Sunstone Hotel Investors, Inc.
Form DEF 14A
March 25, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Sunstone Hotel Investors, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Sunstone Hotel Investors, Inc.

120 Vantis, Suite 350

Aliso Viejo, California 92656

Notice of 2013 Annual Meeting

Renaissance Washington DC Hotel

May 1, 2013 at 11:30 a.m. local time

It is a pleasure to invite you to the 2013 annual meeting of stockholders of Sunstone Hotel Investors, Inc., or Sunstone, a Maryland corporation, to be held at the Renaissance Washington DC Hotel, located at 999 9th Street NW, Washington, District of Columbia 20001, on Wednesday, May 1, 2013 at 11:30 a.m. local time, for the following purposes:

1. To elect eight directors to serve until the next annual meeting and until their successors are elected and qualified;

2. To consider and vote upon ratification of the Audit Committee s appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2013;

3. To consider and vote upon, on a non-binding, advisory basis, a resolution to approve the compensation of Sunstone s named executive officers, as set forth in this proxy statement;

4. To consider and vote upon a non-binding stockholder proposal, if properly presented at the 2013 annual meeting; and

5. To transact such other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

Only stockholders of record of shares of Sunstone common stock, par value $0.01 per share, and Series C Cumulative Convertible Redeemable Preferred Stock, par value $0.01 per share, at the close of business on March 8, 2013 are entitled to notice of and to vote at the 2013 annual meeting or any adjournment or postponement of the meeting.

Whether you own a few or many shares and whether or not you plan to attend in person, it is important that your shares be voted on matters that come before the meeting. You can ensure that your shares are voted at the meeting by submitting your instructions by completing, signing, dating and returning the enclosed proxy card in the envelope provided or, if you own shares through a bank or broker that provides for voting by telephone or over the internet, by submitting your vote by telephone or over the internet in accordance with your bank s or broker s instructions. If your proxy card is signed and returned without specifying your choices, your shares will be voted on each proposal in accordance with our board s recommendations.

By Order of the Board of Directors

Lindsay N. Monge

Senior Vice President Chief Administrative Officer,

Treasurer and Secretary

March 25, 2013

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Proxy Statement

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IMPORTANT INFORMATION REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 1, 2013

This proxy statement and our Annual Report are available at our Investor Relations website at http://www.sunstonehotels.com/proxy.

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Sunstone Hotel Investors, Inc.

120 Vantis, Suite 350

Aliso Viejo, California 92656

Proxy Statement

Your vote is very important. For this reason, our Board of Directors is soliciting the enclosed proxy to allow your shares of common stock, par value $0.01 per share, and Series C Cumulative Convertible Redeemable Preferred Stock, par value $0.01 per share, or Series C preferred stock, to be represented and voted, as you direct, by the proxy holders named in the enclosed proxy card at the 2013 annual meeting of stockholders of Sunstone Hotel Investors, Inc., a Maryland corporation, to be held on Wednesday, May 1, 2013, at 11:30 a.m. local time. We, our, the Company and Sunstone refer to Sunstone Hotel Investors, Inc. This proxy statement, the enclosed proxy card and our Annual Report to stockholders for the year ended December 31, 2012, or our Annual Report, are being mailed to stockholders entitled to vote beginning on or about March 25, 2013.

Information About the Meeting and Voting

What matters will be voted on at the annual meeting?

At the annual meeting of stockholders, action will be taken to:

Proposal 1:	Elect eight directors to serve until the next annual meeting and until their successors are elected and qualified;
Proposal 2:	Consider and vote upon ratification of the Audit Committee s appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2013;
Proposal 3:	Consider and vote upon, on a non-binding, advisory basis, a resolution to approve the compensation of Sunstone s named executive officers, as set forth in this proxy statement;

Proposal 4:	Consider and vote upon a non-binding stockholder proposal, if properly presented at the 2013 annual meeting; and
Proposal 5:	Transact such other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

With respect to any other matter that properly comes before the meeting or any adjournment or postponement thereof, the representatives holding proxies will vote as recommended by the Board of Directors, or if no recommendation is given, in their own discretion.

Who is entitled to vote?

Stockholders of record of our common stock and Series C preferred stock as of the close of business on March 8, 2013, or the record date, are entitled to vote on matters that properly come before the meeting. Shares of common stock or Series C preferred stock can be voted only if the stockholder is present in person or is represented by proxy. At the close of business on the record date, there were 162,825,656 shares of common stock and 4,102,564 shares of Series C preferred stock outstanding and entitled to vote. The holders of common stock and Series C preferred stock will vote together as a single class on all matters that properly come before the meeting.

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How many votes do I have?

Each share of common stock has one vote. Each share of Series C preferred stock has one vote for each share of common stock into which it is convertible. As of the record date, each share of Series C preferred stock was convertible into 1.096 shares of common stock and thus has 1.096 votes.

How do I vote?

You can ensure that your shares are voted at the meeting by submitting your instructions by completing, signing, dating and returning the enclosed proxy form in the envelope provided.

If you own your shares through a bank or broker, you may be eligible to authorize a proxy to vote your shares electronically over the internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services, or ADP, online program. This program provides eligible stockholders who receive a paper copy of the Annual Report and proxy statement the opportunity to authorize a proxy to vote via the internet or by telephone. If your bank or brokerage firm is participating in ADP s online program, your voting form will provide instructions. Stockholders who authorize a proxy to vote through the internet or telephone should be aware that they may incur costs to access the internet, such as usage charges from telephone companies or internet service providers, and that these costs must be borne by the stockholder. Stockholders who authorize a proxy to vote by internet or telephone need not return a proxy card by mail. If your voting form does not reference internet or telephone information, please complete and return the paper proxy card provided by your bank or broker.

If you attend the annual meeting in person, you may request a ballot when you arrive. If your shares are held in the name of your bank, broker or other nominee, prior to attending the meeting you need to request a legal proxy from your bank, broker or nominee as indicated on the back of the Voter Information form you received with your proxy material. The legal proxy must be presented to vote these shares in person at the annual meeting. If you have previously authorized a proxy, you may still vote in person at the annual meeting, which will serve as a revocation of your previous proxy.

Does Sunstone have a policy for confidential voting?

Sunstone has a confidential voting policy. All proxies and other materials, including telephone and internet proxy authorization, are kept confidential and are not disclosed to third parties. Such voting documents are available for examination by the inspector of election and certain personnel associated with processing proxy cards and tabulating the vote. We plan to appoint one independent inspector of election, a representative of our transfer agent, American Stock Transfer and Trust, to review and confirm the tabulation of votes at the annual meeting.

What if I return my proxy but do not mark it to show how I am voting?

If your proxy card is signed and returned without specifying your choices, your shares will be voted as recommended by the Board of Directors.

What are the Board of Directors recommendations?

The Board of Directors recommends that you vote FOR each of the nominees for director in Proposal 1; FOR Proposal 2 to ratify the Audit Committee s appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2013; FOR Proposal 3 to approve, on a non-binding, advisory basis, the compensation of our named executive officers as set forth in this proxy statement; and AGAINST Proposal 4 to approve a non-binding stockholder proposal, if properly presented at the 2013 annual meeting.

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What vote is required to approve each proposal?

Election of Directors: There is no cumulative voting in the election of directors. A director shall be elected by a majority of the votes cast with respect to the director at a meeting of stockholders duly called at which a quorum is present; that is, a nominee will be elected as a director only if the number of votes cast for such nominee exceeds the number of votes withheld with respect to that nominee. Any shares not voted (whether by abstention, broker non-vote (i.e., shares held by a broker or nominee which are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote and has not voted on a particular proposal), or otherwise) have no effect on the vote.

In any uncontested election of directors (an election in which the number of nominees is the same as the number of directors to be elected), any incumbent director nominee who receives a greater number of votes withheld from his or her election than votes for such election and who thus becomes a holdover director under Maryland law shall promptly tender his or her resignation to the Board of Directors following the final tabulation of the stockholder vote. The Nominating and Corporate Governance Committee will consider the director s resignation and will make a recommendation for consideration by the Board of Directors. Within 90 days following the final vote tabulation, the Board of Directors will act on the tendered resignation and the Nominating and Corporate Governance Committee s recommendation.

Ratification of Appointment of Independent Registered Public Accounting Firm: This proposal requires the affirmative vote of a majority of the votes cast at a meeting duly called and at which a quorum is present. Any shares not voted (whether by abstention, broker non-vote or otherwise) have no effect on the vote.

Advisory Vote on Executive Compensation: This proposal requires the affirmative vote of a majority of the votes cast at a meeting duly called and at which a quorum is present. Any shares not voted (whether by abstention, broker non-vote or otherwise) have no effect on the vote.

Non-Binding Stockholder Proposal, if Properly Presented at the 2013 Annual Meeting: This proposal requires the affirmative vote of a majority of the votes cast at a meeting duly called and at which a quorum is present. Any shares not voted (whether by abstention, broker non-vote or otherwise) have no effect on the vote.

What constitutes a quorum?

The presence of the owners of at least a majority (greater than 50%) of the aggregate number of shares of common stock and Series C preferred stock (calculated on an as converted to common stock basis) entitled to vote at the annual meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you authorize a proxy to vote by telephone or the internet, or if you attend the annual meeting.

Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is non-routine and the owner does not provide instructions. Rules of the New York Stock Exchange, or NYSE, determine whether proposals presented at stockholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street or beneficial name may vote on the proposal without voting instructions from the owner. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. The ratification of independent public accountants is generally a routine matter whereas the election of directors is not considered a routine matter. There are no rights of appraisal or similar dissenters rights with respect to any matter to be acted upon pursuant to this proxy statement.

What if other items come up at the annual meeting and I am not there to vote?

We are not now aware of any matters to be presented at the annual meeting other than those described in this proxy statement. When you return a signed and dated proxy card or provide your voting instructions by telephone or the internet, you give the proxy holders (the names of whom are listed on your proxy card) the discretionary authority to vote on your behalf on any other matter that is properly brought before the annual meeting.

Can I change my vote?

You can change your vote by revoking your proxy at any time before it is exercised in one of four ways:

* Notify Sunstone s Secretary (Lindsay N. Monge, c/o Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656) in writing or by facsimile (at 949-330-4057) before the annual meeting that you are revoking your proxy;

* Submit another proxy with a later date;

* If you own shares through a bank or broker that provides for voting by telephone or the internet, submit your voting instructions again by telephone or the internet; or

* Vote in person at the annual meeting.

What does it mean if I receive more than one proxy card?

Some of your shares are likely registered differently or are in more than one account. You should vote each of your accounts by mail, or if such service is provided by a bank or broker that holds your shares, by telephone or the internet. If you mail proxy cards, please sign, date and return each proxy card to ensure that all of your shares are voted.

If you hold your shares in registered form and wish to combine your stockholder accounts in the future, you should contact our transfer agent, American Stock Transfer and Trust, at 1-800-937-5449. Combining accounts reduces excess printing and mailing costs, resulting in savings for Sunstone, that benefit you as a stockholder.

What if I receive only one set of proxy materials although there are multiple stockholders at my address?

If you and other residents at your mailing address own shares in street name (that is, through a broker or other nominee), your broker or bank may have sent you a notice that your household will receive only one Annual Report and proxy statement for each company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as householding. If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our Annual Report and proxy statement to your address. You may revoke your consent to householding at any time by contacting your broker or bank. The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this proxy statement or our Annual Report, we will send a copy to you if you address your written request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

How do I submit a stockholder proposal for inclusion in the proxy statement for next year s annual meeting?

Stockholder proposals may be submitted for inclusion in our 2014 annual meeting proxy statement after the 2013 annual meeting, but must be received no later than November 25, 2013. Proposals should be sent via registered, certified, or express mail to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary. See also Stockholder Proposals for the 2014 Annual Meeting later in this proxy statement.

What do I need to do to attend the annual meeting?

If you are a holder of record, you should indicate on your proxy card that you plan to attend the meeting by marking the box on the proxy card provided for that purpose.

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For the safety and comfort of our stockholders, admission to the annual meeting will be restricted to:

* Stockholders of record as of the close of business on March 8, 2013 or their duly authorized proxies;
* Beneficial stockholders whose shares are held by a bank, broker or other nominee, and who present proof of beneficial ownership as of the close of business on March 8, 2013;
* Representatives of the press or other news media with proper credentials;
* Financial analysts with proper credentials; and
* Employees and representatives of Sunstone whose job responsibilities require their presence at the meeting.

Please note that space limitations may make it necessary to limit attendance. Admission to the meeting will be on a first-come, first-served basis. No more than two representatives of any corporate or institutional stockholder will be admitted to the meeting.

You may obtain directions to the Renaissance Washington DC Hotel in the Investor Relations section of our website at www.sunstonehotels.com or by calling us at 949-382-3036.

If you attend the meeting, you may be asked to present valid government-issued photo identification, such as a driver s license or passport, before being admitted. Cameras, recording devices, and other electronic devices will not be permitted, and attendees may be subject to security inspections or other security precautions.

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Proposal 1:

Election of Directors

Board of Directors

The business and affairs of Sunstone are managed under the direction of our Board of Directors. Our Board of Directors has responsibility for establishing broad corporate policies and for the overall performance of Sunstone, rather than for day-to-day operating details. Our Board of Directors currently consists of eight directors.

The proxy holders named on the proxy card intend to vote for the election of the eight nominees listed below. The Nominating and Corporate Governance Committee selected these nominees, which selection was ratified by the Board of Directors. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the designated space provided on the proxy card or, if your shares are held through a bank or broker and you are authorizing a proxy to vote by telephone or the internet, follow the instructions provided when you access the telephone or internet proxy facilities. Directors will be elected by a majority of the votes cast. Any shares not voted, whether by abstention, broker non-vote or otherwise, will have no impact on the vote.

If at the time of the meeting one or more of the nominees have become unable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Nominating and Corporate Governance Committee. If one or more nominees have become unable to serve, the Board of Directors may, in accordance with our bylaws, reduce the size of the Board of Directors or may leave a vacancy until a nominee is identified. Each of the nominees has consented to act as a director if duly elected and qualified and the Nominating and Corporate Governance Committee knows of no reason why any of the nominees will be unable to serve.

Directors elected at the annual meeting will hold office until the next annual meeting and until their successors have been elected and qualified. For each nominee, there follows a brief listing of principal occupation for at least the past five years, other major affiliations, and age as of February 15, 2013. Each of the nominees is currently a director of the Company.

