
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-32319

Sunstone Hotel Investors, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

20-1296886

(I.R.S. Employer
Identification Number)

200 Spectrum Center Drive, 21st Floor

Irvine, California

(Address of Principal Executive Offices)

92618

(Zip Code)

Registrant's telephone number, including area code: **(949) 330-4000**

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	SHO	New York Stock Exchange
Series E Cumulative Redeemable Preferred Stock, \$0.01 par value	SHO.PRE	New York Stock Exchange
Series F Cumulative Redeemable Preferred Stock, \$0.01 par value	SHO.PRF	New York Stock Exchange

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 30, 2021, there were 216,238,328 shares of Sunstone Hotel Investors, Inc.'s common stock, \$0.01 par value per share, outstanding.

**SUNSTONE HOTEL INVESTORS, INC.
QUARTERLY REPORT ON
FORM 10-Q**

For the Quarterly Period Ended March 31, 2021

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
**SUNSTONE HOTEL INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS**
(In thousands, except share data)

	March 31, 2021 (unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 320,275	\$ 368,406
Restricted cash	44,982	47,733
Accounts receivable, net	13,163	8,566
Prepaid expenses and other current assets	11,434	10,440
Total current assets	389,854	435,145
Investment in hotel properties, net	2,439,963	2,461,498
Finance lease right-of-use asset, net	45,814	46,182
Operating lease right-of-use assets, net	25,196	26,093
Deferred financing costs, net	3,879	4,354
Other assets, net	11,968	12,445
Total assets	<u>\$ 2,916,674</u>	<u>\$ 2,985,717</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,292	\$ 37,326
Accrued payroll and employee benefits	13,435	15,392
Dividends and distributions payable	3,207	3,208
Other current liabilities	31,013	32,606
Current portion of notes payable, net	2,295	2,261
Total current liabilities	84,242	90,793
Notes payable, less current portion, net	741,922	742,528
Finance lease obligation, less current portion	15,569	15,569
Operating lease obligations, less current portion	28,649	29,954
Other liabilities	14,679	17,494
Total liabilities	885,061	896,338
Commitments and contingencies (Note 11)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized:		
6.95% Series E Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at March 31, 2021 and December 31, 2020, stated at liquidation preference of \$25.00 per share	115,000	115,000
6.45% Series F Cumulative Redeemable Preferred Stock, 3,000,000 shares issued and outstanding at March 31, 2021 and December 31, 2020, stated at liquidation preference of \$25.00 per share	75,000	75,000
Common stock, \$0.01 par value, 500,000,000 shares authorized, 216,175,084 shares issued and outstanding at March 31, 2021 and 215,593,401 shares issued and outstanding at December 31, 2020	2,162	2,156
Additional paid in capital	2,585,455	2,586,108
Retained earnings	860,454	913,766
Cumulative dividends and distributions	(1,646,593)	(1,643,386)
Total stockholders' equity	1,991,478	2,048,644
Noncontrolling interest in consolidated joint venture	40,135	40,735
Total equity	2,031,613	2,089,379
Total liabilities and equity	<u>\$ 2,916,674</u>	<u>\$ 2,985,717</u>

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended March 31,	
	2021	2020
REVENUES		
Room	\$ 34,219	\$ 127,400
Food and beverage	4,971	47,990
Other operating	11,443	15,822
Total revenues	50,633	191,212
OPERATING EXPENSES		
Room	11,640	44,245
Food and beverage	5,979	41,760
Other operating	1,805	3,764
Advertising and promotion	4,875	12,462
Repairs and maintenance	5,545	10,049
Utilities	4,151	5,842
Franchise costs	991	5,336
Property tax, ground lease and insurance	14,661	20,051
Other property-level expenses	10,477	28,845
Corporate overhead	7,177	7,394
Depreciation and amortization	30,770	36,746
Impairment losses	—	115,366
Total operating expenses	98,071	331,860
Interest and other income (loss)	(379)	2,306
Interest expense	(7,649)	(17,507)
Gain on extinguishment of debt	222	—
Loss before income taxes	(55,244)	(155,849)
Income tax provision, net	(43)	(6,670)
NET LOSS	(55,287)	(162,519)
Loss from consolidated joint venture attributable to noncontrolling interest	1,975	458
Preferred stock dividends	(3,207)	(3,207)
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (56,519)	\$ (165,268)
Basic and diluted per share amounts:		
Basic and diluted loss attributable to common stockholders per common share	\$ (0.26)	\$ (0.75)
Basic and diluted weighted average common shares outstanding	214,438	221,036

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share and per share data)

	Preferred Stock				Common Stock		Additional Paid in Capital	Retained Earnings	Cumulative Dividends and Distributions	Noncontrolling Interest in Consolidated Joint Venture	Total Equity
	Series E Number of Shares	Amount	Series F Number of Shares	Amount	Number of Shares	Amount					
Balance at December 31, 2020 (audited)	4,600,000	\$ 115,000	3,000,000	\$ 75,000	215,593,401	\$ 2,156	\$ 2,586,108	\$ 913,766	\$ (1,643,386)	\$ 40,735	\$ 2,089,379
Amortization of deferred stock compensation	—	—	—	—	—	—	2,869	—	—	—	2,869
Issuance of restricted common stock, net	—	—	—	—	581,683	6	(3,522)	—	—	—	(3,516)
Series E preferred stock dividends and dividends payable at \$0.434375 per share	—	—	—	—	—	—	—	—	(1,998)	—	(1,998)
Series F preferred stock dividends and dividends payable at \$0.403125 per share	—	—	—	—	—	—	—	—	(1,209)	—	(1,209)
Contribution from noncontrolling interest	—	—	—	—	—	—	—	—	—	1,375	1,375
Net loss	—	—	—	—	—	—	—	(53,312)	—	(1,975)	(55,287)
Balance at March 31, 2021	<u>4,600,000</u>	<u>\$ 115,000</u>	<u>3,000,000</u>	<u>\$ 75,000</u>	<u>216,175,084</u>	<u>\$ 2,162</u>	<u>\$ 2,585,455</u>	<u>\$ 860,454</u>	<u>\$ (1,646,593)</u>	<u>\$ 40,135</u>	<u>\$ 2,031,613</u>

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share and per share data)

	Preferred Stock				Common Stock		Additional Paid in Capital	Retained Earnings	Cumulative Dividends and Distributions	Noncontrolling Interest in Consolidated Joint Venture	Total Equity
	Series E		Series F		Number of Shares	Amount					
	Number of Shares	Amount	Number of Shares	Amount							
Balance at December 31, 2019 (audited)	4,600,000	\$ 115,000	3,000,000	\$ 75,000	224,855,351	\$ 2,249	\$ 2,683,913	\$ 1,318,455	\$ (1,619,779)	\$ 46,233	\$ 2,621,071
Amortization of deferred stock compensation	—	—	—	—	—	—	2,324	—	—	—	2,324
Issuance of restricted common stock, net	—	—	—	—	456,219	4	(3,996)	—	—	—	(3,992)
Forfeiture of restricted common stock	—	—	—	—	(355)	—	—	—	—	—	—
Common stock distributions and distributions payable at \$0.05 per share	—	—	—	—	—	—	—	—	(10,777)	—	(10,777)
Series E preferred stock dividends and dividends payable at \$0.434375 per share	—	—	—	—	—	—	—	—	(1,998)	—	(1,998)
Series F preferred stock dividends and dividends payable at \$0.403125 per share	—	—	—	—	—	—	—	—	(1,209)	—	(1,209)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	(2,000)	(2,000)
Repurchases of outstanding common stock	—	—	—	—	(9,770,081)	(98)	(103,796)	—	—	—	(103,894)
Net loss	—	—	—	—	—	—	—	(162,061)	—	(458)	(162,519)
Balance at March 31, 2020	4,600,000	\$ 115,000	3,000,000	\$ 75,000	215,541,134	\$ 2,155	\$ 2,578,445	\$ 1,156,394	\$ (1,633,763)	\$ 43,775	\$ 2,337,006

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (55,287)	\$ (162,519)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	16	318
Loss on sale of assets	70	—
Gain on extinguishment of debt	(222)	—
Noncash interest on derivatives	(869)	6,080
Depreciation	30,760	36,736
Amortization of franchise fees and other intangibles	10	10
Amortization of deferred financing costs	735	699
Amortization of deferred stock compensation	2,752	2,207
Impairment losses	—	115,366
Deferred income taxes, net	—	7,415
Changes in operating assets and liabilities:		
Accounts receivable	(4,613)	11,757
Prepaid expenses and other assets	(776)	(247)
Accounts payable and other liabilities	(8,463)	(12,226)
Accrued payroll and employee benefits	(1,957)	(7,860)
Operating lease right-of-use assets and obligations	(331)	(261)
Net cash used in operating activities	(38,175)	(2,525)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposition deposit	—	3,500
Acquisition of hotel property	—	(346)
Renovations and additions to hotel properties and other assets	(6,526)	(17,016)
Net cash used in investing activities	(6,526)	(13,862)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of outstanding common stock	—	(103,894)
Repurchases of common stock for employee tax obligations	(3,516)	(3,992)
Proceeds from credit facility	—	300,000
Payments on notes payable	(832)	(1,898)
Dividends and distributions paid	(3,208)	(135,872)
Distributions to noncontrolling interest	—	(2,000)
Contribution from noncontrolling interest	1,375	—
Net cash (used in) provided by financing activities	(6,181)	52,344
Net (decrease) increase in cash and cash equivalents and restricted cash	(50,882)	35,957
Cash and cash equivalents and restricted cash, beginning of period	416,139	864,973
Cash and cash equivalents and restricted cash, end of period	\$ 365,257	\$ 900,930

