. ⁽¹¹⁾	23,014,438		11.7	%
BlackRock Inc. ⁽¹²⁾	22,232,838		11.3	%
Vanguard Specialized Funds—Vanguard REIT Index Fund ⁽¹³⁾	13,215,502		6.7	%
AllianceBernstein LP ⁽¹⁴⁾	13,047,410		6.6	%
Daiwa Asset Management Co. Ltd ⁽¹⁵⁾	11,956,213		6.1	%

* Represents less than 1% of the number of shares of common stock outstanding as of March 14, 2014.

Calculated using 196,213,008 shares of common stock outstanding as of March 14, 2014, which includes all unvested shares of restricted stock. There were no additional adjustments required by Rule 13d-3(d)(1)(i) of the Exchange Act as no executive officer or director has any right to acquire shares within 60 days in a manner similar to those rights set forth in Rule 13d-3(d)(1)(i) of the Exchange Act.

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- (2) In accordance with the SEC rules, this does not include 5,625 deferred stock units granted to Mr. McCarten nor does it include 113,293 SARs issued on March 4, 2008.
Mr. Brugger's shares include (i) 235,460 shares of unvested restricted stock granted to him under our Incentive Plan and (ii) 668,753 shares of our common stock owned by him. In accordance with the SEC rules, this does not
- (3) include 47,837 MSUs or 223,686 PSUs granted to Mr. Brugger nor does it include 64,199 SARs issued on March 4, 2008.
- (4) In accordance with the SEC rules, this does not include 19,979 deferred stock units granted to Mr. Grafton.
- (5) In accordance with the SEC rules, this does not include 25,604 deferred stock units granted to Ms. McAvey.
- (6) In accordance with the SEC rules, this does not include 25,604 deferred stock units granted to Mr. Ray.
Mr. Tanenbaum's shares include (i) 60,677 shares of unvested restricted stock granted to him under our Incentive
- (7) Plan and (ii) 10,130 shares of our common stock owned by him. In accordance with the SEC rules, this does not include 45,624 PSUs granted to Mr. Tanenbaum.
Mr. Mahoney's shares include (i) 78,318 shares of unvested restricted stock granted to him under our Incentive Plan and (ii) 258,036 shares of our common stock owned by him. In accordance with the SEC rules, this does not
- (8) include 15,786 MSUs or 74,562 PSUs granted to Mr. Mahoney nor does it include 20,770 SARs issued on March 4, 2008.
Mr. Tennis' shares include (i) 55,019 shares of unvested restricted stock granted to him under our Incentive Plan
- (9) and (ii) 90,553 shares of our common stock owned by him. In accordance with the SEC rules, this does not include 11,961 MSUs or 51,261 PSUs granted to Mr. Tennis.
Based solely on information contained in a Schedule 13G/A filed by The Vanguard Group, Inc., on behalf of
- (10) itself and certain of its affiliates, with the SEC on February 12, 2014. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, PA 19355.
Based solely on information contained in a Schedule 13G/A filed by Cohen & Steers, Inc., on behalf of itself and
- (11) certain of its affiliates, with the SEC on February 14, 2014. The address of Cohen & Steers, Inc. is 280 Park Avenue, 10th Floor, New York, NY 10017.
Based solely on information contained in a Schedule 13G/A filed by BlackRock, Inc., on behalf of itself and
- (12) certain of its affiliates, with the SEC on January 10, 2014. The address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.
Based solely on information contained in a Schedule 13G/A filed by Vanguard Specialized Funds — Vanguard
- (13) REIT Index Fund, on behalf of itself and certain of its affiliates, with the SEC on February 4, 2014. The address of Vanguard Specialized Funds — Vanguard REIT Index Fund is 100 Vanguard Blvd., Malvern, PA 19355.
Based solely on information contained in a Schedule 13G filed by AllianceBernstein LP, on behalf of itself and
- (14) certain of its affiliates, with the SEC on February 11, 2014. The address of AllianceBernstein LP is 1345 Avenue of the Americas, New York, NY 10105.
Based solely on information contained in a Schedule 13G/A filed by Daiwa Asset Management Co. Ltd, on behalf of itself and certain of its affiliates, with the SEC on January 24, 2014. The address of Daiwa
- (15) Asset Management Co. Ltd is GranTokyo North Tower, 9-1 Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan 100-6753.