Nominees for Election as Directors

Andrew Batinovich Age: 54 Director

Mr. Batinovich has served as a director since November 7, 2011. Mr. Batinovich currently serves as President and Chief Executive Officer of Glenborough, LLC, a privately held full service real estate investment and management company focused on the acquisition, management and leasing of institutional quality commercial properties. In 2010, Mr. Batinovich led a private investor group in acquiring Glenborough, LLC and related real estate assets that were originally part of Glenborough Realty Trust, a NYSE listed real estate investment trust, or REIT, which was sold to affiliates of Morgan Stanley in 2006. From December 2006 to October 2010, Mr. Batinovich served as President and Chief Executive Officer of Glenborough, LLC, a company formed by an affiliate of Morgan Stanley to acquire Glenborough Realty Trust. In connection with the 2006 transaction, Mr. Batinovich and the Glenborough Realty Trust senior management team were retained to operate the new private entity, and the team remains together in the newly re-acquired Glenborough, LLC. In 1996, Mr. Batinovich co-founded Glenborough Realty Trust and was President and Chief Executive Officer and a director at the time of the sale in 2006. Mr. Batinovich was appointed President of Glenborough Realty Trust in 1997 and Chief Executive Officer in 2003. He also served as Chief Operating Officer and Chief Financial Operator during his tenure at Glenborough Realty Trust. Prior to founding Glenborough Realty Trust, Mr. Batinovich served as Chief Operating Officer and Chief Financial Officer of Glenborough Corporation until 1996 when it was merged into Glenborough Realty Trust. Glenborough Corporation was a private real estate

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investment and management company that completed a number of private placements of office, industrial, residential and hotel properties. Prior to joining Glenborough Corporation in 1983, Mr. Batinovich was an officer of Security Pacific National Bank. Mr. Batinovich is a member of the Building Owners and Managers Association (BOMA), the Association of Foreign Investors in Real Estate (AFIRE) and other trade associations. He also serves as a director of RAIT Financial Trust (NYSE: RAS) and as a trustee of the American University of Paris. Mr. Batinovich has a B.A. in International Business Administration from the American University of Paris.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Batinovich should serve as a director: his professional background and experience, education, previously held senior-executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Z. Jamie Behar Age: 55 Director

Ms. Behar has served as a director since October 26, 2004. Since October 2005, Ms. Behar has been Managing Director, Real Estate & Alternative Investments, for General Motors Investment Management Corporation, or GMIMCO. From 1986 through October 2005, Ms. Behar was a Portfolio Manager with GMIMCO. She manages GMIMCO s clients real estate investment portfolios, including both private market and publicly traded security investments, as well as their alternative investment portfolios, totaling approximately $6.5 billion. She is a member of GMIMCO s Management Committee, Investment Committee and Investment Review and Approval Committee. Ms. Behar is a member of the Board of Directors of Desarrolladora Homex, S.A. de C.V., a publicly listed home development company located in Mexico (and for which she also serves on the audit committee). She also serves as a member of the Board of Directors of the Pension Real Estate Association and as a member of NAREIT s Real Estate Investment Advisory Council, and serves on the advisory boards of several domestic and international private real estate investment entities. Ms. Behar holds a B.S.E. degree from The Wharton School of the University of Pennsylvania, an M.B.A. degree from the Columbia University Graduate School of Business and the CFA charter.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Ms. Behar should serve as a director: her professional background and experience, extensive education, current and previously held senior-executive level positions, other company board experience, prior Company board experience, domestic and international real estate knowledge, and her extensive experience in investments in hotels and real estate in general.

Kenneth E. Cruse Age: 44 Director

Mr. Cruse is our Chief Executive Officer and a director. Mr. Cruse joined us in April 2005 as Senior Vice President Asset Management, and was appointed Senior Vice President Corporate Finance on September 1, 2006, Senior Vice President and Chief Financial Officer on January 1, 2007, Executive Vice President and Chief Financial Officer on February 18, 2010, President and Chief Financial Officer on December 17, 2010 and as President and Chief Executive Officer and a director on August 5, 2011. Since December 2007, Mr. Cruse has been a director of BuyEfficient, LLC, a subsidiary of the Company. For the eight years prior to joining Sunstone, Mr. Cruse worked in a variety of roles for Host Marriott Corporation, the predecessor of Host Hotels and Resorts, Inc., most recently as Vice President, Corporate Finance. Prior to working for Host Marriott Corporation, Mr. Cruse held various corporate positions with Marriott International, Inc. Mr. Cruse started his hotel career in 1991, working various management-level operating positions at the Marco Island Hilton. Mr. Cruse is actively involved in various industry and professional organizations. He is a member of the Strategic Planning Committee and CEO Council for AH&LA. Additionally, Mr. Cruse is also a member of the Real Estate Roundtable and the Southern California Chapter of Young Presidents Organization. He is also a member of the Dean s Advisory Council for Colorado State University Warner College of Natural Resources. Mr. Cruse holds a B.S. degree from Colorado State University and an M.B.A. degree with honors from Georgetown University.

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The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Cruse should serve as a director: his professional background and experience, extensive education, current and previously held senior-executive level positions within the Company, intimate knowledge of the Company s hotels, employees, processes and controls, relationships among the hospitality industry and his extensive background and experience in hotel and finance transactions.

Thomas A. Lewis, Jr. Age: 60 Director

Mr. Lewis has served as a director since May 2, 2006. Mr. Lewis is Chief Executive Officer of Realty Income Corporation, a NYSE-listed REIT. Mr. Lewis is also Vice Chairman of the Board of Directors of Realty Income Corporation and has been a member of its Board of Directors since September 1993. He also serves as a director of Crest Net Lease, Inc., a subsidiary of Realty Income Corporation. He joined Realty Income Corporation in 1987 and served in a variety of executive positions, including Senior Vice President, Capital Markets until 1997, when he was named Chief Executive Officer. In 2000 and 2001, he also held the position of President. Prior to joining Realty Income Corporation, he was an executive with Johnstown Capital, a real estate investment company (1982 to 1987), an investment specialist with Sutro & Co., Inc. (1979 to 1982), and in marketing with Procter & Gamble (1974 to 1979). Mr. Lewis has more than 20 years of experience directing public and private capital market transactions. Mr. Lewis holds a B.A. degree in Business Administration from Chaminade University of Hawaii.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Lewis should serve as a director: his professional background and experience, education, previously held senior-executive level positions, other public company board experience, prior Company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Keith M. Locker Age: 51 Non-Executive Chairman

Mr. Locker has served as our Non-Executive Chairman since November 7, 2011, and as a director since May 2, 2006. Since May 2003, Mr. Locker has been President of Inlet Capital LLC, or Inlet, an investment and asset management firm focused on the commercial real estate industry; President of Global Capital Resources LLC and GCR Advisors Inc. (both affiliates of Inlet), which companies together are the Co-General Partner and Co-Advisor, respectively, to the NYLIM-GCR Fund-1 2002 L.P., which provides fixed and variable rate senior and subordinate mortgages; and, from 2003 to 2007, President and Managing Member of COP Holdings, LLC (an affiliate of Inlet), an investment firm focused on factory retail outlet centers. Furthermore, Mr. Locker has been a director of IVP Securities, LLC since March 2004. From December 2006 to 2007, Mr. Locker was a director of The Mills Corporation, a publicly traded retail mall REIT, where he was chairman of the compensation committee. From May 2005 to January 2007, he served as a director of Glenborough Realty Trust, a publicly traded office REIT, where he was a member of the audit and compensation committees until the sale of the company to Morgan Stanley. Mr. Locker was previously a Managing Director in the Real Estate Investment Banking Group at Deutsche Bank Securities, Inc. from September 2000 to February 2003. Prior to joining Deutsche Bank in 2000, Mr. Locker was Senior Managing Director at Bear, Stearns & Co. Inc., responsible for Real Estate Investment Banking. Mr. Locker has more than 30 years of major national market experience in real estate finance, private placement, capital markets and transaction structuring and risk management. Mr. Locker earned a B.S./B.A. from Boston University School of Management in 1983 and an M.B.A. from the Wharton School in 1988. Mr. Locker is Trustee of National Jewish Health, and is a member of NAREIT, Urban Land Institute, Commercial Mortgage Securities Association, International Council of Shopping Centers, The Wharton School Zell-Lurie Real Estate Center, Fisher Center for Real Estate and Urban Economics and numerous philanthropic and community organizations.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Locker should serve as a director: his professional background and experience, extensive education, previously held senior-executive level positions, other public company board experience, prior Company board experience, and his extensive finance and accounting and real estate investment and asset management experience.

Douglas M. Pasquale Age: 58 Director

Mr. Pasquale has served as a director since November 7, 2011. Mr. Pasquale was appointed to the Ventas, Inc. (NYSE: VTR) (Ventas) Board of Directors in July 2011 (for which he also serves as a member of the investment committee), upon closing of Ventas acquisition of Nationwide Health Properties, Inc. (formerly NYSE: NHP) (NHP). He also served as Senior Advisor to Ventas from July 2011 to December 2011. Mr. Pasquale served as Chairman of the Board, President and Chief Executive Officer of NHP from 2009 to 2011, as President and Chief Executive Officer of NHP from 2004 to 2011, and served as Executive Vice President and Chief Operating Officer of NHP in 2003. Mr. Pasquale was a director of NHP from 2003 to 2011. Mr. Pasquale previously served in various roles (most recently Chairman and Chief Executive Officer) at ARV Assisted Living, Inc., an owner and operator of assisted living facilities, from 1998 to 2003 and concurrently as President and Chief Executive Officer of Atria Senior Living Group, Inc. from April 2003 to September 2003. Mr. Pasquale also served as President and Chief Executive Officer of Richfield Hospitality Services, Inc. and Regal Hotels International-North America, a hotel ownership and management company, from 1996 to 1998, and as its Chief Financial Officer from 1994 to 1996. Mr. Pasquale is a director of Alexander & Baldwin, Inc. (NYSE: ALEX), a real estate and agribusiness company (for which he also serves as chair of the audit committee and a member of the nominating and governance committee); a director of Terreno Realty Corporation (NYSE:TRNO), an industrial REIT (for which he also serves as lead independent director and a member of the audit, compensation and nominating and governance committees); a director of DineEquity, Inc., a full-service restaurant company; and a member of the Board of Trustees of ExplorOcean/Newport Harbor Nautical Museum. Mr. Pasquale received his B.S. in Accounting and his M.B.A. from the University of Colorado.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Pasquale should serve as a director: his professional background and experience, extensive education, previously held senior-executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Keith P. Russell Age: 67 Director

Mr. Russell has served as a director since October 26, 2004. Since June 2001, Mr. Russell has been President of Russell Financial, Inc., a strategic and financial consulting firm serving businesses and high net worth individuals. Mr. Russell is retired as the Chairman of Mellon West and the Vice Chairman of Mellon Financial Corporation, in which capacities he served from May 1996 until March 2001. From September 1991 through April 1996, Mr. Russell served in various positions at Mellon, including Vice Chairman and Chief Risk Officer of Mellon Bank Corporation and Chairman of Mellon Bank Corporation s Credit Policy Committee. From 1983 to 1991, Mr. Russell served as President and Chief Operating Officer, and a director, of Glenfed/Glendale Federal Bank. Mr. Russell also serves on the Board of Directors of Hawaiian Electric Industries (NYSE:HE), where he serves as a member of the audit committee, and serves on the Board of Directors of American Savings Bank, a subsidiary of Hawaiian Electric Industries, where he serves as chair of the risk committee and a member of the audit committee. From 2002 to 2011, Mr. Russell was a director of Nationwide Health Properties, Inc. (for which he also served as chair of the audit committee and a member of the nominating and governance committee). From 2003 to 2008, Mr. Russell was a director of Countrywide Financial Corporation, where he was a member of the audit and ethics, credit, finance and special oversight committees. From 2002 to 2008, Mr. Russell was a director of Countrywide Bank (private) and from 2001 to 2007, he was a member of the UCLA Anderson Board of Visitors (non-profit). Mr. Russell has been a panelist at various conferences and seminars, addressing topics such as corporate governance and audit committee role. Mr. Russell holds a B.A. degree in Economics from the University of Washington and an M.A. degree in Economics from Northwestern University.

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The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Russell should serve as a director: his professional background and experience, extensive education, previously held senior-executive level positions, other public company board experience, prior Company board experience, his extensive experience in corporate risk, accounting and finance and general investment experience.

Lewis N. Wolff Age: 77 Director

Mr. Wolff has served as a director since October 26, 2004. He was our Chairman from October 26, 2004 to March 18, 2007 and was Co-Chairman from March 19, 2007 to November 6, 2011. Mr. Wolff has been Chairman of Wolff Urban Management, Inc. since 1980 and is also its Chief Executive Officer. Wolff Urban Management, Inc. is a real estate acquisition, investment, development and management firm. Mr. Wolff is also a co-founder of Maritz, Wolff & Co., a privately held hotel investment group that owns top-tier luxury hotels. In 2007, Mr. Wolff was also named Chairman and Chief Executive Officer of Wolff Urban Development, LLC, a private real estate and select business investment opportunity organization that invests in and develops commercial urban real estate, professional sports activities, luxury hotel and resort properties, hotel management companies and hospitality related assets. From December 2005 to September 2007, Mr. Wolff was a director of Maguire Properties, Inc. From 1999 to 2004, Mr. Wolff also served as Co-Chairman of Fairmont Hotels & Resorts, a hotel management company formed by Fairmont Hotel Management Company and Canadian Pacific Hotels & Resorts, Inc. In addition, Mr. Wolff acquired ownership of Major League Baseball s Oakland Athletics in April 2005 and ownership of Major League Soccer s San Jose Earthquakes in July 2007. Mr. Wolff also serves on the board of Bobrick Washroom Equipment, Inc., as well as First Century Bank. Mr. Wolff holds a B.A. degree in Business Administration from the University of Wisconsin, Madison, and an M.B.A. degree from Washington University in St. Louis, Missouri.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Wolff should serve as a director: his professional background and experience, extensive education, previously held senior-executive level positions, other company board experience, prior Company board experience, his entrepreneurial character, and his extensive background and experience in hotel and other commercial real estate transactions, development and management.

The Board of Directors recommends a vote FOR each of the nominees.

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Proposal 2:

Ratification of the Audit Committee s Appointment of

Independent Registered Public Accounting Firm

The Audit Committee has selected and appointed the firm of Ernst & Young LLP to act as our independent registered public accounting firm for the year ending December 31, 2013. Ernst & Young LLP has audited the financial statements for us since our initial public offering on October 26, 2004. Ratification of the appointment of Ernst & Young LLP requires a majority of the votes cast. Any shares not voted, whether by abstention, broker non-vote or otherwise, have no impact on the vote.

Although stockholder ratification of the appointment of our independent auditor is not required by our bylaws or otherwise, we are submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate governance practice. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time if it determines that such a change would be in the best interests of Sunstone. If our stockholders do not ratify the Audit Committee s selection, the Audit Committee will take that fact into consideration, together with such other factors it deems relevant, in determining its next selection of our independent registered public accounting firm.