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Supplemental Disclosure of Cash Flow Information

	March 31,	
	2021	2020
Cash and cash equivalents	\$ 320,275	\$ 847,445
Restricted cash	44,982	53,485
Total cash and cash equivalents and restricted cash shown on the consolidated statements of cash flows	<u>\$ 365,257</u>	<u>\$ 900,930</u>
	Three Months Ended March 31,	
	2021	2020
Cash paid for interest	\$ 10,696	\$ 13,091
Cash (refunds) paid for income taxes, net	\$ (28)	\$ 77
Operating cash flows used for operating leases	<u>\$ 1,664</u>	<u>\$ 1,875</u>
Changes in operating lease right-of-use assets	\$ 897	\$ 897
Changes in operating lease obligations	(1,228)	(1,158)
Changes in operating lease right-of-use assets and lease obligations, net	<u>\$ (331)</u>	<u>\$ (261)</u>

Supplemental Disclosure of Noncash Investing and Financing Activities

	Three Months Ended March 31,	
	2021	2020
Accrued renovations and additions to hotel properties and other assets	\$ 5,402	\$ 9,382
Amortization of deferred stock compensation — construction activities	\$ 117	\$ 117
Dividends and distributions payable	<u>\$ 3,207</u>	<u>\$ 13,984</u>

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Sunstone Hotel Investors, Inc. (the “Company”) was incorporated in Maryland on June 28, 2004 in anticipation of an initial public offering of common stock, which was consummated on October 26, 2004. The Company elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes, commencing with its taxable year ended on December 31, 2004. The Company, through its 100% controlling interest in Sunstone Hotel Partnership, LLC (the “Operating Partnership”), of which the Company is the sole managing member, and the subsidiaries of the Operating Partnership, including Sunstone Hotel TRS Lessee, Inc. (the “TRS Lessee”) and its subsidiaries, is currently engaged in acquiring, owning, asset managing and renovating or repositioning hotel properties, and may also selectively sell hotels that no longer fit its stated strategy.

As a REIT, certain tax laws limit the amount of “non-qualifying” income the Company can earn, including income derived directly from the operation of hotels. The Company leases all of its hotels to its TRS Lessee, which in turn enters into long-term management agreements with third parties to manage the operations of the Company’s hotels, in transactions that are intended to generate qualifying income.

As of March 31, 2021, the Company had interests in 17 hotels (the “17 Hotels”), currently held for investment. The Company’s third-party managers included the following:

	Number of Hotels
Subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. (collectively, “Marriott”)	6
Crestline Hotels & Resorts	2
Highgate Hotels L.P. and an affiliate	2
Hilton Worldwide	2
Interstate Hotels & Resorts, Inc.	2
Davidson Hotels & Resorts	1
Hyatt Corporation	1
Singh Hospitality, LLC	1
Total hotels owned as of March 31, 2021	<u>17</u>

In March 2020, the novel coronavirus (“COVID-19”) pandemic was declared a National Public Health Emergency, which led to significant cancellations, corporate and government travel restrictions and an unprecedented decline in hotel demand. As a result of these cancellations, restrictions and the health concerns related to COVID-19, the Company determined that it was in the best interest of its hotel employees and the communities in which its hotels operate to temporarily suspend operations at 14 of the 17 Hotels, 13 of which have since resumed operations as of May 1, 2021:

Hotel	Suspension Date	Resumption Date
Oceans Edge Resort & Marina	March 22, 2020	June 4, 2020
Embassy Suites Chicago	April 1, 2020	July 1, 2020
Marriott Boston Long Wharf	March 12, 2020	July 7, 2020
Hilton New Orleans St. Charles	March 28, 2020	July 13, 2020
Hyatt Centric Chicago Magnificent Mile	April 6, 2020	July 13, 2020
JW Marriott New Orleans	March 28, 2020	July 14, 2020
Hilton San Diego Bayfront	March 23, 2020	August 11, 2020
Renaissance Washington DC	March 26, 2020	August 24, 2020
Hyatt Regency San Francisco	March 22, 2020	October 1, 2020
Renaissance Orlando at SeaWorld®	March 20, 2020	October 1, 2020
The Bidwell Marriott Portland	March 27, 2020	October 5, 2020
Wailea Beach Resort	March 25, 2020	November 1, 2020
Hilton Garden Inn Chicago Downtown/Magnificent Mile	March 27, 2020	April 1, 2021
Renaissance Westchester	April 4, 2020	

The Company is unable to predict when its remaining temporarily suspended hotel will resume its operations, or if those hotels that have resumed operations will be temporarily suspended again. The extent of the effects of the pandemic on the Company’s

business and the hotel industry at large, however, will ultimately depend on future developments, including, but not limited to, the duration and severity of the pandemic, how quickly and successfully effective vaccines and therapies are distributed and administered, as well as the length of time it takes for demand and pricing to return and normal economic and operating conditions to resume.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of March 31, 2021 and December 31, 2020, and for the three months ended March 31, 2021 and 2020, include the accounts of the Company, the Operating Partnership, the TRS Lessee and their controlled subsidiaries. All significant intercompany balances and transactions have been eliminated. If the Company determines that it has an interest in a variable interest entity, the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity.

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission. In the Company’s opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. These financial statements should be read in conjunction with the financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission on February 12, 2021. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

The Company does not have any comprehensive income other than what is included in net income. If the Company has any comprehensive income in the future such that a statement of comprehensive income would be necessary, the Company will include such statement in one continuous consolidated statement of operations.

The Company has evaluated subsequent events through the date of issuance of these financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Earnings Per Share

The Company applies the two-class method when computing its earnings per share. Net income per share for each class of stock is calculated assuming all of the Company’s net income is distributed as dividends to each class of stock based on their contractual rights.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities and are included in the computation of earnings per share.

Basic earnings (loss) attributable to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted earnings (loss) attributable to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential common shares considered outstanding during the period, as long as the inclusion of such awards is not anti-dilutive. Potential common shares consist of unvested restricted stock awards, using the more dilutive of either the two-class method or the treasury stock method.

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The following table sets forth the computation of basic and diluted loss per common share (unaudited and in thousands, except per share data):

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net loss	\$ (55,287)	\$ (162,519)
Loss from consolidated joint venture attributable to noncontrolling interest	1,975	458
Preferred stock dividends	(3,207)	(3,207)
Distributions paid on unvested restricted stock compensation	—	(69)
Numerator for basic and diluted loss attributable to common stockholders	<u>\$ (56,519)</u>	<u>\$ (165,337)</u>
Denominator:		
Weighted average basic and diluted common shares outstanding	<u>214,438</u>	<u>221,036</u>
Basic and diluted loss attributable to common stockholders per common share	<u>\$ (0.26)</u>	<u>\$ (0.75)</u>

The Company's unvested restricted shares associated with its long-term incentive plan have been excluded from the above calculation of earnings per share for the three months ended March 31, 2021 and 2020, as their inclusion would have been anti-dilutive.

Restricted Cash

Restricted cash is comprised of reserve accounts for debt service, interest reserves, seasonality reserves, capital replacements, ground leases, property taxes and hotel-generated cash that is held in an account for the benefit of a lender. These restricted funds are subject to disbursement approval based on in-place agreements and policies by certain of the Company's lenders and/or hotel managers. In addition, restricted cash as of March 31, 2021 and December 31, 2020 includes \$11.1 million and \$11.6 million, respectively, held in escrow related to certain current and potential employee-related obligations in accordance with the assignment-in-lieu agreement between the Company and the mortgage holder of one of the Company's former hotels (see Note 11). Restricted cash may also include earnest money received from a buyer or potential buyer of one of the Company's hotels and held in escrow until either the sale is completed or subject to the terms of the related purchase and sale agreement.

Investments in Hotel Properties

Investments in hotel properties, including land, buildings, furniture, fixtures and equipment ("FF&E") and identifiable intangible assets are recorded at fair value upon acquisition. Property and equipment purchased after the hotel acquisition date is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation is removed from the Company's accounts and any resulting gain or loss is included in the consolidated statements of operations.

Depreciation expense is based on the estimated life of the Company's assets. The life of the assets is based on a number of assumptions, including the cost and timing of capital expenditures to maintain and refurbish the Company's hotels, as well as specific market and economic conditions. Hotel properties are depreciated using the straight-line method over estimated useful lives primarily ranging from five to 40 years for buildings and improvements and three to 12 years for FF&E. Finance lease right-of-use assets other than land are depreciated using the straight-line method over the shorter of either their estimated useful life or the life of the related finance lease obligation. Intangible assets are amortized using the straight-line method over the shorter of their estimated useful life or over the length of the related agreement.

The Company's investment in hotel properties, net also includes initial franchise fees which are recorded at cost and amortized using the straight-line method over the terms of the franchise agreements ranging from 14 to 27 years. All other franchise fees that are based on the Company's results of operations are expensed as incurred.

While the Company believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of the Company's hotels. The Company has not changed the useful lives of any of its assets during the periods discussed.