Related Party Transactions

There were no related party transactions during 2013. For a description of our policies and procedures with regard to related party transactions, please see "Corporate Governance Principles and Board Matters — Other Corporate Governance Matters — Conflicts of Interest" elsewhere in this proxy statement.

Compensation Committee Interlocks and Insider Participation

During 2013, our Compensation Committee consisted of Messrs. Altobello, Grafton, Ray and Wardinski and Ms. McAvey. None of them has served as an officer or employee of DiamondRock. None of these persons had any relationships with DiamondRock requiring disclosure under applicable rules and regulations of the SEC. In addition, none of our executive officers served during 2013 as a director or member of a compensation committee of any entity that has one or more of its executive officers serving as a member of our Board of Directors or our Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Our officers and directors and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended December 31, 2012, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners were satisfied on a timely basis.

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OTHER MATTERS

Expenses of Solicitation

We will bear the cost of the solicitation of proxies. In an effort to have as large a representation at the annual meeting as possible, we may solicit proxies, in certain instances, personally or by telephone or mail by one or more of our employees. We also may reimburse brokers, banks, nominees and other fiduciaries for postage and reasonable clerical expenses of forwarding the proxy material to their principals who are beneficial owners of shares of our common stock.

Stockholder Proposals for Inclusion in Proxy Statement for 2015 Annual Meeting of Stockholders

Any stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in our proxy statement and form of proxy for our 2015 annual meeting must be received by us no later than the close of business on November 27, 2014. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in the proxy statement and form of proxy. Any such proposal should be mailed to: DiamondRock Hospitality Company, 3 Bethesda Metro Center, Suite 1500, Bethesda, MD 20814, Attention: Corporate Secretary.

Other Stockholder Proposals

Our Third Amended and Restated Bylaws, or Bylaws, provide that a stockholder who desires to propose any business at an annual meeting of stockholders, other than proposals submitted pursuant to Exchange Act Rule 14a-8, must give us written notice of such stockholder's intent to bring such business before such meeting. Our Bylaws state that such stockholder's notice must be delivered to the Company's secretary at the Company's principal executive office not earlier than 150 days nor later than 120 days prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting. However, in the event that the date of the annual meeting is more than 30 days from the first anniversary of the date of the preceding year's annual meeting, notice by the stockholder to be timely must be delivered on the later of 150 days prior to the date of such annual meeting, as originally convened, or 10 days following the day on which the date of such meeting is publicly announced. Accordingly, such notice must be received in writing at our principal executive office not earlier than October 28, 2014 nor later than November 27, 2014, unless our 2015 annual meeting of stockholders is scheduled to take place before April 8, 2015 or after June 7, 2015. The stockholder's written notice must set forth a brief description of the business desired to be brought before the meeting and certain other information as set forth in Article II, Section 11 of our Bylaws. Stockholders may obtain a copy of our Bylaws by writing to DiamondRock Hospitality Company, c/o Corporate Secretary, 3 Bethesda Metro Center, Suite 1500, Bethesda, MD 20814.

Stockholder Nominations of Directors

Our Bylaws provide that a stockholder who desires to nominate directors at a meeting of stockholders must give us written notice, within the same time period described above for a stockholder who desires to bring business before a meeting, other than pursuant to Exchange Act Rule 14a-8. Notice of a nomination must be delivered to, or mailed and received at, DiamondRock Hospitality Company, c/o Corporate Secretary, 3 Bethesda Metro Center, Suite 1500, Bethesda, MD 20814. As set forth in Article II, Section 11 of our Bylaws, the notice must set forth certain information as to each person whom the stockholder proposes to nominate for election as a director, the stockholder giving the notice and certain other persons, if any, identified in the Bylaws.

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