Representatives of Ernst & Young LLP are expected to be present at the annual meeting. These representatives will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Audit, Audit-Related, Tax and Other Fees

The aggregate fees billed for professional services provided by Ernst & Young LLP for 2012 and 2011 were as follows:

Type of Fees	2012	2011
Audit Fees	$ 818,956	$ 830,420
Audit-related Fees	5,000	100,000
Tax Fees	0	0
All Other Fees	1,995	1,995
Total Fees	$ 825,951	$ 932,415

In the above table, in accordance with the definitions of the Securities and Exchange Commission, or the SEC, audit fees are fees paid by us to Ernst & Young LLP for the audit of our consolidated financial statements included in our annual report on Form 10-K and review of the unaudited financial statements included in our quarterly reports on Form 10-Q or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements, including in connection with public offerings of securities. Audit fees also include fees paid by us to Ernst & Young LLP for the audit of our internal control over financial reporting. In 2012, audit fees consisted primarily of $737,701 for the full-year audit, quarterly reviews and the audit of our internal control over financial reporting and $81,255 for services related to statutory and regulatory filings and public offerings. In 2011, audit fees consisted primarily of $735,000 for the full-year audit, quarterly reviews and the audit of our internal control over financial reporting and $95,420 for services related to statutory and regulatory filings and public offerings.

Audit-related Fees are fees billed by Ernst & Young LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. In 2012, audit-related fees of $5,000 consisted of a ground lease compliance report on one hotel. In 2011, audit-related fees of $100,000 consisted of a ground lease compliance report on one hotel, a partnership audit on one hotel and a Securities and Exchange Commission XBRL (Extensible Business Reporting Language) compliance assessment.

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Tax Fees are fees billed by Ernst & Young LLP that relate to tax consulting and advisory services.

All Other Fees are fees billed by Ernst & Young LLP to us for any services not included in the first three categories.

Pre-approval Policies and Procedures

Our Audit Committee has adopted a pre-approval policy requiring that the Audit Committee pre-approve all audit and permissible non-audit services to be performed by Ernst & Young LLP. Any proposed service that has received pre-approval but which will exceed pre-approved cost limits will require separate pre-approval by the Audit Committee. The Audit Committee has delegated to its chair the authority to grant the required approvals for all audit and permissible non-audit services to be performed by Ernst & Young LLP, provided that the chair reports the details of the exercise of any such delegated authority at the next meeting of the Audit Committee. All services performed by the independent registered public accounting firm in 2012 were approved by the Audit Committee pursuant to its pre-approval policy.

The Board of Directors recommends a vote FOR ratification of the appointment of Ernst & Young LLP.

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Proposal 3:

Advisory Vote (Non-Binding) on Executive Compensation

Section 14A of the Exchange Act, as enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010, or the Dodd-Frank Act, requires us to submit to our stockholders a non-binding advisory resolution to approve the compensation of the Named Executive Officers listed in the Summary Compensation Table of this proxy statement, commonly referred to as a say-on-pay vote. In May 2011, we held our first say-on-pay vote, and our stockholders approved the compensation of our 2011 named executive officers, with approximately 76% of stockholder votes cast in favor of our 2011 say-on-pay resolution (excluding abstentions and broker non-votes). While three quarters of votes cast at our 2011 annual meeting were in favor of our 2011 compensation programs, we were not satisfied with that outcome and took significant action to garner greater support from our stockholders. Specifically, as discussed in the Executive Officer Compensation section below, the Compensation Committee materially redesigned the Company s compensation programs; likewise, the Board of Directors made numerous corporate governance improvements. As a result, nearly 97% of stockholder votes cast (excluding abstentions and broker non-votes) in respect of our 2012 say-on-pay resolution approved the compensation of our 2012 named executive officers.

The Board of Directors has approved the submission of the following resolution to the Company s stockholders for approval at the 2013 annual meeting:

Resolved, that the stockholders hereby approve, on an advisory basis, the compensation of the Company s Named Executive Officers as disclosed in the Company s 2013 proxy statement pursuant to the disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the Summary Compensation Table and the other executive compensation tables and related discussion).

As described more fully in the Compensation Discussion and Analysis section of this proxy statement, the Company s executive compensation program is designed to attract, motivate and retain talented executives through competitive compensation arrangements that, within appropriate risk parameters, provide strong financial incentives for the executive officers to maximize stockholder value. The compensation program is designed to achieve these objectives through a combination of the following types of compensation: base salary, annual cash incentive bonus awards and equity incentive awards. Base salary is intended to provide a baseline level of compensation for our Named Executive Officers. The remaining types of compensation, which in the aggregate represent the majority of our Named Executive Officers target total compensation opportunities, tie compensation directly to the achievement of corporate and individual objectives.

Required Vote

The affirmative vote of a majority of the votes cast will be required to approve, on a non-binding, advisory basis, the compensation of the Named Executive Officers as disclosed in this proxy statement.

The stockholder vote on executive compensation is an advisory vote only, and it is not binding on the Company, the Board of Directors or the Compensation Committee. Although the vote is non-binding, the Compensation Committee and the Board of Directors value the opinions of the stockholders and will consider the outcome of the vote when making future compensation decisions.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR the approval of the compensation of, on a non-binding, advisory basis, the Named Executive Officers as disclosed in this proxy statement.

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Proposal 4:

Non-Binding Stockholder Proposal

UNITE HERE (the Hotel Workers Union), 1775 K Street, NW, Suite 620, Washington, DC 20006, represents workers throughout the U.S. and Canada who work in, among other industries, the hotel industry. The Hotel Workers Union is the beneficial owner of 470 shares of the Company s common stock, which it intends to hold through the date of the 2013 annual meeting, such ownership being in excess of $2,000 in market value. The Hotel Workers Union submitted the following proposal (the Union Proposal) and supporting statement:

Proposal from Unite Here

RESOLVED, that the shareholders of Sunstone Hotel Investors (the Company) urge the Board to take all steps necessary under applicable law to cause the Company to opt out of Maryland s Unsolicited Takeover Act (Title 3, Subtitle 8 of the Maryland General Corporation Law, the Act), and to require a majority vote of shareholders before opting back into the Act.

Supporting Statement from Unite Here

This proposal urges the Board to initiate the actions required for the Company to opt out of provisions of Maryland s Unsolicited Takeover Act. The Act permits the Board, without shareholder approval, to implement various takeover defenses, such as classifying the board, expanding the size of board while filling new vacancies through the votes of directors only, and requiring a two-thirds vote for removal of a director. These defenses, if implemented by the board, may adversely affect shareholder value by discouraging offers to acquire the Company that could be beneficial to shareholders.

The US hotel industry has witnessed improved operating fundamentals for two consecutive years. If the previous cycle is any indication, shareholders can expect to see stepped-up merger activity in the coming years:

* In November 2005, Carl Icahn made a tender offer to purchase 51% of Fairmont Hotels stock at $40 per share, 23% higher than the average trading price during October 2005.

* In February 2006, Blackstone acquired Meristar REIT for a $10.45 per share consideration, 20% above the average trading price the day before the announcement.

* In 2007, Blackstone acquired Hilton Hotels at a price of per $47.50 share, a 32% premium above the closing price the day the agreement closed. Eagle Hospitality REIT was acquired by an Apollo affiliate for $13.36 per share, a 42% premium over share prices the eve of the announcement.

* JER Realty acquired Highland Hospitality Corporation, a REIT, for $19.50 a share, a premium of approximately 15% over Highland s three-month average closing share price.

Research on anti-takeover statutes such as the Act indicates that these statutes fail to protect shareholder interests. Empirical studies have shown that state anti-takeover statutes harm shareholders by failing to maximize profit and by leading to uncertainty for shareholders (Macey, 1988). Robust econometric data shows that anti-takeover statutes increase agency managerial cost and reduce shareholder wealth (Subramanian, 2002). Further, studies have shown that because they protect managers from removal, they reduce incentives for managers to operate as profitably as possible (Booth, 1988).

The Company has adopted some good corporate governance measures, such as a declassified board, but the Act allows a future Board to repudiate this measure unless the Company has explicitly opted out of the Act. Opting out of the Act would affirm the Company s commitment to having all board members elected annually. In addition, requiring a majority vote before opting back in would ensure that shareholders maintain oversight of the Company s anti-takeover provisions. We urge you to vote yes for this proposal.

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Statement in Opposition from the Company

Company Position and Existing Corporate Governance Construct Relative to the Act

The Board of Directors believes the Company s current corporate governance structure serves the best interests of the Company s stockholders. To that end, we are recommending that our stockholders vote AGAINST the Union Proposal. We continually assess our corporate governance structure and policies to ensure ongoing strong alignment with the interests of our stockholders. Over the past few years, we have substantially enhanced our corporate governance programs by, among other things, adopting a majority standard for the election of directors in uncontested elections, implementing stock ownership requirements for our Chief Executive Officer and members of our Board of Directors, and appointing an independent chairman. Our focus on good corporate governance is also reflected in independent reviews of our performance. For example, in addition to recommending a vote in favor of all management proposals in 2012, ISS Proxy Advisory Services also noted that there was low concern in the areas of governance risk indicators, including shareholder rights and board structure, where we scored highly in each category.

To understand why we are recommending that our stockholders vote AGAINST the Union Proposal, we believe it s necessary to clearly delineate what exactly the Union Proposal is urging the Board of Directors to consider. As indicated above, the Union Proposal urges the Board of Directors to take all steps necessary to cause the Company to opt out of the Act, and to require a majority vote of stockholders before opting back into the Act. The Act permits certain Maryland corporations to elect to be subject to five provisions, including: (1) a requirement that the number of directors be fixed only by vote of the directors, (2) a majority requirement for the calling of a special meeting of stockholders, (3) a requirement that a vacancy on the board be filled only by the remaining directors and (if the board is classified) for the remainder of the full term of the class of directors in which the vacancy occurred, (4) a two-thirds vote requirement for removing a director, and (5) a classified board.

The Act also provides that the charter of a corporation may contain a provision or the board of directors may adopt a resolution that prohibits the corporation from electing to be subject to any or all provisions of the Act. It is this provision of the Act that the Hotel Workers Union is seeking to have the Board of Directors adopt. The Union Proposal requests the Board of Directors to take action to cause the Company to opt out of the Act and agree to not opt back into the Act without a majority vote of the stockholders.

Rationale for Vote AGAINST the Union Proposal

As mentioned above, the Act allows the Board of Directors to elect to be subject to any of five takeover defense provisions. We do not believe that prohibiting the Company from electing to be subject to any or all of the provisions of the Act is in the best interests of the Company or would benefit the Company s stockholders. Each of the five takeover defense provisions will be addressed in turn.

The Company, by provisions in its charter and bylaws unrelated to the Act, already (1) vests in the Board of Directors the exclusive power to fix the number of directorships and (2) requires, unless called by the Chairman, Chief Executive Officer, President or the Board of Directors, the request of holders entitled to cast not less than a majority of the votes entitled to be cast at a meeting to call a special meeting. Thus, opting out of the Act would serve no purpose for these two provisions.

The Company also elected, at the time of its initial public offering, to be subject to the provisions of the Act providing that a vacancy on the Board of Directors be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred. Therefore, the Company may not opt-out of that provision without an amendment to the Company s charter, which would require a stockholder vote and could not be done by Board of Directors action alone. In addition, the Board of Directors believes this provision allows vacancies to be filled promptly and without interruption in the Board of Directors performance of its duties. Any individual elected to fill a vacancy only serves until the next annual meeting of stockholders and until his or her successor is elected and qualifies.

The Company is not currently subject to the two remaining provisions of the Act (i.e., the Company does not have a classified Board of Directors, and does not require a two-thirds vote for removal of any director from the Board of Directors). We have not elected to be subject to these two provisions of the Act and we have no present intention to do so. Our Board of Directors cannot make any election to be subject to any provision of the Act in the future, or to prohibit any election under the Act, unless it determines that such an election is in the best interests of the Company. Our Board of Directors believes that removing our flexibility to elect to be subject to either or both of these provisions in the future would not provide any benefit to our stockholders.

Given the strength of our overall corporate governance structure, and the fact that we hold an annual election of all directors, we believe that there would not be any benefit to the Company in the future in electing to be subject to the two-thirds removal requirement. With respect to a classified board, our Board of Directors believes that it is important to retain the ability to classify itself because we retain very few takeover defense measures compared to our peers. The Company does not have a stockholder rights plan, and it has taken the unusual step of prohibiting itself from implementing other statutory defenses without a stockholder vote, including any defenses under the Maryland Business Combination Act and the Maryland Control Share Acquisition Act. The Union Proposal states that the Company has enacted several positive corporate governance measures. The Board of Directors believes that the Company s current corporate governance profile is already very stockholder-friendly, and believes further that a prohibition on the ability to classify itself in the future would remove a potentially important takeover defense measure.

In the event the Company ever becomes subject to an unsolicited takeover proposal (particularly at a time, such as during the recent recession, when our stock price may not accurately reflect our long-term value), a classified board may give the Company valuable protection from a proposal that may be unfavorable to stockholders. Requiring a stockholder vote to implement this valuable protection is impractical, as the time required to obtain such a vote would be prohibitive. By reducing the threat of an abrupt change in the composition of the entire Board of Directors, classification of directors provides the Board of Directors with an adequate opportunity to fulfill its duties to the Company s stockholders to review any takeover proposal, study appropriate alternatives and act in the best interests of the Company.

The Board of Directors does not believe that any future classification would hinder performance or affect any control premium. Notwithstanding the studies cited by the proponent, numerous studies, including one sponsored by Institutional Shareholder Services Inc., have found a positive correlation between having a classified board and a company s financial performance, and any eventual premium paid to stockholders in a change in control transaction.

We want to stress that the Board of Directors has no plans to classify itself presently; however, retaining the ability to do so in the future will ensure that, in the event the Company ever becomes subject to an unsolicited takeover proposal, the Board of Directors can protect stockholders from coercive bids and ensure stockholders receive the best possible value.

For the reasons described above, the Board of Directors urges the Company s stockholders to reject the Union Proposal.

Required Vote

The affirmative vote of a majority of the votes cast will be required to approve the Union Proposal.

The stockholder vote on the Union Proposal is an advisory vote only, and it is not binding on the Company or the Board of Directors. Although the vote is non-binding, the Board of Directors value the opinions of the stockholders and will consider the outcome of the vote when making future corporate governance decisions.

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Recommendation of the Board of Directors

While we are not exactly sure of the agenda of the Hotel Workers Union or the underlying motivation for advancing the Union Proposal, we think it is clear that the Hotel Workers Union is trying to use the stockholder proposal process to further its own initiatives and is doing so in a manner that demonstrates a complete disregard for stockholder value. We urge stockholders to consider the source of the Union Proposal, as well as the nominal economic interest in the Company held by the Hotel Workers Union. We further encourage stockholders to carefully assess the recommendation of the real and proven stewards of stockholder value the Board of Directors and the Company s management team.

The Board of Directors unanimously recommends that stockholders vote AGAINST Proposal No. 4.

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Corporate Governance

In light of applicable legal requirements, such as the Sarbanes-Oxley Act of 2002 and related rules promulgated by both the NYSE and the SEC, we provide the following discussion to inform you of our efforts to assure that we employ best practices in our corporate governance. A copy of our Corporate Governance Guidelines is available in the Investor Relations section of our website at www.sunstonehotels.com. In addition, a printed copy of the Corporate Governance Guidelines will be provided without charge upon request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

We have also established conflict of interest and other policies to serve the long-term interests of our stockholders and further align the interests of our directors and management with our stockholders.