Impairment losses are recorded on long-lived assets to be held and used by the Company when indicators of impairment are present and the future undiscounted net cash flows, including potential sale proceeds, expected to be generated by those assets, based on the Company's anticipated investment horizon, are less than the assets' carrying amount. The Company evaluates its long-lived assets to determine if there are indicators of impairment on a quarterly basis. No single indicator would necessarily result in the Company preparing an estimate to determine if a hotel's future undiscounted cash flows are less than the book value of the hotel. The Company uses judgment to determine if the severity of any single indicator, or the fact there are a number of indicators of less severity that when combined, would result in an indication that a hotel requires an estimate of the undiscounted cash flows to determine if an impairment has occurred. If a hotel is considered to be impaired, the related assets are adjusted to their estimated fair value and an impairment loss is recognized. The impairment loss recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The Company performs a fair value assessment, using one or more discounted cash flow analyses to estimate the fair value of the hotel, taking into account the hotel's expected cash flow from operations, the Company's estimate of how long it will own the hotel and the estimated proceeds from the disposition of the hotel. When multiple cash flow analyses are prepared, a probability is assigned to each cash flow analysis based upon the estimated likelihood of each scenario occurring. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of disposition and terminal capitalization rate. The Company's judgment is required in determining the discount rate applied to estimated cash flows, the estimated growth of revenues and expenses, net operating income and margins, the need for capital expenditures, as well as specific market and economic conditions. Based on the Company's review, no hotels were impaired during the first quarter of 2021.

Fair value represents the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidation sale. The estimation process involved in determining if assets have been impaired and in the determination of fair value is inherently uncertain because it requires estimates of current market yields as well as future events and conditions. Such future events and conditions include economic and market conditions, as well as the availability of suitable financing. The realization of the Company's investment in hotel properties is dependent upon future uncertain events and conditions and, accordingly, the actual timing and amounts realized by the Company may be materially different from their estimated fair values.

Finance and Operating Leases

The Company determines if a contract is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Expense for these short-term leases is recognized on a straight-line basis over the lease term. For leases with an initial term greater than 12 months, the Company records a right-of-use ("ROU") asset and a corresponding lease obligation. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease obligations represent the Company's obligation to make fixed lease payments as stipulated by the lease. The Company has elected to not separate lease components from nonlease components, resulting in the Company accounting for lease and nonlease components as one single lease component.

Leases are accounted for using a dual approach, classifying leases as either operating or financing based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the Company. This classification determines whether the lease expense is recognized on a straight-line basis over the term of the lease for operating leases or based on an effective interest method for finance leases.

Operating lease ROU assets are recognized at the lease commencement date and include the amount of the initial operating lease obligation, any lease payments made at or before the commencement date, excluding any lease incentives received, and any initial direct costs incurred. For leases that have extension options that the Company can exercise at its discretion, management uses judgment to determine if it is reasonably certain that the Company will in fact exercise such option. If the extension option is reasonably certain to occur, the Company includes the extended term's lease payments in the calculation of the respective lease liability. None of the Company's leases contain any material residual value guarantees or material restrictive covenants.

Operating lease obligations are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate ("IBR") based on information available at the commencement date in determining the present value of lease payments over the lease term. The IBR is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. In order to estimate the Company's IBR, the Company first looks to its own unsecured debt offerings, and adjusts the rate for both length of term and secured borrowing using available market data as well as consultations with leading national financial institutions that are active in the issuance of both secured and unsecured notes.

The Company reviews its right-of-use assets for indicators of impairment. If such assets are considered to be impaired, the related assets are adjusted to their estimated fair value and an impairment loss is recognized. The impairment loss recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Based on the Company's review, no operating lease ROU assets were impaired during the first quarter of 2021.

Noncontrolling Interest

The Company's consolidated financial statements include an entity in which the Company has a controlling financial interest. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interest is reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations, revenues, expenses and net income or loss from the less-than-wholly owned subsidiary are reported at their consolidated amounts, including both the amounts attributable to the Company and the noncontrolling interest. Income or loss is allocated to the noncontrolling interest based on its weighted average ownership percentage for the applicable period. The consolidated statements of equity include beginning balances, activity for the period and ending balances for each component of stockholders' equity, noncontrolling interest and total equity.

At both March 31, 2021 and December 31, 2020, the noncontrolling interest reported in the Company's consolidated financial statements consisted of a third-party's 25.0% ownership interest in the Hilton San Diego Bayfront.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to hotel guests, which is generally defined as the date upon which a guest occupies a room and/or utilizes the hotel's services. Room revenue and other occupancy based fees are recognized over a guest's stay at the previously agreed upon daily rate. Some of the Company's hotel rooms are booked through independent internet travel intermediaries. If the guest pays the independent internet travel intermediary directly, revenue for the room is recognized by the Company at the price the Company sold the room to the independent internet travel intermediary, less any discount or commission paid. If the guest pays the Company directly, revenue for the room is recognized by the Company on a gross basis, with the related discount or commission recognized in room expense. A majority of the Company's hotels participate in frequent guest programs sponsored by the hotel brand owners whereby the hotel allows guests to earn loyalty points during their hotel stay. The Company expenses charges associated with these programs as incurred, and recognizes revenue at the amount it will receive from the brand when a guest redeems their loyalty points by staying at one of the Company's hotels. In addition, some contracts for rooms or food and beverage services require an advance deposit, which the Company records as deferred revenue (or a contract liability) and recognizes once the performance obligations are satisfied. Cancellation fees and attrition fees, which are charged to groups when they do not fulfill their contracted minimum number of room nights or minimum food and beverage spending requirements, are typically recognized as revenue in the period the Company determines it is probable that a significant reversal in the amount of revenue recognized will not occur, which is generally the period in which these fees are collected.

Food and beverage revenue and other ancillary services revenue are generated when a customer chooses to purchase goods or services separately from a hotel room. The revenue is recognized when the goods or services are provided to the customer at the amount the Company expects to be entitled to in exchange for those goods or services. For ancillary services provided by third parties, the Company assesses whether it is the principal or the agent. If the Company is the principal, revenue is recognized based upon the gross sales price. If the Company is the agent, revenue is recognized based upon the commission earned from the third party.

Additionally, the Company collects sales, use, occupancy and other similar taxes from customers at its hotels at the time of purchase, which are not included in revenue. The Company records a liability upon collection of such taxes from the customer, and relieves the liability when payments are remitted to the applicable governmental agency.

Trade receivables and contract liabilities consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
	(unaudited)	
Trade receivables, net (1)	\$ 7,336	\$ 8,110
Contract liabilities (2)	\$ 16,985	\$ 16,815

- (1) Trade receivables are included in accounts receivable, net on the accompanying consolidated balance sheets.
- (2) Contract liabilities consist of advance deposits and are included in either other current liabilities or other liabilities on the accompanying consolidated balance sheets.

During the three months ended March 31, 2021 and 2020, the Company recognized approximately \$0.8 million and \$10.2 million, respectively, in revenue related to its outstanding contract liabilities.

Segment Reporting

The Company considers each of its hotels to be an operating segment, and allocates resources and assesses the operating performance for each hotel. Because all of the Company's hotels have similar economic characteristics, facilities and services, the hotels have been aggregated into one single reportable segment, hotel ownership.

New Accounting Standards and Accounting Changes

In March 2020, the FASB issued Accounting Standards Update No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU No. 2020-04"), which provides temporary optional expedients and exceptions to the guidance in GAAP on contract modifications and hedge accounting to ease reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). Contracts that meet the following criteria are eligible for relief from the modification accounting requirements in GAAP: the contract references LIBOR or another rate that is expected to be discontinued due to reference rate reform; the modified terms directly replace or have the potential to replace the reference rate that is expected to be discontinued due to reference rate reform; and any contemporaneous changes to other terms that change or have the potential to change the amount and timing of contractual cash flows must be related to the replacement of the reference rate. For a contract that meets the criteria, the guidance generally allows an entity to account for and present modifications as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. That is, the modified contract is accounted for as a continuation of the existing contract. ASU No. 2020-04 was effective upon issuance, and is applied prospectively from any date beginning March 12, 2020. The relief is temporary and generally cannot be applied to contract modifications that occur after December 31, 2022. The Company intends to take advantage of the expedients offered by ASU No. 2020-04 when it modifies its variable rate debt, which includes the Company's \$220.0 million loan secured by the Hilton San Diego Bayfront, its credit facility and its unsecured term loans. The adoption of ASU No. 2020-04 is not expected to have a material impact on the Company's consolidated financial statements.

3. Investment in Hotel Properties

Investment in hotel properties, net consisted of the following (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Land	\$ 571,212	\$ 571,212
Buildings and improvements	2,527,654	2,523,750
Furniture, fixtures and equipment	432,493	431,918
Intangible assets	21,192	21,192
Franchise fees	743	743
Construction in progress	19,933	15,831
Investment in hotel properties, gross	3,573,227	3,564,646
Accumulated depreciation and amortization	(1,133,264)	(1,103,148)
Investment in hotel properties, net	\$ 2,439,963	\$ 2,461,498

4. Fair Value Measurements and Interest Rate Derivatives

Fair Value Measurements

As of March 31, 2021 and December 31, 2020, the carrying amount of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability in an orderly transaction. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or

liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

As of both March 31, 2021 and December 31, 2020, the Company measured its interest rate derivatives at fair value on a recurring basis. The Company estimated the fair value of its interest rate derivatives using Level 2 measurements based on quotes obtained from the counterparties, which are based upon the consideration that would be required to terminate the agreements.

The following table presents the Company's assets measured at fair value on a recurring and nonrecurring basis at March 31, 2021 and December 31, 2020 (in thousands):

	Total	Fair Value Measurements at Reporting Date		
		Level 1	Level 2	Level 3
March 31, 2021 (unaudited):				
Interest rate cap derivative	\$ —	\$ —	\$ —	\$ —
Total assets measured at fair value at March 31, 2021	\$ —	\$ —	\$ —	\$ —
December 31, 2020:				
Renaissance Westchester (1)	\$ 14,125	\$ —	\$ 14,125	\$ —
Interest rate cap derivative	—	—	—	—
Total assets measured at fair value at December 31, 2020	\$ 14,125	\$ —	\$ 14,125	\$ —

- (1) The fair market value of the Renaissance Westchester is included in investment in hotel properties, net on the Company's consolidated balance sheet at December 31, 2020.