Conflict of Interest Policy

We have adopted a policy which provides that the approval of our Nominating and Corporate Governance Committee is required for any transaction involving us and any of our directors, officers or employees, or any entity in which any of our directors, officers or employees is employed or has an interest of more than 5%.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics, which requires, among other things, that directors, officers and employees act in the best interest of the Company. The Code of Business Conduct and Ethics also prohibits our directors, officers and employees from taking (or directing to a third party) a business opportunity that is discovered through the use of corporate property, information or position, unless we have already been offered the opportunity and turned it down, in which case our Nominating and Corporate Governance Committee must in any event approve the director, officer or employee interest therein. More generally, our directors, officers and employees are prohibited from using corporate property, information or position for personal gain. The Code of Business Conduct and Ethics is posted in the Investor Relations section of our website at www.sunstonehotels.com. In addition, a copy of the Code of Business Conduct and Ethics will be provided without charge upon request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

Independence of Directors and Committees

The Board of Directors has determined that a majority of the current Board of Directors is independent as defined under the NYSE s rules and that a majority of the Board of Directors will be independent if the slate of directors up for election in Proposal 1 of this proxy statement are elected. Directors who serve on the Compensation Committee and the Nominating and Corporate Governance Committee are also subject to these independence requirements. Directors who serve on the Audit Committee are subject to these and additional independence requirements.

To be considered independent under the NYSE s rules, the Board of Directors must determine that a director does not have a material relationship with Sunstone and/or its consolidated subsidiaries (either directly or as a partner, stockholder or officer of an organization that has a relationship with any of those entities).

The Board of Directors undertook a review of the independence of the directors nominated for election at the upcoming annual meeting. During this review, the Board of Directors considered the transactions and relationships between each director or any member of his or her immediate family and Sunstone and its subsidiaries and affiliates as reported under Certain Relationships and Related Transactions below. The Board of Directors also examined transactions and relationships between directors or their affiliates and members of the senior management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that such director is independent.

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As a result of this review, the Board of Directors affirmatively determined that Messrs. Batinovich, Lewis, Locker, Pasquale, Russell and Wolff and Ms. Behar are independent of Sunstone and its management under the independence standards of the NYSE.

The Board of Directors Leadership Structure

Mr. Locker serves as our Non-Executive Chairman and Mr. Cruse as our Chief Executive Officer and a director. Assuming that the nominees listed in Proposal 1 are elected as directors at the 2013 annual meeting, Mr. Locker will continue to serve as our Non-Executive Chairman and Mr. Cruse as our Chief Executive Officer and a director.

Since October 26, 2004, the roles of chairman and chief executive officer have been held separately. Though the Board of Directors does not have a policy as to whether the chairman should be an independent director, an affiliated director, or a member of management, when the chairman is an affiliated director or a member of Company management, or when the independent directors determine that it is in the best interests of the Company, the independent directors will annually appoint from among themselves an independent co-chairman or lead independent director (consistent with our bylaws and our corporate governance guidelines). For instance, Mr. Wolff served as our independent Co-Chairman from March 19, 2007 to November 7, 2011, during which period Robert A. Alter served as our Executive Chairman.

The role of the Non-Executive Chairman is to coordinate the activities of the independent directors, coordinate with the Chief Executive Officer and corporate secretary to set the agenda for Board of Directors meetings, chair executive sessions of the independent directors, provide leadership to the Board of Directors and uphold high corporate governance and ethical standards, communicate effectively with management on a regular basis, provide support and advice to the Chief Executive Officer, facilitate communication between and among the independent directors and management, take a lead role in the Board of Director s self-assessment and evaluation processes, and perform the other duties either specified in the corporate governance guidelines or assigned from time to time by the Board of Directors.

Furthermore, our Board of Directors currently has seven independent members and one non-independent member, Mr. Cruse. Assuming that the nominees listed in Proposal 1 are elected as directors at the 2013 annual meeting, our Board of Directors will continue to have seven independent members and one non-independent member. A number of the members of our Board of Directors are currently serving or have served as members of senior management of other public companies and have served as directors of other public companies. We have four board committees comprised solely of independent directors.

Our Board of Directors believes its leadership structure is appropriate because it effectively allocates authority, responsibility and oversight between management and the independent members of our Board of Directors. It does this by giving primary responsibility for the operational leadership and strategic direction of the Company to our Chief Executive Officer, while enabling our Non-Executive Chairman to facilitate our Board of Directors independent oversight of management, promote communication between management and our Board, and support our Board s consideration of key governance matters.

Risk Oversight

Our Audit Committee is primarily responsible for overseeing the Company s risk management processes on behalf of the full Board of Directors. The Audit Committee receives reports from management at least quarterly regarding the Company s assessment of risks. In addition, the Audit Committee reports regularly to the full Board of Directors, which also considers the Company s risk profile. The Audit Committee and the full Board of Directors focus on the most significant risks facing the Company and the Company s general risk management strategy, and also ensure that risks undertaken by the Company are consistent with the Board of Directors appetite for risk. While the Board of Directors oversees the Company s risk management, Company management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing the Company and that the Board of Directors leadership structure supports this approach.

Our Compensation Committee oversees risk management as it relates to our compensation plans, policies and procedures and has met with management to review whether our compensation programs may create incentives to our employees to take excessive or inappropriate risks that could have a material adverse effect on the Company. We believe that features of our programs, including the mix of long- and short-term incentives and equity grants, as well as our internal financial and legal controls, appropriately mitigate the risk of an employee taking action that harms the Company for short-term compensation benefits for the employee.

Director Attendance at Meetings

Each of our directors is expected to attend each annual meeting of stockholders and all meetings of the Board of Directors. The Board of Directors held thirteen meetings and acted by written consent on three occasions in 2012. During that period, all directors attended at least 75% of the aggregate of the meetings of the Board of Directors and all committees of the Board of Directors on which they served during the periods in which they served. In addition, all of our directors attended our annual meeting of stockholders in 2012.

Stockholder Communication with the Board of Directors and Non-Employee Directors

Stockholders may communicate any matters they wish to raise with the directors by writing to the Board of Directors, Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary. Stockholders should provide proof of stock ownership with their correspondence. All communications from verified stockholders will be received and processed by the Secretary and then directed to the appropriate member(s) of the Board of Directors.

In addition, any interested party who wishes to communicate directly with our non-employee directors may contact Mr. Locker, our Non-Executive Chairman, at the mailing address of the Company s executive offices at 120 Vantis, Suite 350, Aliso Viejo, California 92656. All communications will be received and processed on a confidential basis by the Secretary and then directed to the appropriate non-employee director(s).

Committees of the Board of Directors

Committees

Our Board of Directors complements its oversight responsibilities through the following four standing committees, each of which is briefly described below: the Compensation Committee, the Audit Committee, the Strategic Planning and Capital Markets Committee and the Nominating and Corporate Governance Committee. Each of our committees has a charter, current copies of which may be viewed in the Investor Relations section of our website at www.sunstonehotels.com. In addition, printed copies of our committee charters will be provided without charge upon request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

Compensation Committee

The Compensation Committee determines compensation and benefits for all executive officers, oversees our equity compensation plans and assists in the establishment of compensation policies applicable to employees generally. The members of the Compensation Committee are independent directors as required by the listing standards and rules of the NYSE, are non-employee directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the applicable rules of the SEC, and are non-employee directors for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

The current members of our Compensation Committee are Douglas M. Pasquale, Lewis N. Wolff and Thomas A. Lewis, who serves as the chair. The Compensation Committee held four meetings and acted by written consent on one occasion during 2012. The Company expects that after the annual meeting, the Compensation Committee members will remain the same.

Audit Committee

Our Board of Directors has adopted an Audit Committee charter, which defines the Audit Committee s purposes to include oversight of:

* the integrity of our financial statements;
* our compliance with legal and regulatory requirements;
* the independent auditors qualifications and independence;
* the performance of the independent auditors and our internal audit function; and
* preparation of an audit committee report as required by the SEC for inclusion in our annual proxy statement.

All of the members of the Audit Committee are financially literate within the meaning of the listing standards and rules of the NYSE. At least one member is an audit committee financial expert as that term is defined by applicable rules of the SEC, and at least one member possesses accounting and financial management expertise within the meaning of the listing standards and rules of the NYSE. The Board of Directors has determined that each member of the Audit Committee is independent within the meaning of the rules of both the NYSE and the SEC.

The current members of our Audit Committee are Andrew Batinovich, Z. Jamie Behar and Keith P. Russell, who serves as the chair. The Audit Committee held four meetings during 2012. We expect that after the annual meeting, the Audit Committee members will remain the same.

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Audit Committee Financial Expert

The Board of Directors has determined that each of Andrew Batinovich, Z. Jamie Behar and Keith P. Russell is qualified as an audit committee financial expert within the meaning of SEC regulations. In making this determination, the Board of Directors considered the following qualifications: (a) understanding of generally accepted accounting principles, or GAAP; (b) ability to apply GAAP to accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues likely to be raised by our financial statements, or experience actively supervising persons engaged in these activities; (d) understanding of internal control over financial reporting; and (e) understanding of audit committee functions.

Strategic Planning and Capital Markets Committee

The Strategic Planning and Capital Markets Committee has the purpose and direct responsibility to (i) evaluate and consider corporate targets/objectives and action plans for leverage, liquidity and capital structure, (ii) evaluate, review and approve with management material transactions affecting the Company s capital structure and liquidity and such issues related thereto as it deems necessary or appropriate, (iii) review and discuss the Company s short and long term business strategies, generally to include seeking to maximize stockholder value by focusing on acquisitions and dispositions in our core hotel markets in order to take advantage of our expertise in and knowledge of these markets and by maintaining a disciplined investment strategy, with the intention of delivering further improvement in financial results and enhanced stockholder value and (iv) perform any other duties or responsibilities expressly delegated to the Strategic Planning and Capital Markets Committee by the Board of Directors from time to time relating to the Company s strategic plan, capital structure and liquidity. Each of the members of the Strategic Planning and Capital Markets Committee are independent directors.

The current members of our Strategic Planning and Capital Markets Committee are Z. Jamie Behar, Douglas M. Pasquale, Keith P. Russell and Keith M. Locker, who serves as the chair. The Strategic Planning and Capital Markets Committee held four meeting during 2012. The Company expects that after the annual meeting, the Strategic Planning and Capital Markets Committee members will remain the same.

Nominating and Corporate Governance Committee

The Board of Directors has delegated to the Nominating and Corporate Governance Committee the responsibility to select, or to recommend to the Board of Directors, nominees for election at any annual meeting, or any special meeting of stockholders, and any person to be considered to fill a vacancy or a newly created directorship that is the result of any increase in the authorized number of directors. The Nominating and Corporate Governance Committee is also responsible for nominating board committee members, reviewing our corporate governance guidelines, assisting with the annual evaluation of the Board of Directors and approving certain transactions involving a conflict of interest. The Board of Directors has determined that each of the members of the Nominating and Corporate Governance Committee is independent within the meaning of the listing standards of the NYSE.

In connection with its annual process for identifying directors to nominate or renominate, or to be recommended to the Board of Directors for nomination or renomination, the Nominating and Corporate Governance Committee seeks to determine whether the proposed candidate demonstrates an ability and willingness to:

- maintain the highest personal and professional ethics, integrity and values;
- represent the long-term interests of stockholders;
- exercise independence of thought, objective perspective and mature judgment;
- constructively challenge ideas and assumptions;

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* understand our business operations and objectives and provide thoughtful and creative strategic guidance;

* contribute to the ongoing development and effective functioning of the Board of Directors;

* dedicate sufficient time, energy and attention to ensure the diligent and thoughtful performance of his or her duties; and

* demonstrate sincere commitment to our long-term success and the achievement of its objectives.

Additionally, in reviewing the qualifications of particular candidates, the Nominating and Corporate Governance Committee may choose to recommend individuals who can contribute an important, special or unique skill, expertise or perspective to the Board of Directors. The Nominating and Corporate Governance Committee recommends, among other things, whether the existing Board of Directors contains the appropriate size, structure and composition, whether some or all of the incumbent directors should be recommended to the Board of Directors for re-nomination, and whether the Board of Directors should be enlarged to include additional directors.

If the Board of Directors determines to seek additional directors for nomination, the Nominating and Corporate Governance Committee will consider as potential director nominees candidates recommended by various sources, including any member of the Board of Directors or senior management. The Nominating and Corporate Governance Committee may also retain a third-party search firm to identify candidates. The Nominating and Corporate Governance Committee also considers recommendations for nominees that are timely submitted by stockholders and only if such recommendations are delivered in the manner prescribed by the advance notice provisions contained in Article II, Section 2.11 of our bylaws for stockholder proposals. See Stockholder Proposals for the 2014 Annual Meeting. In addition to satisfying the timing, ownership and other requirements specified in Article II, Section 2.11 of the bylaws, a stockholder s notice must set forth as to each person whom the stockholder proposes to recommend that the committee nominate for election to the Board of Directors all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, pursuant to Regulation 14A under the Exchange Act and our bylaws (including such person s written consent to being named in the proxy statement as a nominee and to serve as a director if elected). Properly communicated stockholder recommendations will be considered in the same manner as recommendations received from other sources.

The current members of our Nominating and Corporate Governance Committee are Andrew Batinovich, Douglas M. Pasquale, Lewis N. Wolff and Z. Jamie Behar, who serves as the chair. The Nominating and Corporate Governance Committee held four meetings during 2012. We expect that after the annual meeting, the Nominating and Corporate Governance Committee members will remain the same.

Committee Membership

The table below summarizes both the current and expected (assuming that the nominees listed in Proposal 1 are elected as directors at the annual meeting) membership information for each of the Board of Directors committees:

	Compensation	**Audit**	**Nominating and Corporate Governance**	**Strategic Planning and Capital Markets**
Mr. Batinovich		X	X	
Ms. Behar		X	X*	X
Mr. Lewis	X*			
Mr. Locker				X*
Mr. Pasquale	X		X	X
Mr. Russell		X*		X
Mr. Wolff	X		X	

* Chair

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Executive Sessions of Independent Directors

Ms. Behar and Messrs. Batinovich, Lewis, Locker, Pasquale, Russell and Wolff are currently our independent, non-employee directors. The independent, non-employee directors held six meetings in 2012. Following the annual meeting, we expect that our non-employee directors will remain the same as set forth in the immediately preceding sentence, and that Mr. Locker will preside over executive sessions of the non-employee directors.

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Report of the Audit Committee of the Board of Directors

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of Sunstone s filings under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this report by reference.

The purpose of the Audit Committee of Sunstone Hotel Investors, Inc., or Sunstone, is to assist the Board of Directors in its oversight of (i) the integrity of Sunstone s financial statements, (ii) Sunstone s compliance with legal and regulatory requirements, (iii) the independent auditors qualifications and independence, and (iv) the performance of the independent auditors and Sunstone s internal audit function; to retain Sunstone s independent auditors and to prepare this report. As set forth in the Audit Committee charter, which may be found in the Investor Relations section of Sunstone s website at www.sunstonehotels.com, management of Sunstone is responsible for the preparation, presentation and integrity of Sunstone s financial statements and Sunstone s accounting and for ensuring that financial reporting principles and internal controls and procedures are designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing Sunstone s financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles, and an opinion on the effectiveness of internal control over financial reporting.

In performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board, or the PCAOB, in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the PCAOB regarding the independent accountant s communications with the audit committee concerning independence, and has discussed with the independent auditors the auditors independence from Sunstone and its management, including the matters in the written disclosures and letter required by applicable requirements of the PCAOB.

The members of the Audit Committee are not full-time employees of Sunstone and are not performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Members of the Audit Committee necessarily rely on the information provided to them by management and the independent accountants. Accordingly, the Audit Committee s considerations and discussions referred to above do not assure that the audit of the Company s financial statements has been carried out in accordance with U.S. generally accepted accounting principles or that the Company s auditors are in fact independent.

In reliance on the reviews and discussions referred to above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee charter, the Audit Committee recommended to the Board of Directors the inclusion of the audited financial statements in Sunstone s 2012 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Keith P. Russell, Chair

Andrew Batinovich

Z. Jamie Behar

February 14, 2013

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Compensation of Directors

Compensation of the Company s Board of Directors for 2012

During the first quarter of 2011, due in part to a stockholder request regarding certain aspects of compensation paid to members of our Board of Directors, FTI Schonbraun McCann Group, or Schonbraun, was engaged by the Nominating and Corporate Governance Committee to review current market terms of director compensation programs/levels and stock ownership guidelines within the REIT industry. Schonbraun prepared an analysis that detailed the 2009/2010 director compensation and equity ownership guidelines for two select groups of real estate companies, including the selective lodging sector peer group comprised of 20 publicly-traded REITs and Real Estate Operating Companies and an expanded peer group comprised of 55 publicly-traded REITs with implied equity market capitalizations ranging from approximately $1 billion to $3 billion. With respect to board compensation, the Schonbraun report noted that the Sunstone Board of Directors then-current total compensation package ranked in the 45th percentile when compared to total compensation paid to directors by companies within Sunstone s lodging sector peer group and ranked in the 47th percentile when compared to total compensation paid to directors by publicly-traded REITs with implied equity market capitalizations ranging from approximately $1 billion to $3 billion. As for stock ownership guidelines, the Schonbraun report reflected the growing trend to establish stock ownership guidelines and provided the guidelines implemented at peer group companies.

In light of the above-mentioned Schonbraun report, and in order to ensure that the Company retains the service of its existing directors and is able to attract superior-talented persons should any of the existing directors cease service to the Company or if the Board of Directors elects to add directors, effective as of the first quarter 2011, the Board of Directors elected to modify its compensation structure as follows: (a) to increase the telephonic meeting attendance fee from $500 to $1,000 per meeting; (b) to increase the annual cash retainer paid to each chair of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee to $20,000, $10,000 and $10,000, respectively, from $15,000, $7,500 and $7,500, respectively (and, effective as of the fourth quarter 2011, the annual cash retainer for the chair of our Strategic Planning and Capital Markets Committee was set at $20,000); (c) to increase the annual stock grant from $60,000 to $100,000, provided that, in order to more closely align the Board of Directors interests with those of the Company s stockholders, the vesting period for such grants was changed from one year to three years (such that the grants will vest in three equal installments beginning with the first anniversary of the grant date and continue annually thereafter); and (d) as discussed below, to implement director stock ownership requirements. Each member of the Board of Directors also receives an annual cash retainer of $30,000 (payable in quarterly installments) and an attendance fee paid in cash of $1,500 for meetings attended in person, which amounts were not modified.

Starting in 2011, the Nominating and Corporate Governance Committee began implementation of stock ownership requirements for Company directors. Under these guidelines, each existing director (with the exception of Ms. Behar) is required, within three years of January 1, 2011, to hold stock valued at no less than three times the amount of the annual cash retainer paid to such director; and, for any new director, compliance with the guidelines is required within three years after being elected to the Board of Directors. To determine compliance with the stock ownership guidelines, (a) we will include, in addition to shares the individual director owns outright, awarded but unvested restricted shares of Company stock and (b) we will calculate the value of each director s stock holdings based on the average closing price on the NYSE of the Company s common stock for the year ended immediately prior to the applicable January 1 determination date. As of January 1, 2013, each member of the Company s Board of Directors met or exceeded the stock ownership requirements. Due to rules implemented by her employer, all director fees for Ms. Behar (including the value of the annual stock grant and attendance fees) are paid in cash to her employer.

Directors are also entitled to reimbursement for expenses incurred in fulfilling their duties as our directors and receive complimentary hotel rooms at our hotels and resorts when on personal travel. In certain circumstances, directors may also receive such complimentary hotel rooms at the Company s hotels for one year following their retirement or resignation from the Board of Directors.

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2012 Independent Director Compensation

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	All Other Compensation ($)	Total ($)
Robert A. Alter(5)	15,000			15,000
Andrew Batinovich	56,500	158,059(3)(4)		214,559
Z. Jamie Behar(6)	172,500			172,500
Thomas A. Lewis	59,500	105,373(3)		164,873
Keith M. Locker	130,500	200,210(3)(4)		330,710
Douglas M. Pasquale	62,500	158,059(3)(4)		220,559
Keith P. Russell	76,500	105,373(3)		181,873
Lewis N. Wolff	55,500	105,373(3)		160,373

(1) The amounts in this column are comprised as follows: (i) fees for service during 2012 and paid in 2012: Mr. Alter $15,000, Mr. Batinovich $48,000, Ms. Behar $61,500, Mr. Lewis $48,500, Mr. Locker $102,000, Mr. Pasquale $54,000, Mr. Russell $63,000, and Mr. Wolff $47,000; (ii) fees for service during the fourth quarter of 2012 and paid in the first quarter of 2013: Mr. Alter $0, Mr. Batinovich $8,500, Ms. Behar $11,000, Mr. Lewis $11,000, Mr. Locker $28,500, Mr. Pasquale $8,500, Mr. Russell $13,500, and Mr. Wolff $8,500 ; and (iii) for Ms. Behar only, $100,000 of this amount represents the value of the annual stock grant given in 2012 to our independent directors for serving on our Board of Directors which will be paid in cash to her employer in three equal annual installments beginning with the first anniversary of the grant date of May 2, 2012. Fees for service during the fourth quarter of 2011 and paid in the first quarter of 2012 are not reflected in this column.

(2) The amounts in this column represent the grant date fair value for grants of restricted stock made to the director in 2012 as prescribed by Accounting Standards Codification Topic 718, *Compensation Stock Compensation* (referred to herein as ASC Topic 718).

(3) Each of our independent directors received a stock grant of shares in 2012 having a value equal to $100,000 for serving on our Board of Directors. In addition, Mr. Locker received a restricted stock grant having a value of $60,000 for his service as our Non-Executive Chairman. To determine the number of restricted shares granted, the dollar amount is divided by the average closing price of the Company s stock over the 20 trading days ending three business days prior to the grant date. Accordingly, based on a grant date of May 2, 2012 and the average closing price of the Company s common stock over the 20 trading days ending three days prior to such date (which average price was $9.87), each of the independent directors was granted 10,132 shares of restricted stock (and, in addition, Mr. Locker received 6,079 shares of restricted stock for his service as our Non-Executive Chairman), with a grant date fair value of $105,373 (and an additional $63,221 for Mr. Locker), as prescribed by ASC Topic 718. The grant date fair value of the restricted stock awards granted to our independent directors equals the number of shares of restricted stock multiplied by the closing common share price of $10.40 on the NYSE on the date of the grant (May 2, 2012).

(4) Messrs. Batinovich and Pasquale received a stock grant of shares having a value equal to $50,000 for their service as directors during the period of November 7, 2011 to May 1, 2012 (representing one-half of the base annual stock grant received by all members of the Company s Board of Directors for service from the 2011 annual meeting to the 2012 annual meeting). Mr. Locker, our Non-Executive Chairman, received a stock grant of shares having a value equal to $30,000 for his service as our Non-Executive Chairman during the period of November 7, 2011 to May 1, 2012. To determine the number of restricted shares granted, the dollar amount is divided by the average closing price of the Company s stock over the 20 trading days ending three business days prior to the grant date. Accordingly, based on a grant date of May 2, 2012 and the average closing price of the Company s common stock over the 20 trading days ending three days prior to such date (which average price was $9.87), Messrs. Batinovich, Locker and Pasquale were granted 5,066, 3,040 and 5,066 shares of restricted stock, respectively, with grant date fair values of $52,686, $31,616 and $52,686, respectively, as prescribed by ASC Topic 718. The grant date fair value of the restricted stock awards granted to Messrs. Batinovich, Locker and Pasquale equals the number of shares of restricted stock (5,066, 3,040 and 5,066, respectively) multiplied by the closing common share price of $10.40 on the NYSE on the date of the grant (May 2, 2012).

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(5) Mr. Alter s service as a member of the Company s Board of Directors ended on May 2, 2012.

(6) Due to rules implemented by her employer, all director fees for Ms. Behar (including the value of the annual stock grant and attendance fees) are paid in cash to her employer.

Compensation of the Company s Board of Directors for 2013 and Non-Executive Chairman Compensation

We currently expect that the compensation for our Board of Directors in 2013 will remain the same as that paid in 2012, though we continue to evaluate all compensation policies on an ongoing basis, so no assurance can be given that we will not change aspects of our director compensation in the future.

In October 2011, FPL Associates L.P., or FPL, a nationally recognized compensation consulting firm, was retained by the Nominating and Corporate Governance Committee to review the appropriate compensation program for our Non-Executive Chairman as compared to other public real estate companies, including our peers that have an independent, non-executive chairman. Based on the results of this analysis and its own subjective analysis of our Non-Executive Chairman s anticipated role and responsibilities, the Nominating and Corporate Governance Committee recommended to our Board of Directors and the Board of Directors approved the following compensation for our Non-Executive Chairman, effective as of November 7, 2011: Mr. Locker will receive, in addition to the aforementioned standard compensation received by other members of our Board of Directors, a $60,000 cash retainer and a restricted stock grant having a value of $60,000 (which grant will vest in three equal annual installments beginning with the first anniversary of the grant date, subject to continued service). Accordingly, assuming Mr. Locker is elected by our stockholders at the 2013 annual meeting to continue his service as a member of the Company s Board of Directors (and also assuming he continues to serve as our Non-Executive Chairman and chair of the Strategic Planning and Capital Markets Committee), we expect that Mr. Locker will receive (1) a stock grant of shares having a value equal to $160,000 (comprised of (a) $60,000 for Mr. Locker s service as our Non-Executive Chairman from May 1, 2013 to the date of the Company s 2014 annual meeting, and (b) $100,000 as part of the base annual stock grant received by all members of the Company s Board of Directors for service from May 1, 2013 to the date of the Company s 2014 annual meeting) and (2) a cash retainer of $110,000 (comprised of (a) $30,000 as part of the base annual cash retainer received by all members of the Company s Board of Directors for service from May 1, 2013 to the date of the Company s 2014 annual meeting, (b) $60,000 for Mr. Locker s service as our Non-Executive Chairman from May 1, 2013 to the date of the Company s 2014 annual meeting, and (c) $20,000 for Mr. Locker s service as chair of the Strategic Planning and Capital Markets Committee from May 1, 2013 to the date of the Company s 2014 annual meeting).

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Executive Officers

The following sets forth biographical information regarding our Named Executive Officers for the year ended December 31, 2012, other than Mr. Cruse, whose biographical information is set forth above under Proposal 1: Election of Directors.

John V. Arabia, 43, is our President. On February 14, 2011, we announced that we hired Mr. Arabia as Executive Vice President of Corporate Strategy and Chief Financial Officer, or CFO, and on April 4, 2011 his employment began. On February 15, 2013, he was promoted to President. Prior to joining Sunstone, Mr. Arabia served as Managing Director of Green Street Advisors (Green Street) real estate research team. Mr. Arabia joined Green Street in 1997 and was instrumental in creating the firm s lodging research platform. Prior to joining Green Street, Mr. Arabia was a Consulting Manager at EY Kenneth Leventhal in the firm s west coast lodging consulting practice which specialized in hotel market studies, valuation and acquisition due diligence. Mr. Arabia started his hotel career in 1987, working various entry-level operating positions at the Anaheim Marriott. Mr. Arabia, who earned a CPA certificate from the state of Illinois, holds an M.B.A. degree in Real Estate/Accounting from The University of Southern California and a B.S. degree in Hotel Administration from Cornell University.

Marc A. Hoffman, 55, is our Executive Vice President and Chief Operating Officer, or COO. Mr. Hoffman joined us in June 2006 as Vice President Asset Management, and was appointed Senior Vice President Asset Management in January 2007 and Executive Vice President and Chief Operating Officer on February 18, 2010. For the twenty-seven years prior to joining Sunstone, Mr. Hoffman served in various positions at Marriott International, Inc., including General Manager of The Vail Marriott, General Manager of Marriott s Harbor Beach Resort and Spa, Marriott Market Manager for Fort Lauderdale, General Manager of The Ritz-Carlton Palm Beach (where under Mr. Hoffman s leadership, the hotel obtained the Mobil 5 Star Award), and most recently as Vice President and Managing Director of Grande Lakes Orlando, which included the 1,000-room JW Marriott, the 584-room Ritz-Carlton Resort and Spa and The Ritz-Carlton Golf Club. Mr. Hoffman holds an A.O.S. degree from The Culinary Institute of America and a B.A. degree from Florida International University.

Lindsay N. Monge, 40, is our Senior Vice President Chief Administration Officer, Treasurer and Secretary. Mr. Monge joined us in July 2000 as an acquisitions analyst, serving in the capacity of Acquisitions Manager from October 2001 through April 2003. From April 2003 to February 2010, he served as our Vice President Treasurer. From March 2010 to February 15, 2013, he has served as Senior Vice President Treasurer and Secretary, charged with management of all treasury- and secretarial-related functions, as well as enterprise risk management, information technology, human resources and office administration. On February 15, 2013, he was promoted to Senior Vice President Chief Administration Officer, Treasurer and Secretary. Since 1995 and prior to joining Sunstone, he served in various capacities in hotel operations at the Waldorf-Astoria Hotel in New York, New York and the Westgate Hotel in San Diego, California. Mr. Monge holds an M.B.A. degree from the Peter F. Drucker & Masatoshi Ito Graduate School of Management at Claremont Graduate University and a B.S. degree in Hotel Administration from Cornell University.

Robert C. Springer, 35, is our Senior Vice President Chief Investment Officer. Mr. Springer joined us in May 2011 as Senior Vice President Acquisitions. On February 15, 2013, he was promoted to Senior Vice President Chief Investment Officer. Prior to joining Sunstone, Mr. Springer served as a Vice President in the Merchant Banking Division of Goldman, Sachs & Co. (Goldman) and in the firm s principal lodging investing activity, which investments were primarily placed through the Whitehall Street Real Estate series of private equity funds, as well as the Goldman Sachs Real Estate Mezzanine Partners fund. Mr. Springer s involvement with these funds included all aspects of hotel equity and debt investing, as well as asset management of numerous lodging portfolios. Mr. Springer joined Goldman in February 2006. Prior to joining Goldman, Mr. Springer worked in both the feasibility and acquisitions groups at Host Hotels & Resorts from 2004 to 2006 and was integral to the closing of several large lodging deals. Mr. Springer started his career with PricewaterhouseCoopers, LLP in the Hospitality Consulting Group from 1999 to 2004. Mr. Springer holds a B.S. degree in Hotel Administration from Cornell University.