The following table presents the Company's liabilities measured at fair value on a recurring and nonrecurring basis at March 31, 2021 and December 31, 2020 (in thousands):

	Total	Fair Value Measurements at Reporting Date		
		Level 1	Level 2	Level 3
March 31, 2021 (unaudited):				
Interest rate swap derivatives	\$ 4,841	\$ —	\$ 4,841	\$ —
Total liabilities measured at fair value at March 31, 2021	\$ 4,841	\$ —	\$ 4,841	\$ —
December 31, 2020:				
Interest rate swap derivatives	\$ 5,710	\$ —	\$ 5,710	\$ —
Total liabilities measured at fair value at December 31, 2020	\$ 5,710	\$ —	\$ 5,710	\$ —

Interest Rate Derivatives

The Company's interest rate derivatives, which are not designated as effective cash flow hedges, consisted of the following at March 31, 2021 (unaudited) and December 31, 2020 (in thousands):

Hedged Debt	Type	Strike / Capped Rate	Index	Effective Date	Maturity Date	Notional Amount	Estimated Fair Value of Assets (Liabilities) (1)	
							March 31, 2021	December 31, 2020
Hilton San Diego Bayfront	Cap	6.000 %	1-Month LIBOR	December 9, 2020	December 15, 2021	\$ 220,000	\$ —	\$ —
\$85.0 million term loan	Swap	1.591 %	1-Month LIBOR	October 29, 2015	September 2, 2022	\$ 85,000	(1,759)	(2,100)
\$100.0 million term loan	Swap	1.853 %	1-Month LIBOR	January 29, 2016	January 31, 2023	\$ 100,000	(3,082)	(3,610)
							<u>\$ (4,841)</u>	<u>\$ (5,710)</u>

- (1) The fair values of the cap agreement and both swap agreements are included in other assets, net and other liabilities, respectively, on the accompanying consolidated balance sheets as of both March 31, 2021 and December 31, 2020.

Noncash changes in the fair values of the Company's interest rate derivatives resulted in (decreases) increases to interest expense for the three months ended March 31, 2021 and 2020 as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Noncash interest on derivatives	<u>\$ (869)</u>	<u>\$ 6,080</u>

Fair Value of Debt

As of both March 31, 2021 and December 31, 2020, 70.6% of the Company's outstanding debt had fixed interest rates, including the effects of interest rate swap agreements. The Company uses Level 3 measurements to estimate the fair value of its debt by discounting the future cash flows of each instrument at estimated market rates.

The Company's principal balances and fair market values of its consolidated debt as of March 31, 2021 (unaudited) and December 31, 2020 were as follows (in thousands):

	March 31, 2021		December 31, 2020	
	Carrying Amount (1)	Fair Value (2)	Carrying Amount (1)	Fair Value (2)
Debt	<u>\$ 747,113</u>	<u>\$ 715,580</u>	<u>\$ 747,945</u>	<u>\$ 715,042</u>

- (1) The principal balance of debt is presented before any unamortized deferred financing costs.
- (2) Due to prevailing market conditions and the uncertain economic environment caused by the COVID-19 pandemic, actual interest rates could vary materially from those estimated, which would result in variances in the Company's calculations of the fair market value of its debt.

5. Other Assets

Other assets, net consisted of the following (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Property and equipment, net	<u>\$ 6,510</u>	<u>\$ 6,767</u>
Deferred rent on straight-lined third-party tenant leases	2,636	2,819
Other receivables	2,596	2,633
Other	226	226
Total other assets, net	<u>\$ 11,968</u>	<u>\$ 12,445</u>

6. Notes Payable

Notes payable consisted of the following (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Notes payable requiring payments of interest and principal, with fixed rates ranging from 4.12% to 4.15%; maturing at dates ranging from December 11, 2024 through January 6, 2025. The notes are collateralized by first deeds of trust on two hotel properties at both March 31, 2021 and December 31, 2020.	\$ 137,113	\$ 137,945
Note payable requiring payments of interest only, bearing a blended rate of one-month LIBOR plus 105 basis points, resulting in effective interest rates of 1.163% and 1.192% as of March 31, 2021 and December 31, 2020, respectively; matures on December 9, 2021 with two one-year options to extend, which the Company intends to exercise. The note is collateralized by a first deed of trust on one hotel property.	220,000	220,000
Unsecured term loan requiring payments of interest only, with a blended interest rate based on a pricing grid with a range of 135 to 220 basis points, depending on the Company's leverage ratios, plus the greater of one-month LIBOR or 25 basis points. LIBOR has been swapped to a fixed rate of 1.591%, resulting in an effective interest rate of 3.941%. Matures on September 3, 2022.	85,000	85,000
Unsecured term loan requiring payments of interest only, with a blended interest rate based on a pricing grid with a range of 135 to 220 basis points, depending on the Company's leverage ratios, plus the greater of one-month LIBOR or 25 basis points. LIBOR has been swapped to a fixed rate of 1.853%, resulting in an effective interest rate of 4.203%. Matures on January 31, 2023.	100,000	100,000
Unsecured Series A Senior Notes requiring semi-annual payments of interest only, bearing interest at 5.94%. Matures on January 10, 2026.	90,000	90,000
Unsecured Series B Senior Notes requiring semi-annual payments of interest only, bearing interest at 6.04%. Matures on January 10, 2028.	115,000	115,000
Total notes payable	\$ 747,113	\$ 747,945
Current portion of notes payable	\$ 3,339	\$ 3,305
Less: current portion of deferred financing costs	(1,044)	(1,044)
Carrying value of current portion of notes payable	\$ 2,295	\$ 2,261
Notes payable, less current portion	\$ 743,774	\$ 744,640
Less: long-term portion of deferred financing costs	(1,852)	(2,112)
Carrying value of notes payable, less current portion	\$ 741,922	\$ 742,528

Certain of the Company's loan agreements contain cash trap provisions that may be triggered if the performance of the hotels securing the loans decline. In January 2021, these provisions were triggered for the loans secured by the Embassy Suites La Jolla and the JW Marriott New Orleans.

As of March 31, 2021, the Company had no amount outstanding on the revolving portion of its credit facility, with \$500.0 million of capacity available for additional borrowing under the facility. The Company's ability to draw on the revolving portion of the credit facility may be subject to the Company's compliance with various financial covenants on its secured and unsecured debt.

The Company is subject to various financial covenants on its secured and unsecured debt. In July and December 2020, the Company completed amendments to its unsecured debt, consisting of its revolving credit facility, term loans and senior notes (the "Unsecured Debt Amendments"). Among other provisions, the Unsecured Debt Amendments include a waiver of required financial covenants through the end of the first quarter of 2022, with quarterly testing resuming for the period ending March 31, 2022. The Company can elect to terminate the covenant relief period early, subject to the achievement of the original financial covenants at the end of any quarterly measurement period.

Interest Expense

Total interest incurred and expensed on the notes payable and finance lease obligation was as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Interest expense on debt and finance lease obligation	\$ 7,783	\$ 10,728
Noncash interest on derivatives	(869)	6,080
Amortization of deferred financing costs	735	699
Total interest expense	<u>\$ 7,649</u>	<u>\$ 17,507</u>

7. Other Current Liabilities and Other Liabilities

Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Property, sales and use taxes payable	\$ 9,826	\$ 10,134
Accrued interest	3,999	6,914
Advance deposits	14,583	13,341
Management fees payable	355	169
Other	2,250	2,048
Total other current liabilities	<u>\$ 31,013</u>	<u>\$ 32,606</u>

Other Liabilities

Other liabilities consisted of the following (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Deferred revenue	\$ 6,767	\$ 7,911
Interest rate swap derivatives	4,841	5,710
Other	3,071	3,873
Total other liabilities	<u>\$ 14,679</u>	<u>\$ 17,494</u>

8. Leases

The Company has both finance and operating leases for ground, building, office and airspace leases, maturing in dates ranging from 2028 through 2097, including expected renewal options. Including all renewal options available to the Company, the lease maturity date extends to 2147.

Leases were included on the Company's consolidated balance sheets as follows (in thousands):

	March 31, 2021 (unaudited)	December 31, 2020
Finance Lease:		
Right-of-use asset, gross (buildings and improvements)	\$ 58,799	\$ 58,799
Accumulated amortization	(12,985)	(12,617)
Right-of-use asset, net	<u>\$ 45,814</u>	<u>\$ 46,182</u>
Accounts payable and accrued expenses	\$ 1	\$ 1
Lease obligation, less current portion	<u>15,569</u>	<u>15,569</u>
Total lease obligation	<u>\$ 15,570</u>	<u>\$ 15,570</u>
Remaining lease term	77 years	
Discount rate	9.0 %	
Operating Leases:		
Right-of-use assets, net	<u>\$ 25,196</u>	<u>\$ 26,093</u>
Accounts payable and accrued expenses	\$ 5,105	\$ 5,028
Lease obligations, less current portion	<u>28,649</u>	<u>29,954</u>
Total lease obligations	<u>\$ 33,754</u>	<u>\$ 34,982</u>
Weighted average remaining lease term, including reasonably certain extension options (1)	7 years	
Weighted average discount rate	5.1 %	

(1) The weighted average remaining term including all available extension options is approximately 35 years.

The components of lease expense were as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Finance lease cost:		
Amortization of right-of-use asset	\$ 368	\$ 368
Interest on lease obligation	351	351
Operating lease cost	1,320	1,729
Variable lease cost (1)	—	713
Total lease cost	<u>\$ 2,039</u>	<u>\$ 3,161</u>

(1) Several of the Company's hotels pay percentage rent, which is calculated on operating revenues above certain thresholds.

9. Stockholders' Equity

Series E Cumulative Redeemable Preferred Stock

In March 2016, the Company issued 4,600,000 shares of its 6.95% Series E Cumulative Redeemable Preferred Stock ("Series E preferred stock") with a liquidation preference of \$25.00 per share. As of March 11, 2021, the Series E preferred stock is redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. Upon the occurrence of a change of control, as defined by the Articles Supplementary for Series E preferred stock, holders of the Series E preferred stock may, under certain circumstances, convert their preferred shares into shares of the Company's common stock. As of March 31, 2021, no shares have been redeemed.

Series F Cumulative Redeemable Preferred Stock

In May 2016, the Company issued 3,000,000 shares of its 6.45% Series F Cumulative Redeemable Preferred Stock (“Series F preferred stock”) with a liquidation preference of \$25.00. On or after May 17, 2021, the Series F preferred stock will be redeemable at the Company’s option, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. Upon the occurrence of a change of control, as defined by the Articles Supplementary for Series F preferred stock, holders of the Series F preferred stock may, under certain circumstances, convert their preferred shares into shares of the Company’s common stock.

Common Stock

In February 2021, the Company’s board of directors reauthorized the Company’s existing stock repurchase program, allowing the Company to acquire up to \$500.0 million of the Company’s common and preferred stock. The 2021 stock repurchase program has no stated expiration date. As of March 31, 2021, the Company has not repurchased any common or preferred stock under the 2021 stock repurchase program. Future repurchases will depend on various factors, including the Company’s capital needs, restrictions under its various financing agreements and the price of the Company’s common and preferred stock.

In February 2017, the Company entered into separate “At the Market” Agreements (the “ATM Agreements”) with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and Wells Fargo Securities, LLC. In accordance with the terms of the ATM Agreements, the Company may from time to time offer and sell shares of its common stock having an aggregate offering price of up to \$300.0 million. In February 2020, the board of directors reauthorized the Company’s ATM Agreements, or new similar agreements, allowing the Company to issue common stock up to an aggregate offering amount of \$300.0 million. No shares of common stock were issued under the ATM Agreements during the three months ended March 31, 2021, and as of March 31, 2021, the Company has \$300.0 million available for sale under the ATM Agreements.

10. Long-Term Incentive Plan

Restricted shares granted pursuant to the Company’s Long-Term Incentive Plan (“LTIP”) generally vest over a period of three years from the date of grant. Should a stock grant be forfeited prior to its vesting, the shares covered by the stock grant are added back to the LTIP and remain available for future issuance. Shares of common stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligations upon the vesting of a stock grant are not added back to the LTIP.

Compensation expense related to awards of restricted shares are measured at fair value on the date of grant and amortized over the relevant requisite service period or derived service period. The Company has elected to account for forfeitures as they occur.

The Company’s amortization expense and forfeitures related to restricted shares for the three months ended March 31, 2021 and 2020 were as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Amortization expense, including forfeitures	\$ 2,752	\$ 2,207
Capitalized compensation cost (1)	\$ 117	\$ 117

- (1) The Company capitalizes compensation costs related to restricted shares granted to certain employees whose work is directly related to the Company’s capital investment in its hotels.

11. Commitments and Contingencies

Management Agreements

Management agreements with the Company's third-party hotel managers require the Company to pay between 1.75% and 3.0% of total revenue of the managed hotels to the third-party managers each month as a basic management fee. In addition to basic management fees, provided that certain operating thresholds are met, the Company may also be required to pay incentive management fees to certain of its third-party managers.

Total basic and incentive management fees incurred by the Company during the three months ended March 31, 2021 and 2020 were included in other property-level expenses on the Company's consolidated statements of operations as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Basic management fees	\$ 1,303	\$ 5,391
Incentive management fees	—	—
Total basic and incentive management fees	\$ 1,303	\$ 5,391

License and Franchise Agreements

The Company has entered into license and franchise agreements related to certain of its hotels. The license and franchise agreements require the Company to, among other things, pay monthly fees that are calculated based on specified percentages of certain revenues. The license and franchise agreements generally contain specific standards for, and restrictions and limitations on, the operation and maintenance of the hotels which are established by the franchisors to maintain uniformity in the system created by each such franchisor. Such standards generally regulate the appearance of the hotel, quality and type of goods and services offered, signage and protection of trademarks. Compliance with such standards may from time to time require the Company to make significant expenditures for capital improvements.

Total license and franchise fees incurred by the Company during the three months ended March 31, 2021 and 2020 were included in franchise costs on the Company's consolidated statements of operations as follows (unaudited and in thousands):

	Three Months Ended March 31,	
	2021	2020
Franchise assessments (1)	\$ 868	\$ 4,418
Franchise royalties (2)	123	918
Total franchise costs	\$ 991	\$ 5,336

- (1) Includes advertising, reservation and frequent guest program assessments.
- (2) Includes key money received from one of the Company's franchisors, which the Company is amortizing over the term of the hotel's franchise agreement.

Renovation and Construction Commitments

At March 31, 2021, the Company had various contracts outstanding with third parties in connection with the ongoing renovations of certain of its hotel properties. The remaining commitments under these contracts at March 31, 2021 totaled \$23.4 million.

Concentration of Risk

The concentration of the Company's hotels in California, Florida, Hawaii, Illinois and Massachusetts exposes the Company's business to economic and severe weather conditions, competition and real and personal property tax rates unique to these locales.

As of March 31, 2021, 12 of the 17 Hotels were geographically concentrated as follows (unaudited):

	Number of Hotels	Percentage of Total Rooms	Trailing 12-Month Total Consolidated Revenue
California	4	30 %	32 %
Florida	2	11 %	19 %
Hawaii	1	6 %	17 %
Illinois	3	13 %	5 %
Massachusetts	2	16 %	13 %

Other

In accordance with the assignment-in-lieu agreement executed in December 2020 between the Company and the mortgage holder of the Hilton Times Square, the Company was required to retain approximately \$11.6 million related to certain current and potential employee-related obligations (the "potential obligation"), which was included in restricted cash on the accompanying consolidated balance sheet at December 31, 2020. During the first quarter of 2021, \$0.5 million was paid to the hotel's employees and an additional \$0.2 million was paid to the Company in April 2021 due to a reassessment of the potential obligation, resulting in \$11.1 million remaining in restricted cash on the accompanying consolidated balance sheet at March 31, 2021, and a \$0.2 million gain on extinguishment of debt recognized during the three months ended March 31, 2021. The reassessed potential obligation will continue to be held in escrow until it is resolved. The accompanying consolidated balance sheets include other current liabilities of \$10.9 million and \$11.6 million as of March 31, 2021 and December 31, 2020, respectively.

The Company has provided customary unsecured indemnities to certain lenders, including in particular, environmental indemnities. The Company has performed due diligence on the potential environmental risks, including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company to reimburse the indemnified parties for damages related to certain environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, the Company could have recourse against other previous owners or a claim against its environmental insurance policies.

At March 31, 2021, the Company had \$0.3 million of outstanding irrevocable letters of credit to guarantee the Company's financial obligations related to workers' compensation insurance programs from prior policy years. The beneficiaries of these letters of credit may draw upon the letters of credit in the event of a contractual default by the Company relating to each respective obligation. No draws have been made through March 31, 2021.

The Company is subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of its hotels, its managers and other Company matters. While it is not possible to ascertain the ultimate outcome of such matters, the Company believes that the aggregate identifiable amount of such liabilities, if any, in excess of amounts covered by insurance will not have a material adverse impact on its financial condition or results of operations. The outcome of claims, lawsuits and legal proceedings, including any potential COVID-19-related litigation, brought against the Company, however, is subject to significant uncertainties.

12. Subsequent Event

On April 22, 2021, the Company purchased the fee-simple interest in the Montage Healdsburg, located in California, for \$265.0 million, excluding closing costs. The acquisition was funded through the issuance of 2,650,000 shares of Series G Cumulative Redeemable Preferred Stock (the "Series G preferred stock") with an aggregate liquidation preference of \$66.3 million, as well as \$198.8 million of cash on hand. The Series G preferred stock, which is callable at the liquidation preference plus accrued and unpaid dividends by the Company at any time, will accrue dividends at an initial rate equal to the Montage Healdsburg's annual net operating income yield on the Company's investment in the hotel. The Series G preferred stock is not convertible into any other security. The hotel will continue to be managed by Montage Hotels and Resorts. The Company is currently evaluating the accounting for this acquisition, including assessing the fair values of the assets acquired and the liabilities assumed.