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Executive Officer Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis explains our compensation philosophy and policies that apply to our executive officers, including the Named Executive Officers listed in the Summary Compensation Table below. It explains the structure and rationale associated with each material element of the compensation program for the Named Executive Officers, describes the actual compensation paid to our Named Executive Officers for 2012, and provides important context for the more detailed disclosure relating to our Named Executive Officers in the compensation tables following this Compensation Discussion and Analysis.

In accordance with the rules of the SEC, each of Messrs. Cruse, Arabia, Hoffman, Monge and Springer are Named Executive Officers. Accordingly, this Compensation Discussion and Analysis discusses certain on-going arrangements with respect to the Named Executive Officers. This Compensation Discussion and Analysis contains statements regarding Company performance targets and goals. These targets and goals are disclosed in the limited context of our executive compensation programs and should not be understood to be statements of management s future expectations or estimates of future results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Say-on-Pay

The Board of Directors and our management team understand it is our responsibility to structure our compensation program in a way that is highly aligned with the interests of our stockholders. Although the advisory stockholder vote on executive compensation is non-binding, the Compensation Committee has considered and will continue to consider the outcome of the vote when making future compensation decisions for Named Executive Officers.

Improvements to the Company s Compensation and Governance Programs

Though the Compensation Committee believes that the stockholder vote on our 2012 say-on-pay proposal endorses the Company s compensation program, the Compensation Committee endeavors to continue improving the Company s compensation program to more closely align compensation with the interests of our stockholders. To this end, over the past few years the Compensation Committee has materially redesigned the Company s compensation programs; likewise, the Board of Directors has made numerous corporate governance improvements. Examples of recent improvements to the Company s compensation and governance programs include the following:

* **New Independent Directors and Non-Executive Chairman**: On November 7, 2011, the Board of Directors appointed two new independent directors, Messrs. Batinovich and Pasquale. In addition, we appointed an independent director, Mr. Locker, as our Non-Executive Chairman. Our Board of Directors now consists of eight members, seven of which are independent.

* **Chief Executive Officer Base Salary**: Mr. Cruse s annual base salary is below the base salary level the Company paid its former CEO, and is below the average CEO base salary of the Company s Hotel REIT peer group. The Compensation Committee believes that a compensation program which puts the majority of the CEO s potential compensation at risk, subject to the attainment of predetermined performance goals, strongly aligns CEO compensation with the objectives of our stockholders.

* **Annual Incentive Awards Tied to Absolute TSR and Relative TSR**: Starting in 2012, the Compensation Committee tied annual incentive compensation to *both* absolute and relative total stockholder return, or TSR. For 2012, absolute TSR and relative TSR accounted for 40% of the objective performance measures against which executive officers were evaluated for incentive

compensation, and in 2013 will account for 50%. This level of weighting is consistent with the

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weighting ascribed to the award of restricted stock granted to Mr. Cruse in connection with his promotion to CEO on August 5, 2011, of which 40% of such shares are subject to performance-based, cliff vesting on the fifth anniversary of the grant date, depending on satisfaction of three measures: absolute TSR; relative TSR; and debt/earnings before interest, taxes, depreciation and amortization expenses (hereinafter, EBITDA).

* **Pay for Performance / Increase to At-Risk CEO Compensation**: The majority of total compensation opportunities for our Named Executive Officers is in the form of at-risk compensation. We believe this approach establishes strong financial incentives for our Named Executive Officers to maximize stockholder value. Variable compensation is tied to the achievement of performance goals or stock price improvement and includes annual incentive cash bonuses and equity incentive awards, the vesting of which is based on continued employment over the applicable vesting period. For our CEO in particular, at-risk compensation was approximately 79% in 2011, 80% in 2012 and is 80% in 2013 (expressed as the ratio of (a) target cash and equity incentive awards over (b) (x) target cash and equity awards plus (y) annual base salary rate).

* **CEO Stock Ownership Requirements**: In 2012, the Compensation Committee began implementation of stock ownership requirements for the Company s CEO, whereby our CEO is required, within three years of January 1, 2012, to hold stock valued at no less than six (6) times his annual base salary rate; and, for any new CEO, compliance with the policy will be required within four years after being appointed as the Company s CEO. CEO stock ownership requirements are described in more detail below under the heading *Security Ownership of our Chief Executive Officer.* As of January 1, 2013, Mr. Cruse exceeded the stock ownership requirements.

* **Director Stock Ownership Requirements**: Starting in 2011, the Nominating and Corporate Governance Committee began implementation of stock ownership requirements for Company directors, whereby each existing director (with the exception of Ms. Behar who holds a de minimis amount of stock due to rules implemented by her employer that require all director fees to be paid in cash to her employer) will be required, within three years of January 1, 2011, to hold stock valued at no less than three times the amount of the annual cash retainer paid to such director; and, for any new director, compliance with the guidelines will be required within three years after being elected to the Board of Directors. Director stock ownership requirements are described in more detail under the Compensation of Directors section above. As of January 1, 2013, each member of the Company s Board of Directors met or exceeded the stock ownership requirements.

* **Majority Voting Standard for Directors / Director Resignation Policy**: Effective March 2012, (a) the Company s bylaws were amended to change the voting standard for the election of directors from a plurality to a majority of all of the votes cast in uncontested elections; provided that, if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of all votes cast for election of directors at the meeting, and (b) the Company adopted a director resignation policy, which requires that any incumbent director who receives a greater number of withheld votes from his or her election than votes for such election to promptly tender his or her resignation to the Board of Directors following the final tabulation of the stockholder vote in any uncontested election of directors. These changes demonstrate the Company s commitment to accountability, at both the management and board levels, and ensure that stockholders votes will effectively determine the composition of our Board of Directors.

* **No Excise Tax Gross-Up Payments**: As of March 2011, no employee of the Company (including the Named Executive Officers) is entitled to receive excise tax gross-up payments in respect of any payment made by the Company.

* **No Repricing of Stock Options and Stock Appreciation Rights**: Effective May 2010, the Company s Long-Term Incentive Plan, or LTIP, was amended to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders.

* **New Limits on Share Recycling**: Effective February 2012, the LTIP was amended to revise the share counting provisions in order that (i) no shares of common stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation with respect to any award is again available for transfer pursuant to awards granted under the LTIP and (ii) the number of shares of common stock taken into account with respect to stock appreciation rights exercisable for shares of common stock will be the number of shares underlying the stock appreciation rights upon grant (regardless of the number of shares delivered upon settlement of the award).

Compensation Philosophy and Objectives

The Compensation Committee seeks to attract, motivate and retain Sunstone s executive officers through competitive compensation arrangements that, within appropriate risk parameters, provide strong financial incentives for the executive officers to maximize stockholder value.

Our executive compensation program is designed to reward performance relative to financial and other metrics that we believe will result in favorable total stockholder returns, both in terms of absolute appreciation in the value of our shares, and in terms of relative performance as compared to our peers, taking into consideration our competitive position within the real estate industry and each executive s contributions to the Company. The Compensation Committee has also designed the compensation program to reward our executive officers at levels that the Compensation Committee believes to be competitive for companies in its industry, including in part as a result of the review of executive officer compensation levels at certain companies in a peer group, as identified below. These compensation objectives are also furthered by the compensation program providing that a significant amount of the executive officer s total compensation will be variable and will be awarded by reference to these key financial metrics and other financial indicators. We have not adopted any formal policies or guidelines for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among different forms of cash and non-cash compensation. We believe the metrics for both the annual cash incentive bonuses and equity incentive awards for our Named Executive Officers demonstrate stockholder-favorable compensation practices. Our focus with respect to compensation of our Named Executive Officers is generally aligned with performance relative to key growth metrics, including TSR, return on assets and growing our share of business in the markets in which we compete.

Implementation of our Compensation Philosophy and Objectives

Compensation Committee

The Compensation Committee assists the Board of Directors in discharging the Board of Directors responsibilities relating to compensation of our executive officers. It evaluates and recommends to the Board of Directors appropriate policies and decisions relative to executive officer benefits, bonus, incentive compensation, severance, and equity-based or other compensation plans. It also oversees preparation of executive compensation disclosures for inclusion in our proxy statement and assists management in regulatory compliance with respect to compensation matters. The current members of our Compensation Committee are Thomas A. Lewis, Douglas M. Pasquale and Lewis N. Wolff, each of whom is independent within the meaning of the listing standards of the NYSE, is a non-employee director within the meaning of Rule 16b-3 of the Exchange Act and is an outside director within the meaning of Section 162(m) of the Code.

As described in more detail below, compensation for fiscal year 2012 for each of our Named Executive Officers was determined by the Compensation Committee based upon a review of the Company s performance, the individual performance of each Named Executive Officer, total compensation paid by the Company to each Named Executive Officer in prior years, and, in certain instances, taking into account certain peer group information provided by FPL. The Compensation Committee s analysis is discussed below in the context of each element and amount of compensation.

The annual cash incentive bonus and equity incentive awards for a fiscal year are typically paid in the first quarter of the subsequent fiscal year, when audited financial statements for such fiscal year become available for the Company. For example, in February 2013, we paid the 2012 cash incentive bonuses and issued long-term equity incentive awards to the Named Executive Officers with respect to the Company s performance for fiscal year 2012.

Compensation Consultant

To assist it in carrying out its responsibilities, the Compensation Committee is authorized to retain the services of independent compensation advisors for purposes of advice and consultation with respect to compensation of our executive officers. During fiscal year 2011, the Compensation Committee engaged FPL. The Compensation Committee has sole authority to retain or terminate FPL as the Compensation Committee s executive compensation consultant and to approve its fees and other terms of engagement. The Compensation Committee will consider, not less than annually, the independence of FPL and its other advisors and determine whether any related conflicts of interest require disclosure.

In making certain compensation decisions in 2011, the Compensation Committee relied upon FPL to:

* assist in the selection of a group of peer companies (based on, among other things, industry, size and geography);
* provide information on compensation paid by peer companies to their executive officers;
* advise on alternative structures, forms of compensation and allocation considerations; and
* advise on appropriate levels of compensation.

In 2012, the Compensation Committee retained the 2011 compensation levels for Named Executive Officers. The Compensation Committee did not retain a compensation consultant in 2012.

Peer Group Information

The Compensation Committee uses comparison data from various companies in certain peer groups as a guide in its review and determination of base salaries, annual cash bonuses and restricted stock awards. During 2011, the Compensation Committee reviewed peer group data to assist in its determination regarding compensation for certain Named Executive Officers for 2011 and 2012, the award of restricted stock granted to Mr. Cruse in connection with his promotion to CEO on August 5, 2011, and compensation for our CEO for 2012. The Compensation Committee evaluates our performance and determines whether the compensation elements and levels that we provide to our executive officers are generally appropriate relative to the compensation elements and levels provided to their counterparts at our peer companies, in light of our performance relative to our peers and in light of each executive officer s contribution to our performance.

In 2011, the Compensation Committee, with the help of FPL, determined the composition of our peer groups and the criteria and data used in compiling our peer group lists. The peer groups selected and used by the Compensation Committee are all public real estate companies and are divided into two groups: hotel REIT peers and size/geographic peers. Each peer group is discussed and identified below:

* Hotel REIT Peer Group. This peer group consists of seven public hospitality REITs that the Company and FPL consider to be the most relevant peer group against which to benchmark compensation for Named Executive Officers. This peer group has total capitalization ranging from approximately $1.9 billion to $17.8 billion (as of December 31, 2010).
* Size/Geographic-Based Peer Group. This peer group consists of 13 public real estate companies, six of which have corporate headquarters located within the State of California. This peer group focuses on a variety of asset classes and has total capitalization

ranging from approximately $1.6 billion to $6.3 billion (as of December 31, 2010).

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Hotel REIT Peer Group	Size/Geographic-Based Peer Group
Ashford Hospitality Trust, Inc.	Acadia Realty Trust
DiamondRock Hospitality Company	BioMed Realty Trust, Inc.
FelCor Lodging Trust Incorporated	BRE Properties, Inc.
Hersha Hospitality Trust	Choice Hotels International, Inc.
Host Hotels & Resorts, Inc.	Cousins Properties Incorporated
LaSalle Hotel Properties	DCT Industrial Trust, Inc.
Strategic Hotels & Resorts, Inc.	Douglas Emmett, Inc.
	FelCor Lodging Trust Incorporated
	Nationwide Health Properties, Inc.
	PS Business Parks, Inc.
	Realty Income Corporation
	Saul Centers, Inc.
	Strategic Hotels & Resorts, Inc.

The peer group compensation analyses prepared by FPL in 2011 were utilized by our Compensation Committee for informational purposes only. The Compensation Committee did not engage in any formal benchmarking with respect to our Named Executive Officer compensation for 2012.

Management s Involvement in Compensation Decisions

The Compensation Committee exercises independent discretion and judgment in making compensation decisions after evaluating the Company s performance, the executive s past performance, including the extent to which the executive has met or exceeded specified targets or affected the Company s performance, and the executive s long-term potential to enhance stockholder value. In connection with the executive compensation determination process, the Compensation Committee seeks input from the Company s CEO regarding the compensation of the Named Executive Officers other than the CEO. In addition, from time to time, the Compensation Committee will direct management to work with its consultant(s) in providing proposals, program design and compensation recommendations. The CEO does not provide recommendations for changes in his or her own compensation. Any proposed changes to CEO compensation are recommended to the Board of Directors by the Compensation Committee, and final deliberations and all votes regarding CEO compensation are made in executive sessions of the Board of Directors, without the CEO present. Only Compensation Committee members vote on recommendations to the full Board of Directors regarding changes in executive compensation.

Tax Considerations

Section 162(m) of the Code disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1.0 million in any taxable year for our CEO and each of the other Named Executive Officers (other than our Chief Financial Officer), unless compensation is performance based. We expect that our Compensation Committee will adhere to the principle that, where reasonably practicable and to the extent applicable, we will seek to qualify the variable compensation paid to our Named Executive Officers for an exemption from any applicable deductibility limitations of Section 162(m) of the Code. As such, in approving the amount and form of compensation for our Named Executive Officers in the future, our Compensation Committee will consider all elements of the cost to the Company of providing such compensation, including the potential impact of Section 162(m) of the Code. However, our Compensation Committee may, in its judgment, authorize compensation payments that are subject to deduction limitations under Section 162(m) of the Code when it believes that such payments are appropriate to attract and/or retain executive talent.

<u>Section 409A of the Code</u>

Section 409A of the Code requires that nonqualified deferred compensation be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections,

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timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities, penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, we design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including our Named Executive Officers, in a manner intended either to be exempt from, or to satisfy the requirements of, Section 409A.