Cautionary Statement

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. The Company intends such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations, are generally identifiable by use of the words "anticipate," "believe," "estimate," "expect," "intend," "project," or similar expressions. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond the Company's control, and which could materially affect actual results, performances or achievements. Accordingly, there is no assurance that the Company's expectations will be realized. In evaluating these statements, you should specifically consider the risks outlined in detail in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 12, 2021, under the caption "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, including but not limited to the following factors:

- the impact the novel coronavirus (COVID-19) pandemic has on our business and the economy, as well as the response of governments and us to the pandemic, and how quickly and successfully effective vaccines and therapies are distributed and administered;
- increased risks related to employee matters, including increased employment litigation and claims for severance or other benefits tied to termination or furloughs as a result of temporary hotel suspensions or reduced hotel operations due to COVID-19;
- general economic and business conditions, including a U.S. recession, trade conflicts and tariffs, regional or global economic slowdowns and any type of flu or disease-related pandemic that impacts travel or the ability to travel, including COVID-19;
- the need for business-related travel, including the increased use of business-related technology;
- rising hotel operating costs due to labor costs, workers' compensation and health-care related costs, utility costs, property and liability insurance costs, unanticipated costs such as acts of nature and their consequences and other costs that may not be offset by increased room rates;
- the ground, building or airspace leases for three of the 17 hotels we had interests in as of March 31, 2021;
- the need for renovations, repositionings and other capital expenditures for our hotels;
- the impact, including any delays, of renovations and repositionings on hotel operations;
- new hotel supply, or alternative lodging options such as timeshare, vacation rentals or sharing services such as Airbnb, in our markets, which could harm our occupancy levels and revenue at our hotels;
- competition from hotels not owned by us;
- relationships with, and the requirements, performance and reputation of, the managers of our hotels;
- relationships with, and the requirements and reputation of, our franchisors and hotel brands;
- our hotels may become impaired, or our hotels which have previously become impaired may become further impaired in the future, which may adversely affect our financial condition and results of operations;
- competition for the acquisition of hotels, and our ability to complete acquisitions and dispositions;
- performance of hotels after they are acquired;
- changes in our business strategy or acquisition or disposition plans;
- our level of debt, including secured, unsecured, fixed and variable rate debt;
- financial and other covenants on our debt and preferred stock;
- the impact on our business of potential defaults by us on our debt agreements or leases;
- volatility in the capital markets and the effect on lodging demand or our ability to obtain capital on favorable terms or at all;
- our need to operate as a REIT and comply with other applicable laws and regulations, including new laws, interpretations or court decisions that may change the federal or state tax laws or the federal or state income tax consequences of our qualification as a REIT;
- potential adverse tax consequences in the event that our operating leases with our taxable REIT subsidiaries are not held to have been made on an arm's-length basis;
- system security risks, data protection breaches, cyber-attacks, including those impacting our hotel managers or other third parties, and systems integration issues; and
- other events beyond our control, including climate change, natural disasters, terrorist attacks or civil unrest.

These factors may cause our actual events to differ materially from the expectations expressed or implied by any forward-looking statement. Except as otherwise required by federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the

Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Sunstone Hotel Investors, Inc. (the "Company," "we," "our" or "us") is a Maryland corporation. We operate as a self-managed and self-administered real estate investment trust ("REIT"). A REIT is a corporation that directly or indirectly owns real estate assets and has elected to be taxable as a real estate investment trust for federal income tax purposes. To qualify for taxation as a REIT, the REIT must meet certain requirements, including regarding the composition of its assets and the sources of its income. REITs generally are not subject to federal income taxes at the corporate level as long as they pay stockholder dividends equivalent to 100% of their taxable income. REITs are required to distribute to stockholders at least 90% of their REIT taxable income. We own, directly or indirectly, 100% of the interests of Sunstone Hotel Partnership, LLC (the "Operating Partnership"), which is the entity that directly or indirectly owns our hotel properties. We also own 100% of the interests of our taxable REIT subsidiary, Sunstone Hotel TRS Lessee, Inc. (the "TRS Lessee"), which, directly or indirectly, leases all of our hotels from the Operating Partnership, and engages independent third-parties to manage our hotels.

We own hotels that we consider to be Long-Term Relevant Real Estate® (or LTRR®) in the United States, specifically hotels in urban and resort destination locations that benefit from significant barriers to entry by competitors and diverse economic drivers. As part of our ongoing portfolio management strategy, on an opportunistic basis, we may also selectively sell hotel properties that we believe do not meet our criteria of LTRR®. As of March 31, 2021, we had interests in 17 hotels (the "17 Hotels") currently held for investment, which average 530 rooms in size. All but two (the Boston Park Plaza and the Oceans Edge Resort & Marina) of the 17 Hotels are operated under nationally recognized brands such as Marriott, Hilton and Hyatt, which are among the most respected and widely recognized brands in the lodging industry. Our two unbranded hotels are located in top urban and resort destination markets that have enabled them to establish awareness with both group and transient customers.

COVID-19 Impact and Response

In March 2020, the COVID-19 pandemic was declared a National Public Health Emergency, which led to significant cancellations, corporate and government travel restrictions and an unprecedented decline in hotel demand. As a result of these cancellations, restrictions and the health concerns related to COVID-19, we determined that it was in the best interest of our hotel employees and the communities in which our hotels operate to temporarily suspend operations at the majority of our hotels.

In response to the COVID-19 pandemic, we temporarily suspended operations at 14 of the 17 Hotels during March and April 2020, 13 of which have since resumed operations as of May 1, 2021:

Hotel	Suspension Date	Resumption Date
Oceans Edge Resort & Marina	March 22, 2020	June 4, 2020
Embassy Suites Chicago	April 1, 2020	July 1, 2020
Marriott Boston Long Wharf	March 12, 2020	July 7, 2020
Hilton New Orleans St. Charles	March 28, 2020	July 13, 2020
Hyatt Centric Chicago Magnificent Mile	April 6, 2020	July 13, 2020
JW Marriott New Orleans	March 28, 2020	July 14, 2020
Hilton San Diego Bayfront	March 23, 2020	August 11, 2020
Renaissance Washington DC	March 26, 2020	August 24, 2020
Hyatt Regency San Francisco	March 22, 2020	October 1, 2020
Renaissance Orlando at SeaWorld®	March 20, 2020	October 1, 2020
The Bidwell Marriott Portland	March 27, 2020	October 5, 2020
Wailea Beach Resort	March 25, 2020	November 1, 2020
Hilton Garden Inn Chicago Downtown/Magnificent Mile	March 27, 2020	April 1, 2021
Renaissance Westchester	April 4, 2020	

Three of the 17 Hotels remained open throughout the pandemic: the Boston Park Plaza; the Embassy Suites La Jolla; and the Renaissance Long Beach. As a result of the COVID-19-related temporary hotel suspensions and the reduced occupancy at our open hotels, we, in conjunction with our third-party managers, decreased operating expenses to preserve liquidity by implementing stringent operational cost containment measures, including significantly reduced staffing levels, limited food and beverage offerings, elimination of non-essential hotel services and the temporary closure of various parts of the hotels. In addition, enhanced cleaning procedures and revised operating standards were developed and implemented.

The following represents the status of the hotels we had interests in as of March 31, 2021 and 2020:

	As of March 31,	
	2021	2020 (1)
Number of hotels open	15	9
Number of rooms in open hotels	8,308	4,511
Number of hotels with temporarily suspended operations	2	11
Number of rooms in hotels with temporarily suspended operations	709	6,099
Total number of hotels	17	20
Total number of rooms	9,017	10,610

- (1) Includes three hotels that were open as of March 31, 2020, which were subsequently disposed of in the third and fourth quarters of 2020.

Our asset management team has worked closely with each hotel's third-party manager to create detailed operating plans, including adherence to safety precautions developed by the Center for Disease Control and Prevention and other public health experts. We continue to closely monitor the safety measures at our hotels, including frequent and enhanced cleaning and sanitation, contactless check-in, the use of personal protective equipment by hotel employees and guests and increased physical distancing throughout each hotel.

First Quarter 2021 Overview

Since our COVID-19-related occupancy low point of 1.6% in April 2020, we have experienced slow but steady improvements in hotel demand. During January, February and March 2021, as the number of COVID-19 cases decreased and the vaccine distribution program increased, occupancy at the 17 Hotels accelerated to 13.3%, 22.4% and 29.1%, respectively. In March 2021, the Embassy Suites La Jolla, the Oceans Edge Resort & Marina, the Renaissance Washington DC and the Wailea Beach Resort all achieved occupancies greater than 50.0%. We also experienced demand increases, most significantly in leisure travel over the President's Day weekend and during Spring Break, at our hotels in Long Beach, New Orleans, Orlando and San Diego.

Leisure demand continues to accelerate and business transient and group demand, which have been slower to return, are both demonstrating positive growth. While the preponderance of recent group business has been composed primarily of government, emergency management and medical-related groups, several of our hotels have begun to host traditional group business, including corporate groups. In March 2021, both the Renaissance Orlando at SeaWorld® and the Wailea Beach Resort hosted traditional group events attracting attendance above their contracted levels. We are beginning to see events with more guests and events that take place over longer periods of time. A significant portion of the group business on-the-books for the second half of 2021 continues to hold to their contractual program dates, anticipating a continued improvement in conditions allowing for groups to meet. We believe that the return of traditional business transient and group business will ultimately depend on the speed and efficacy of the vaccine distribution and the degree to which that allows us to return to normal. We expect the demand recovery to extend past 2021, and we are encouraged by the recent pace of future group bookings, which leads us to believe that our portfolio will perform significantly better in the second half of 2021 and specifically in the fourth quarter of 2021.

In response to the economic challenges caused by the COVID-19 pandemic, we remain focused on maintaining our liquidity. While we continue to defer a portion of our planned 2020 and 2021 non-essential capital improvements to our portfolio, we are taking advantage of the low demand environment to perform otherwise extremely disruptive capital projects. During the first quarter of 2021, we initiated projects at the Hilton San Diego Bayfront to convert a previously leased restaurant space to meeting space and re-concept the ground floor hotel restaurant, and at the Boston Park Plaza to convert a vacant retail space to meeting space. Additional 2021 projects will include the reposition and rebranding of the Renaissance Washington DC to The Westin Washington DC and the addition of an adults-only pool at the Wailea Beach Resort.

During the first quarter of 2021, we continued our temporary suspensions of both our stock repurchase program and our common stock quarterly dividend to preserve additional liquidity. In anticipation of a return to normalcy post-COVID-19, our board of directors reauthorized our existing stock repurchase program in February 2021, allowing us to acquire up to \$500.0 million of our common and preferred stock. Future repurchases, however, will depend on the effects of the COVID-19 pandemic and various other factors, including our obligations under our various financing agreements and capital needs, as well as the price of our common and preferred stock. At this time, we do not expect to pay a quarterly dividend on our common stock for the remainder of the year. The resumption in quarterly common dividends will be determined by our board of directors after considering our obligations under our various financing agreements, projected taxable income, compliance with our debt covenants, long-term operating projections, expected capital requirements and risks affecting our business.

We believe that the strong balance sheet we had going into the pandemic combined with the steps we have taken to preserve our financial flexibility, will be sufficient to allow us to navigate through this crisis. Given the unprecedented impact of COVID-19 on the global market and our hotel operations, we cannot assure you that our forecast or the assumptions we used to estimate our liquidity requirements will be correct. The magnitude and duration of the COVID-19 pandemic is uncertain, and we cannot accurately estimate its impact on our business, financial condition or operational results with reasonable certainty.

Operating Activities

Revenues. Substantially all of our revenues are derived from the operation of our hotels. Specifically, our revenues consist of the following:

- *Room revenue*, which is comprised of revenue realized from the sale of rooms at our hotels and is driven by occupancy and the average daily room rate, or “ADR,” as defined below;
- *Food and beverage revenue*, which is comprised of revenue realized in the hotel food and beverage outlets as well as banquet and catering events; and
- *Other operating revenue*, which includes ancillary hotel revenue and other items primarily driven by occupancy such as telephone/internet, parking, spa, facility and resort fees, entertainment and other guest services. Additionally, this category includes, among other things, attrition and cancellation revenue, tenant revenue derived from hotel space and marina slips leased by third parties, any business interruption proceeds and any performance guarantee or reimbursements to offset net losses.

Expenses. Our expenses consist of the following:

- *Room expense*, which is primarily driven by occupancy and, therefore, has a significant correlation with room revenue. Additionally, this category includes COVID-19-related wages and benefits for furloughed or laid off hotel employees;
- *Food and beverage expense*, which is primarily driven by food and beverage sales and banquet and catering bookings and, therefore, has a significant correlation with food and beverage revenue. Additionally, this category includes COVID-19-related wages and benefits for furloughed or laid off hotel employees;
- *Other operating expense*, which includes the corresponding expense of other operating revenue, advertising and promotion, repairs and maintenance, utilities and franchise costs. Additionally, this category includes COVID-19-related wages and benefits for furloughed or laid off hotel employees;
- *Property tax, ground lease and insurance expense*, which includes the expenses associated with property tax, ground lease and insurance payments, each of which is primarily a fixed expense, however property tax is subject to regular revaluations based on the specific tax regulations and practices of each municipality, along with our noncash operating lease expenses, general excise tax assessed by Hawaii and city taxes imposed by San Francisco;
- *Other property-level expenses*, which includes our property-level general and administrative expenses, such as payroll, benefits and other employee-related expenses, contract and professional fees, credit and collection expenses, employee recruitment, relocation and training expenses, labor dispute expenses, consulting fees, management fees and other expenses. Additionally, this category includes COVID-19-related wages and benefits for furloughed or laid off hotel employees, net of employee retention tax credits and industry grants received by our hotels;
- *Corporate overhead expense*, which includes our corporate-level expenses, such as payroll, benefits and other employee-related expenses, amortization of deferred stock compensation, business acquisition and due diligence expenses, legal expenses, association, contract and professional fees, board of director expenses, entity-level state franchise and minimum taxes, travel expenses, office rent and other customary expenses;
- *Depreciation and amortization expense*, which includes depreciation on our hotel buildings, improvements, furniture, fixtures and equipment (“FF&E”), along with amortization on our finance lease right-of-use asset, franchise fees and certain intangibles. Additionally, this category includes depreciation and amortization related to FF&E for our corporate office; and

- *Impairment losses*, which includes the charges we have recognized to reduce the carrying values of certain hotels on our balance sheet to their fair values in association with our impairment evaluations, along with the write-off of any development costs associated with abandoned projects.

Other Revenue and Expense. Other revenue and expense consists of the following:

- *Interest and other income (loss)*, which includes interest we have earned on our restricted and unrestricted cash accounts, as well as any energy or other rebates, property insurance proceeds we have received, miscellaneous income, contingency payments related to sold hotels and any gains or losses we have recognized on sales or redemptions of assets other than real estate investments;
- *Interest expense*, which includes interest expense incurred on our outstanding fixed and variable rate debt and finance lease obligation, gains or losses on interest rate derivatives, amortization of deferred financing costs, and any loan or waiver fees incurred on our debt;
- *Gain (loss) on extinguishment of debt*, which includes gains related to the resolution of contingencies on extinguished debt, or losses recognized on amendments or early repayments of mortgages or other debt obligations from the accelerated amortization of deferred financing costs, along with any other costs incurred;
- *Income tax provision, net*, which includes federal and state income taxes related to continuing operations charged to the Company net of any refunds received, any adjustments to deferred tax assets, liabilities or valuation allowances, and any adjustments to unrecognized tax positions, along with any related interest and penalties incurred;
- *Loss (income) from consolidated joint venture attributable to noncontrolling interest*, which includes the net loss (income) attributable to a third-party's 25.0% ownership interest in the joint venture that owns the Hilton San Diego Bayfront; and
- *Preferred stock dividends*, which includes dividends accrued on our Series E Cumulative Redeemable Preferred Stock ("Series E preferred stock") and our Series F Cumulative Redeemable Preferred Stock ("Series F preferred stock").

Operating Performance Indicators. The following performance indicators are commonly used in the hotel industry:

- *Occupancy*, which is the quotient of total rooms sold divided by total rooms available;
- *Average daily room rate*, or ADR, which is the quotient of room revenue divided by total rooms sold;
- *Revenue per available room*, or RevPAR, which is the product of occupancy and ADR, and does not include food and beverage revenue, or other operating revenue;
- *Comparable RevPAR*, which we define as the RevPAR generated by hotels we owned as of the end of the reporting period, but excluding those hotels that we classified as held for sale, those hotels that are undergoing a material renovation or repositioning, those hotels whose operations have either been temporarily suspended or significantly reduced and those hotels whose room counts have materially changed during either the current or prior year. For hotels that were not owned for the entirety of the comparison periods, comparable RevPAR is calculated using RevPAR generated during periods of prior ownership. We refer to this subset of our hotels used to calculate comparable RevPAR as our "Comparable Portfolio." Currently, we do not have a Comparable Portfolio due to the temporary suspension of operations at certain hotels and the incurrence of various extraordinary and non-recurring items. Comparisons between the first quarter of 2021 to the first quarter of 2020 are not meaningful;
- *RevPAR index*, which is the quotient of a hotel's RevPAR divided by the average RevPAR of its competitors, multiplied by 100. A RevPAR index in excess of 100 indicates a hotel is achieving higher RevPAR than the average of its competitors. In addition to absolute RevPAR index, we monitor changes in RevPAR index;
- *EBITDAre*, which is net income (loss) excluding: interest expense; benefit or provision for income taxes, including any changes to deferred tax assets, liabilities or valuation allowances and income taxes applicable to the sale of assets; depreciation and amortization; gains or losses on disposition of depreciated property (including gains or losses on change in control); and any impairment write-downs of depreciated property;
- *Adjusted EBITDAre, excluding noncontrolling interest*, which is EBITDAre adjusted to exclude: the net income (loss) allocated to a third-party's 25.0% ownership interest in the joint venture that owns the Hilton San Diego Bayfront, along with the noncontrolling partner's pro rata share of any EBITDAre components; amortization of deferred stock

compensation; amortization of favorable and unfavorable contracts; amortization of right-of-use assets and liabilities; the cash component of ground lease expense for our finance lease obligations that has been included in interest expense; the impact of any gain or loss from undepreciated asset sales or property damage from natural disasters; any lawsuit settlement costs; prior year property tax assessments or credits; the write-off of development costs associated with abandoned projects; property-level restructuring, severance and management transition costs; debt resolution costs; and any other nonrecurring identified adjustments;

- *Funds from operations (“FFO”) attributable to common stockholders*, which is net income (loss), excluding: preferred stock dividends; gains and losses from sales of property; real estate-related depreciation and amortization (excluding amortization of deferred financing costs and right-of-use assets); any real estate-related impairment losses; and the noncontrolling partner’s pro rata share of net income (loss) and any FFO components; and
- *Adjusted FFO attributable to common stockholders*, which is FFO attributable to common stockholders adjusted to exclude: amortization of favorable and unfavorable contracts; real estate-related amortization of right-of-use assets and liabilities; noncash interest on our derivative and finance lease obligations; income tax benefits or provisions associated with any changes to deferred tax assets, liabilities or valuation allowances, the application of net operating loss carryforwards and uncertain tax positions; gains or losses due to property damage from natural disasters; any lawsuit settlement costs; prior year property tax assessments or credits; the write-off of development costs associated with abandoned projects; non-real estate-related impairment losses; property-level restructuring, severance and management transition costs; debt resolution costs; the noncontrolling partner’s pro rata share of any Adjusted FFO components; and any other nonrecurring identified adjustments.

Factors Affecting Our Operating Results. The primary factors affecting our operating results include overall demand for hotel rooms, the pace of new hotel development, or supply, and the relative performance of our operators in increasing revenue and controlling hotel operating expenses.