Section 280G of the Code

Section 280G of the Code disallows a tax deduction with respect to excess parachute payments to certain executives of companies which undergo a change in control. In addition, Section 4999 of the Code imposes a 20 percent penalty on the individual receiving the excess payment. Parachute payments are compensation that is linked to or triggered by a change in control and may include, but are not limited to, bonus payments, severance payments, certain fringe benefits and payments and acceleration of vesting from long-term incentive plans including stock options and other equity-based compensation. Excess parachute payments are parachute payments that exceed a threshold determined under Section 280G based on the executive s prior compensation. In approving the compensation arrangements for our Named Executive Officers, our Compensation Committee considers all elements of the cost to our Company of providing such compensation, including the potential impact of Section 280G. However, our Compensation Committee may, in its judgment, authorize compensation arrangements that could give rise to loss of deductibility under Section 280G and the imposition of excise taxes under Section 4999 when it believes that such arrangements are appropriate to attract and retain executive talent. No Named Executive Officer is entitled to any tax gross-up payments in the event that any excise taxes are imposed on parachute payments.

Accounting Standards

Accounting Standards Codification Topic 718, *Compensation Stock Compensation* (referred to as ASC Topic 718), requires us to recognize an expense for the fair value of equity-based compensation awards. Grants of stock options, restricted stock, restricted stock units and performance units under our equity incentive award plan are accounted for under ASC Topic 718. Our Compensation Committee regularly considers the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs. As accounting standards change, we may revise certain programs to appropriately align accounting expenses of our equity awards with our overall executive compensation philosophy and objectives.

Elements of Executive Compensation

We use a portfolio of pay components to accomplish our compensation philosophy and objectives discussed above. Our executive compensation program consists of the following components:

* *Annual Base Salary* fixed base pay that reflects each executive s position and individual performance.

* *Annual Cash Incentive Bonuses* variable cash awards based on performance and responsibility level to compensate each executive officer for achieving our annual stockholder return and other corporate goals, and implementing our long-term plans and strategies.

* *Annual Equity Incentive Awards* variable equity awards also granted based on such performance and responsibility levels and designed to foster retention and align the executive officer s interests with the long-term interests of our stockholders.

* *Perquisites* perquisites consistent with industry practices in comparable REITs, as well as broad-based employee benefits such as medical, dental, vision, life insurance and disability coverage.

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Annual Base Salary

The annual base salary component of an executive officer s compensation is intended to provide a reasonable standard of living and a base wage at levels believed by the Compensation Committee to be competitive. The Compensation Committee reviews base salaries annually, but base salaries are not automatically increased pursuant to pre-determined formulas or otherwise and may not be increased if, among other things, the Compensation Committee believes that other elements of compensation are more appropriate in light of the Company s stated objectives or that increases are not appropriate for other reasons. This strategy is consistent with the Company s primary goal of offering compensation that is intended to incentivize an executive officer to seek to maximize stockholder returns and that is contingent on the achievement of performance objectives. Each executive officer s base salary serves as the base amount for determining annual cash and equity incentive award opportunities, which are calculated as percentages of such executive s base salary.

The base salary of each of our executive officers is based on the review of the Compensation Committee described above and the following:

* an assessment of the scope of the executive officer s responsibilities and leadership;

* the executive officer s expertise and experience within the industry;

* the Company s overall financial and business performance; and

* the executive officer s contributions to the Company.

This determination is not formulaic and is not based on specific Company or individual performance targets objectives, but rather is subjective and made in light of our compensation philosophy and objectives described above. The following is a discussion of the base salary determinations for each of our Named Executive Officers.

Kenneth E. Cruse. Mr. Cruse s annual base salary for the period of January 1, 2009 to February 21, 2010 was $294,193. Mr. Cruse s annual base salary was increased to $350,000, effective February 22, 2010, representing an increase of approximately 19%. In connection with his promotion to President, Mr. Cruse s base salary was increased to $400,000, effective January 1, 2011, representing an increase of approximately 14%. Effective January 1, 2012, Mr. Cruse s base salary was increased to $550,000 in light of his promotion to CEO, representing an increase of 37.5%; and, effective January 1, 2013, his base salary was increased to $615,000, representing an increase of approximately 12%.

John V. Arabia. Mr. Arabia s annual base salary for the period of April 4, 2011 to December 31, 2012 was $375,000. Effective January 1, 2013, Mr. Arabia s base salary was increased to $415,000 in connection with his promotion to President, representing an increase of approximately 10.5%.

Marc A. Hoffman. Mr. Hoffman s annual base salary for the period of January 1, 2009 to February 21, 2010 was $301,069. Effective February 22, 2010, Mr. Hoffman s annual base salary was increased to $350,000 in connection with his promotion to Executive Vice President and COO, representing an increase of approximately 16%. Mr. Hoffman s annual base salary was increased to $375,000 on February 17, 2011, representing an increase of approximately 7%, and remained at $375,000 until December 31, 2012. Effective January 1, 2013, his base salary was increased to $405,000, representing an increase of 8%.

Lindsay N. Monge. Mr. Monge s annual base salary for the period of January 1, 2012 to December 31, 2012 was $240,000. Effective January 1, 2013, Mr. Monge s annual base salary was increased to $260,000 in connection with his promotion to Senior Vice President Chief Administration Officer, Treasurer and Secretary, representing an increase of approximately 8.5%.

Robert C. Springer. Mr. Springer s annual base salary for the period of May 31, 2011 to December 31, 2012 was $285,000. Effective January 1, 2013, Mr. Springer s base salary was increased to $310,000 in connection with his promotion to Senior Vice President Chief Investment Officer, representing an increase of approximately 9%.

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Annual Cash Incentive Bonuses and Annual Equity Incentive Awards

We use annual cash incentive bonus and annual equity incentive awards to further motivate executive officers by establishing a relationship between the bonuses and awards and the performance of the Company and the executive officer. All of our executive officers are eligible to participate in the Executive Incentive Plan, which is described below. We believe that tying our executive officers cash bonus and long-term equity compensation to the quantitative metrics discussed below provides a strong financial incentive to maximize stockholder value.

The annual cash incentive bonus and equity incentive awards granted under the Executive Incentive Plan are intended to compensate our executive officers for achieving our annual financial goals at both the corporate and hotel asset levels and for implementing long-term plans and strategies. The annual cash incentive bonus and annual equity incentive award program is are based on performance and responsibility level rather than on the basis of seniority, tenure or other entitlement. Each year, the Compensation Committee establishes performance-based criteria, both corporate and individual, for each Named Executive Officer, and the level of achievement of those criteria determines the size of the annual bonuses and awards made to the Named Executive Officer in the next calendar year. This performance-based program is intended to encourage our officers to continually improve their capabilities to enhance performance and deliver positive business results.

The annual equity incentive awards are also intended to encourage ownership, foster retention and align the executive officers interests with the long-term interests of our stockholders. Historically, we have used restricted stock awards that are granted based on achievement of pre-established performance goals and generally vest over a three-year period. We use restricted stock for these awards in order to confer the full value of the equity because these awards are granted in respect of prior attainment of performance objectives, but we subject these awards to three-year vesting to provide retention and integrity incentives. Because the awards are only granted if certain performance criteria are met, we generally do not utilize additional performance-based criteria in connection with the vesting of these awards.

As described further below, the Compensation Committee sets the target annual cash incentive bonus and equity incentive award levels for each Named Executive Officer based on the achievement of objective corporate performance criteria as well as subjective individual performance criteria. The amounts of the awards are set at levels designed to provide the executives with a significant incentive to enhance stockholder value. Accordingly, as discussed below, the target annual incentive cash bonus and target annual equity incentive award for each executive officer are set at levels that represent a significant percentage of such officer s overall compensation arrangements.

Criteria and Metrics for 2012 Incentive Compensation

In the first quarter of 2012, the Compensation Committee established quantitative and qualitative performance measures for both the annual cash incentive bonuses and the annual equity incentive awards. For Mr. Cruse, 100% of each of the potential annual cash incentive bonus and the annual equity incentive award is based upon the achievement of the Seven Components (defined below); for Messrs. Arabia and Hoffman, 75% of each of the potential annual cash incentive bonus and the annual equity incentive award is based upon the achievement of the Seven Components and the remaining 25% is based upon achievement of individual goals (discussed below); and for Messrs. Monge and Springer, 50% of each of the potential annual cash incentive bonus and the annual equity incentive award is based upon the achievement of the Seven Components and the other 50% is based upon achievement of individual goals (discussed below). The relative weighting of the Seven Components and individual goals established by the Compensation Committee for each of our Named Executive Officers reflects its analysis of the appropriate amount of emphasis to place on both objective corporate and subjective individual goals, and not any pre-determined formula or methodology. The Compensation Committee may, at its discretion, adjust criteria to account for significant intra-year transactions and circumstances.

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The Compensation Committee determined that the amounts of the bonuses and awards to each Named Executive Officer would, either in part or in whole, be based on the achievement of the following seven components, each weighted as described (with the ranges representing variation in weighting among our Named Executive Officers as opposed to a range for each Named Executive Officer): (1) 10-20% based on relative total stockholder return; (2) 10-20% based on absolute total stockholder return; (3) 10-20% based on adjusted funds from operations; (4) 5-10% based on improvement to the Company s leverage profile; (5) 5-10% based on return on assets; (6) 5-10% based on improvement to the Company s fixed charge coverage ratio; and (7) 5-10% based on growth to the revenue per available room index, or RevPAR index (collectively, the Seven Components). Each of the Seven Components is further discussed below.

For each of the Seven Components, the Compensation Committee established four achievement levels Threshold, Target, High and Superior, a for each achievement level, a corresponding multiple for base salary for each Named Executive Officer. For any of the components, the amount granted to the applicable Named Executive Officer was the product of (a) his base salary, (b) the weighting for that component, (c) the multiple corresponding to the level of achievement and (d) the Compensation Committee s subjective assessment as to whether the Named Executive Officer s performance warranted an increase or decrease from the target levels.

Relative Total Stockholder Return. Relative total stockholder return, or RTSR, was measured by us for 2012 as the increase (or decrease) in the price of the Company s common stock on the NYSE as of the last trading day in 2012 over the price of the Company s common stock on the NYSE on the last trading day in 2011, plus dividends paid on the Company s common stock during the year, relative to an equally-weighted total stockholder return index consisting of Host Hotels & Resorts, Inc. (HST), DiamondRock Hospitality Company (DRH) and LaSalle Hotel Properties (LHO). As indicated in the immediately subsequent paragraph, for fiscal year 2012 the Company s total stockholder return, calculated in accordance with the foregoing, was 31.4%. Also calculated in accordance with the foregoing, the total stockholder returns for an index consisting of HST, DRH and LHO for fiscal year 2012 was 6.64%. The Compensation Committee determined that for fiscal year 2012, the range for the relative total stockholder return component should be as follows: Threshold equates to 90.00% RTSR; Target equates to 100.00% RTSR; High equates to 110.00% RTSR; and Superior equates to 120.00% RTSR. For fiscal year 2012, the Company s RTSR, calculated in accordance with the foregoing, was approximately 473%. This resulted in the funding of the RTSR component at the Superior level for each of the Named Executive Officers, as shown in the table below.

Absolute Total Stockholder Return. Absolute total stockholder return, or ATSR, was measured by us for 2012 as the increase (or decrease) in the price of the Company s common stock on the NYSE as of the last trading day in 2012 over the price of the Company s common stock on the NYSE on the last trading day in 2011, plus dividends paid on the Company s common stock during the year. The closing price of the Company s common stock on the NYSE was $8.15 and $10.71 on December 30, 2011 and December 31, 2012, respectively. The Compensation Committee determined that for fiscal year 2012, the range for the absolute total stockholder return component should be as follows: Threshold equates to 8.00% ATSR; Target equates to 10.00% ATSR; High equates to 12.00% ATSR; and Superior equates to 14.00% ATSR. For fiscal year 2012 the Company s ATSR, calculated in accordance with the foregoing, was 31.4%. This resulted in the funding of the ASTR component at the Superior level for each of the Named Executive Officers, as shown in the table below.

Adjusted FFO Per Share. The primary objective of the adjusted funds from operations, or FFO, per share component was to measure management s ability to oversee the financial performance of the Company. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group. The Board of Governors of NAREIT in its March 1995 White Paper (as clarified in November 1999 and April 2002) defines FFO to mean net income (or net loss) (computed in accordance with GAAP), excluding non-controlling interests, gains and losses from sales of property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing fees) and real estate-related impairment losses, and after adjustment for unconsolidated partnerships and joint ventures. Our measurement of Adjusted FFO includes FFO but excludes penalties, written-off deferred financing fees, non-real

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estate-related impairment losses, income tax provisions and other identified adjustments. In 2012, we adjusted FFO for the write-off of deferred financing fees, income tax provisions, non-cash straightline lease expense, non-cash interest related to loss on derivatives (net), loss on extinguishment of debt, closing costs on completed acquisitions, lawsuit settlement costs (net), prior year property tax and common area maintenance adjustments (net) and hotel laundry closing costs.

The Compensation Committee determined that for fiscal year 2012, the range for the adjusted FFO per share component should be as follows: Threshold generally approximates the low end of the Company s initial adjusted FFO per share guidance; Target generally approximates the mid-point of the Company s initial adjusted FFO per share guidance; High generally approximates the high end of the Company s initial adjusted FFO per share guidance; and Superior corresponds to a level in excess of the high end of the Company s initial adjusted FFO per share guidance. For fiscal year 2012, the Company s adjusted FFO per share, calculated in accordance with the foregoing, was $1.01. This resulted in the funding of the adjusted FFO per share component at the Superior level for each of the Named Executive Officers, as shown in the table below.

Net Debt + Preferred Equity/Adjusted EBITDA. The primary objective of this component was to measure improvement to the Company s progress against its credit objectives. The ratio was calculated as the ratio of the Company s total net debt and preferred equity to the Company s reported Adjusted EBITDA for fiscal year 2012. This component was calculated by dividing the Company s net indebtedness plus preferred equity by the pro forma 2012 full-year Adjusted EBITDA, such that (a) the sum of (i) total outstanding consolidated indebtedness less all cash and (ii) total outstanding preferred stock, was divided by (b) Adjusted EBITDA reported for fiscal year 2012, adjusted to reflect the full-year (i.e., proforma) effect of any intra-year acquisitions or dispositions. The Compensation Committee determined that for fiscal year 2012, the range for the Net Debt + Preferred Equity/Adjusted EBITDA component should be as follows: Threshold equates to 7.6x leverage; Target equates to 7.4x leverage; High equates to 7.2x leverage; and Superior equates to 7.0x leverage or less. For fiscal year 2012, the Company s Net Debt + Preferred Equity/Adjusted EBITDA, calculated in accordance with the foregoing, improved to 6.44x leverage. This resulted in the funding of the Net Debt + Preferred Equity/Adjusted EBITDA component at the Superior level for each of the Named Executive Officers.

Return on Assets. The primary objective of the return on assets component was to measure the financial performance of the Company s gross investment in hotels, joint ventures and related businesses owned for the entire subject year. Any intra-year acquisitions or dispositions are excluded from the calculation. Return on assets is calculated as In Place EBITDA/In Place Assets, where:

- In Place EBITDA is equal to the sum of all corporate earnings before interest, taxes, depreciation and amortization, or EBITDA, from hotels owned for the entire subject year, joint venture interests and other related businesses, and excludes corporate overhead and interest income, but includes any performance guaranty payments; and

- In Place Assets is equal to the gross investment in hotel properties, joint ventures and other related businesses (in service and before depreciation) as of December 31 of the preceding year and owned for the entire subject year.

The Compensation Committee determined that for fiscal year 2012, the range for the return on assets component should be as follows: Threshold equates to 7.00% return on assets; Target equates to 7.15% return on assets; High equates to 7.30% return on assets; and Superior equates to 7.45% return on assets. For fiscal year 2012, the Company s return on assets, calculated in accordance with the foregoing, was determined to be 7.54%. This resulted in the funding of the return on assets component at the Superior level for each of the Named Executive Officers.

Fixed Charge Coverage Ratio. The primary objective of this component was to measure the Company s progress against its credit objectives during 2012. This component was calculated by dividing the Company s pro forma adjusted EBITDA for fiscal year 2012 by the pro forma full-year interest expense for fiscal year 2012. The

Compensation Committee determined that for fiscal year 2012, the range for the fixed charge coverage ratio component should be as follows: Threshold equates to 1.45x coverage; Target equates to 1.50x coverage; High equates to 1.55x coverage; and Superior equates to 1.60x coverag or more. For fiscal year 2012, the Company s fixed charge coverage ratio, calculated in accordance with the foregoing, improved to 1.64x coverage. This resulted in the funding of the fixed charge coverage ratio component at the Superior level for each of the Named Executive Officers.

RevPAR Index Growth. The primary objective of this component was to measure the Company s performance in capturing its proportionate share of revenue in the markets in which the Company competes for business. RevPAR index is the quotient of RevPAR divided by the average RevPAR of competitors, multiplied by 100. A RevPAR index in excess of 100 indicates achievement of higher RevPAR than competitors and RevPAR below 100 indicates lower performance than that of competitors. The Compensation Committee determined that for fiscal year 2012, the range for RevPAR index growth should be as follows: Threshold equates to an increase to RevPar index of 25 basis points; Target equates to an increase to RevPar index of 50 basis points; High equates to an increase to RevPar index of 75 basis points; and Superior equates to an increase to RevPar index of 100 basis points. For fiscal year 2012, the Company s RevPAR index growth was below the Threshold level (25 basis points) and, therefore, no amounts were paid to the Named Executive Officers with respect to this metric.

Individual Performance. The primary objective of this component was to drive individual performance and to ensure accountability with respect to individual performance throughout the calendar year. Messrs. Arabia, Hoffman, Monge and Springer each had individualized goals for 2012. Mr. Arabia s individualized goals for 2012 included reducing the Company s weighted average cost of capital and implementing the Company s liquidity enhancement and leverage reduction strategy. Mr. Hoffman s goals consisted of, among other things, taking steps to maximize the long-term value of each Company hotel property through proactive oversight of hotel operations and by facilitating the execution of well-timed and value-enhancing renovations. Mr. Monge s goals included the implementation of certain treasury, risk management, information technology and human resources plans, including ensuring appropriate levels of risk for invested capital and ready access to capital, enhancing the Company s corporate and property level insurance programs, ensuring Company employees have continuous access to the Company s electronic files and email network and implementing programs to drive optimal employee performance, respectively. Mr. Springer s goals generally included the implementation of the Company s portfolio management objectives, including completing the sale of certain non-core hotel properties and enhancing the Company s portfolio quality through well-timed, attractively priced acquisitions.

In determining the Threshold, Target, High and Superior achievement levels for individual performance, while the Compensation Committee considered information previously provided and recommendations made by compensation consultants in 2011, the Compensation Committee s determination of these amounts reflected its subjective analysis of the amounts required to appropriately incentivize achievement of the relevant corporate and individual goals.

The Compensation Committee set targets for the above individual goals such that, as determined by the Compensation Committee, the Threshold represents performance at a satisfactory level, the Target represents the achievement of a majority of individual annual goals, the High represents the achievement of all individual annual goals and the Superior represents the achievement of all annual goals and general performance at a level above expectation.

For Messrs. Arabia, Hoffman, Monge and Springer, the Compensation Committee determined that their performance relative to individual goals ranged between the High and Superior levels for 2012. In making the foregoing assessments, the Compensation Committee recognized, among other things, Mr. Arabia s continued progress towards reducing the Company s leverage, Mr. Hoffman s diligent execution of the Company s asset improvement program, Mr. Monge s leadership by consistent performance and success in reducing the Company s risk profile relative to cash investments and technology, and Mr. Springer s successful execution of asset dispositions and acquisitions.

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The following is a tabular presentation of the foregoing performance criteria and related achievement levels as determined by the Compensation Committee with regard to the Named Executive Officers as a group (individualized score cards for each Named Executive Officer follow below):

Performance Measures	Weight	Threshold	Target	High	Superior	Actual
Relative Total Stockholder Return	10-20%	90.00%	100.00%	110.00%	120.00%	473.10%
Absolute Total Stockholder Return	10-20%	8.00%	10.00%	12.00%	14.00%	31.4%
Adjusted FFO Per Share	10-20%	$ 0.81	$ 0.86	$ 0.90	$ 0.92	$ 1.01
Net Debt + Preferred Equity/Adjusted EBITDA	5-10%	7.60x	7.40x	7.20x	7.00x	6.44x
Return on Assets	5-10%	7.00%	7.15%	7.30%	7.45%	7.54%
Fixed Charge Coverage Ratio	5-10%	1.45x	1.50x	1.55x	1.60x	1.64x
RevPAR Index Growth	5-10%	25pts	50pts	75pts	100pts	-0.20pts
Individual Performance	0-50%	(1)	(1)	(1)	(1)	(1)

(1) Determined on an individual basis. See above for a description of the individual goals for Messrs. Arabia, Hoffman, Monge and Springer for fiscal year 2012.

2012 Awards. To determine the actual incentive awards payable to each Named Executive Officer above, in February 2013, the Compensation Committee reviewed and assessed the performance of the Company and each Named Executive Officer in comparison to the subjective and objective performance measures established in 2012. The Compensation Committee determined the extent to which each of the various objective and subjective performance measures were achieved and decided whether the incentive compensation for each performance measure should be funded and, if so, the level of funding. No bonus was awarded if performance was below Threshold, and results are interpolated between the levels of Threshold, Target, High and Superior.

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Cash Incentive Bonuses

The following tables detail the actual calculation of the cash incentive bonus with respect to fiscal year 2012 for each Named Executive Officer (rounded to the nearest whole dollar value).

	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Cash Bonus ($)
Kenneth E. Cruse				75%	150%	200%	250%						
				($ 412,500)	($ 825,000)	($ 1,100,000)	($ 1,375,000)						
Relative Total Stockholder Return	Superior	20%	x				250%	=	50.00%	x	550,000	=	275,000
Absolute Total Stockholder Return	Superior	20%	x				250%	=	50.00%	x	550,000	=	275,000
Adjusted FFO Per Share	Superior	20%	x				250%	=	50.00%	x	550,000	=	275,000
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	10%	x				250%	=	25.00%	x	550,000	=	137,500
Return on Assets	Superior	10%	x				250%	=	25.00%	x	550,000	=	137,500
Fixed Charge Coverage Ratio	Superior	10%	x				250%	=	25.00%	x	550,000	=	137,500
RevPAR Index Growth		10%	x					=	0.00%	x	550,000	=	
Individual Performance.	N/A	0%	x					=	0.00%	x	550,000	=	
													$ 1,237,500

	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Cash Bonus ($)
John V. Arabia				50%	75%	125%	150%						
				($ 187,500)	($ 281,250)	($ 468,750)	($ 562,500)						
Relative Total Stockholder Return	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Absolute Total Stockholder Return	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Adjusted FFO Per Share	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
Return on Assets	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
Fixed Charge Coverage Ratio	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
		7.5%	x					=	0.00%	x	375,000	=	

RevPAR Index Growth											
Individual Performance	High	25%	x	125%	=	31.25%	x	375,000	=		117,188
										$	496,875

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	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Cash Bonus ($)
Marc A. Hoffman				50%	75%	125%	150%						
				($ 187,500)	($ 281,250)	($ 468,750)	($ 562,500)						
Relative Total Stockholder Return	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Absolute Total Stockholder Return	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Adjusted FFO Per Share	Superior	15%	x				150%	=	22.50%	x	375,000	=	84,375
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
Return on Assets	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
Fixed Charge Coverage Ratio	Superior	7.5%	x				150%	=	11.25%	x	375,000	=	42,188
RevPAR Index Growth		7.5%	x					=	0.00%	x	375,000	=	
Individual Performance	High	25%	x			125%		=	31.25%	x	375,000	=	117,188
													$ 496,875

	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Cash Bonus ($)
Lindsay N. Monge				50%	75%	85%	100%						
				($ 120,000)	($ 180,000)	($ 204,000)	($ 240,000)						
Relative Total Stockholder Return	Superior	10%	x				100%	=	10.00%	x	240,000	=	24,000
Absolute Total Stockholder Return	Superior	10%	x				100%	=	10.00%	x	240,000	=	24,000
Adjusted FFO Per Share	Superior	10%	x				100%	=	10.00%	x	240,000	=	24,000
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	5%	x				100%	=	5.00%	x	240,000	=	12,000
Return on Assets	Superior	5%	x				100%	=	5.00%	x	240,000	=	12,000
Fixed Charge Coverage Ratio	Superior	5%	x				100%	=	5.00%	x	240,000	=	12,000
RevPAR Index Growth		5%	x					=	0.00%	x	240,000	=	
Individual Performance.	Superior	50%	x				100%	=	50.00%	x	240,000	=	120,000
													$ 228,000

	Achievement	Weighting		Threshold[1]	Target[1]	High[1]	Superior[1]		Percentage of Base Salary		Base Salary ($)		Cash Bonus ($)
Robert C. Springer				50%	75%	105%	125%						
				($ 142,500)	($ 213,750)	($ 299,250)	($ 356,250)						
Relative Total Stockholder Return	Superior	10%	x				125%	=	12.50%	x	285,000	=	35,625
Absolute Total Stockholder Return	Superior	10%	x				125%	=	12.50%	x	285,000	=	35,625
Adjusted FFO Per Share	Superior	10%	x				125%	=	12.50%	x	285,000	=	35,625
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	5%	x				125%	=	6.25%	x	285,000	=	17,813
Return on Assets	Superior	5%	x				125%	=	6.25%	x	285,000	=	17,813
Fixed Charge Coverage Ratio	Superior	5%	x				125%	=	6.25%	x	285,000	=	17,813
RevPAR Index Growth		5%	x					=	0.00%	x	285,000	=	
Individual Performance.	Superior	50%	x				125%	=	62.50%	x	285,000	=	178,125
													$ 338,438

(1) The Threshold, Target, High and Superior percentages are percentages of 2012 base salary.

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Equity Incentive Awards

The following tables detail the actual calculation of the equity incentive award with respect to fiscal year 2012 for each Named Executive Officer (rounded to the nearest whole dollar value).

	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Equity Incentive Award ($)(2)
Kenneth E. Cruse				150%	250%	300%	400%						
				($ 825,000)	($ 1,375,000)	($ 1,650,000)	($ 2,200,000)						
Relative Total Stockholder Return	Superior	20%	x				400%	=	80.00%	x	550,000	=	440,000
Absolute Total Stockholder Return	Superior	20%	x				400%	=	80.00%	x	550,000	=	440,000
Adjusted FFO Per Share	Superior	20%	x				400%	=	80.00%	x	550,000	=	440,000
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	10%	x				400%	=	40.00%	x	550,000	=	220,000
Return on Assets	Superior	10%	x				400%	=	40.00%	x	550,000	=	220,000
Fixed Charge Coverage Ratio	Superior	10%	x				400%	=	40.00%	x	550,000	=	220,000
RevPAR Index Growth		10%	x					=	0.00%	x	550,000	=	
Individual Performance.	N/A	0%	x					=	0.00%	x	550,000	=	
													$ 1,980,000

	Achievement	Weighting		Threshold(1)	Target(1)	High(1)	Superior(1)		Percentage of Base Salary		Base Salary ($)		Equity Incentive Award ($)(2)
John V. Arabia				100%	150%	200%	250%						
				($ 375,000)	($ 562,500)	($ 750,000)	($ 937,500)						
Relative Total Stockholder Return	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Absolute Total Stockholder Return	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Adjusted FFO Per Share	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
Return on Assets	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
Fixed Charge Coverage Ratio	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
RevPAR Index Growth		7.5%	x					=	0.00%	x	375,000	=	
	High	25%	x			200%		=	50.00%	x	375,000	=	187,500

Individual Performance.	$ 820,313

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	Achievement	Weighting		Threshold[1]	Target[1]	High[1]	Superior[1]		Percentage of Base Salary		Base Salary ($)		Equity Incentive Award ($)[2]
Marc A. Hoffman				100%	150%	200%	250%						
				($375,000)	($562,500)	($750,000)	($937,500)						
Relative Total Stockholder Return	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Absolute Total Stockholder Return	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Adjusted FFO Per Share	Superior	15%	x				250%	=	37.50%	x	375,000	=	140,625
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
Return on Assets	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
Fixed Charge Coverage Ratio	Superior	7.5%	x				250%	=	18.75%	x	375,000	=	70,313
RevPAR Index Growth		7.5%	x					=	0.00%	x	375,000	=	
Individual Performance.	High	25%	x			200%		=	50.00%	x	375,000	=	187,500
													$820,313

	Achievement	Weighting		Threshold[1]	Target[1]	High[1]	Superior[1]		Percentage of Base Salary		Base Salary ($)		Equity Incentive Award ($)[2]
Lindsay N. Monge				100%	125%	150%	200%						
				($240,000)	($300,000)	($360,000)	($480,000)						
Relative Total Stockholder Return	Superior	10%	x				200%	=	20.00%	x	240,000	=	48,000
Absolute Total Stockholder Return	Superior	10%	x				200%	=	20.00%	x	240,000	=	48,000
Adjusted FFO Per Share	Superior	10%	x				200%	=	20.00%	x	240,000	=	48,000
Net Debt + Preferred Equity/Adjusted EBITDA	Superior	5%	x				200%	=	10.00%	x	240,000	=	24,000
Return on Assets	Superior	5%	x				200%	=	10.00%	x	240,000	=	24,000
Fixed Charge Coverage Ratio	Superior	5%	x				200%	=	10.00%	x	240,000	=	24,000
RevPAR Index Growth		5%	x					=	0.00%	x	240,000	=	
Individual Performance.	Superior	50%	x				200%	=	100.00%	x	240,000	=	240,000