- *Demand.* The demand for lodging generally fluctuates with the overall economy. Prior to COVID-19’s designation as a National Public Health Emergency in March 2020, demand remained stable during the first two months of 2020, with RevPAR at the 17 Hotels declining by 0.1% as compared to the first two months of 2019, due to a 100 basis point decline in occupancy partially offset by a 1.3% increase in the average daily rate. During March 2020, COVID-19 and the related government and health official mandates in many markets virtually eliminated demand across our portfolio, resulting in first quarter 2020 RevPAR at the 17 Hotels declining 25.6% as compared to the first quarter of 2019, with a 0.4% decline in the average daily rate and a 2,020 basis point decline in occupancy. While continuing to improve from its trough in April 2020, demand remains significantly lower than pre-COVID-19 levels. For the first quarter of 2021, RevPAR at the 17 Hotels declined 69.5% as compared to the first quarter of 2020, with a 16.0% decline in the average daily rate and a 3,800 basis point decline in occupancy. We cannot predict when or if the demand for our hotel rooms will return to pre-COVID-19 levels.
- *Supply.* The addition of new competitive hotels affects the ability of existing hotels to absorb demand for lodging and, therefore, impacts the ability to drive RevPAR and profits. The development of new hotels is largely driven by construction costs and expected performance of existing hotels. Prior to the COVID-19 pandemic, U.S. hotel supply continued to increase. On a market-by-market basis, some markets experienced new hotel room openings at or greater than historic levels, including in Boston, Los Angeles, New York City, Orlando and Portland. Additionally, an increase in the supply of vacation rental or sharing services such as Airbnb also affects the ability of existing hotels to drive RevPAR and profits. We believe that both new hotel construction and new hotel openings will be delayed or even cancelled in the near-term due to COVID-19’s effect on the economy.
- *Revenues and expenses.* We believe that marginal improvements in RevPAR index, even in the face of declining revenues, are a good indicator of the relative quality and appeal of our hotels, and our operators’ effectiveness in maximizing revenues. Similarly, we also evaluate our operators’ effectiveness in minimizing incremental operating expenses in the context of increasing revenues or, conversely, in reducing operating expenses in the context of declining revenues.

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Operating Results. The following table presents our unaudited operating results for our total portfolio for the three months ended March 31, 2021 and 2020, including the amount and percentage change in the results between the two periods.

	Three Months Ended March 31,			
	2021	2020	Change \$	Change %
	(in thousands, except statistical data)			
REVENUES				
Room	\$ 34,219	\$ 127,400	\$ (93,181)	(73.1)%
Food and beverage	4,971	47,990	(43,019)	(89.6)%
Other operating	11,443	15,822	(4,379)	(27.7)%
Total revenues	50,633	191,212	(140,579)	(73.5)%
OPERATING EXPENSES				
Hotel operating	49,647	143,509	(93,862)	(65.4)%
Other property-level expenses	10,477	28,845	(18,368)	(63.7)%
Corporate overhead	7,177	7,394	(217)	(2.9)%
Depreciation and amortization	30,770	36,746	(5,976)	(16.3)%
Impairment losses	—	115,366	(115,366)	(100.0)%
Total operating expenses	98,071	331,860	(233,789)	(70.4)%
Interest and other income (loss)	(379)	2,306	(2,685)	(116.4)%
Interest expense	(7,649)	(17,507)	9,858	56.3 %
Gain on extinguishment of debt	222	—	222	100.0 %
Loss before income taxes	(55,244)	(155,849)	100,605	64.6 %
Income tax provision, net	(43)	(6,670)	6,627	99.4 %
NET LOSS	(55,287)	(162,519)	107,232	66.0 %
Loss from consolidated joint venture attributable to noncontrolling interest	1,975	458	1,517	331.2 %
Preferred stock dividends	(3,207)	(3,207)	—	— %
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (56,519)	\$ (165,268)	\$ 108,749	65.8 %

Operating Statistics. The following table includes comparisons of the key operating metrics for the 15 hotels open during the entire first quarter of 2021 (defined below) and the 17 Hotels.

	Three Months Ended March 31,								
	2021			2020			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
15 Hotels Open During the Entire First Quarter of 2021 (1)	23.4 %	\$ 195.32	\$ 45.70	60.4 %	\$ 240.08	\$ 145.01	(3,700) bps	(18.6) %	(68.5) %
17 Hotels	21.6 %	\$ 195.32	\$ 42.19	59.6 %	\$ 232.45	\$ 138.54	(3,800) bps	(16.0) %	(69.5) %

(1) 15 Hotels Open During the Entire First Quarter of 2021	
Hotel	Number of Rooms
1 Boston Park Plaza	1,060
2 Embassy Suites Chicago	368
3 Embassy Suites La Jolla	340
4 Hilton New Orleans St. Charles	252
5 Hilton San Diego Bayfront	1,190
6 Hyatt Centric Chicago Magnificent Mile	419
7 Hyatt Regency San Francisco	821
8 JW Marriott New Orleans	501
9 Marriott Boston Long Wharf	415
10 Oceans Edge Resort & Marina	175
11 Renaissance Long Beach	374
12 Renaissance Orlando at SeaWorld®	781
13 Renaissance Washington DC	807
14 The Bidwell Marriott Portland	258
15 Wailea Beach Resort	547
Total Number of Rooms	8,308

Summary of Operating Results. The following items significantly impact the year-over-year comparability of our operations:

- **COVID-19:** In response to the COVID-19 pandemic, we temporarily suspended operations at 14 of the 17 Hotels in March and April 2020. As of March 31, 2021, we have resumed operations at 12 hotels, resulting in a total of 15 open hotels at the end of the first quarter of 2021; however, all operating hotels are running at significantly reduced capacity, with limited food and beverage and ancillary offerings. As of March 31, 2021, two of the 17 Hotels remained closed, the Hilton Garden Inn Chicago Downtown/Magnificent Mile and the Renaissance Westchester. As a result, our revenues and operating expenses for the three months ended March 31, 2021 and for the month of March 2020 have been severely impacted as hotel demand has been decimated by the COVID-19 pandemic.
- **Property Dispositions:** We sold the Renaissance Harborplace and the Renaissance Los Angeles Airport in July 2020 and December 2020, respectively. In addition, we assigned our leasehold interest in the Hilton Times Square to the hotel's mortgage holder in December 2020. As a result of these three hotel dispositions (the "Three Disposed Hotels"), our revenues and operating expenses decreased for the three months ended March 31, 2021 as compared to the same period in 2020.

Room revenue. Room revenue decreased \$93.2 million, or 73.1%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Room revenue at the 17 Hotels decreased \$79.3 million.
- The dispositions of the Three Disposed Hotels caused room revenue to decrease by \$13.9 million.

Food and beverage revenue. Food and beverage revenue decreased \$43.0 million, or 89.6%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Food and beverage revenue at the 17 Hotels decreased \$39.4 million.
- The dispositions of the Three Disposed Hotels caused food and beverage revenue to decrease by \$3.6 million.

Other operating revenue. Other operating revenue decreased \$4.4 million, or 27.7%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Other operating revenue at the 17 Hotels decreased \$2.8 million. The decrease in other operating revenue at the 17 Hotels is net of a \$4.0 million reimbursement to offset net losses at the Hyatt Regency San Francisco as stipulated by the hotel's operating lease agreement with no corresponding reimbursement recorded in the first quarter of 2020.
- The dispositions of the Three Disposed Hotels caused other operating revenue to decrease by \$1.6 million.

Hotel operating expenses. Hotel operating expenses, which are comprised of room, food and beverage, advertising and promotion, repairs and maintenance, utilities, franchise costs, property tax, ground lease and insurance and other hotel operating expenses decreased \$93.9 million, or 65.4%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Hotel operating expenses at the 17 Hotels decreased \$74.5 million. Hotel operating expenses in the first quarters of 2021 and 2020 include \$0.1 million and \$6.5 million, respectively, of COVID-19-related expenses consisting of additional wages and benefits for furloughed or laid off hotel employees.
- The dispositions of the Three Disposed Hotels caused hotel operating expenses to decrease by \$19.4 million, which includes \$0.7 million of COVID-19-related expenses recognized in the first quarter of 2020 consisting of additional wages and benefits for furloughed or laid off hotel employees, offset by \$1.0 million in prior year property tax refunds net of appeal fees.

Other property-level expenses. Other property-level expenses decreased \$18.4 million, or 63.7%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Other property-level expenses at the 17 Hotels decreased \$13.4 million. Other property-level expenses in the first quarter of 2021 includes a credit of \$0.8 million, consisting of \$0.9 million in employee retention tax credits available under the Coronavirus Aid, Relief, and Economic Security Act (the "Tax Credits") received by our hotels, net of additional COVID-19-related wages and benefits for furloughed or laid off hotel employees. Other property-level expenses in the first quarter of 2020 includes \$1.4 million of COVID-19-related expenses consisting of additional wages and benefits for furloughed or laid off hotel employees.
- The dispositions of the Three Disposed Hotels caused other property-level expenses to decrease by \$5.0 million, which includes \$1.5 million of COVID-19-related expenses recognized in the first quarter of 2020 consisting of additional wages and benefits for furloughed or laid off hotel employees.

Corporate overhead expense. Corporate overhead expense decreased \$0.2 million, or 2.9%, during the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, due to decreased payroll and related expenses, including the recognition of \$0.3 million in available Tax Credits, and decreased legal fees. These decreased expenses were partially offset by increased amortization of deferred stock compensation.

Depreciation and amortization expense. Depreciation and amortization expense decreased \$6.0 million, or 16.3%, during the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 as follows:

- Depreciation and amortization expense related to the 17 Hotels decreased \$1.1 million as reduced expenses due to our \$15.4 million impairment of the depreciable assets at one of our hotels during 2020 and from fully depreciated assets was partially offset by increased depreciation and amortization at our newly renovated hotels.
- The dispositions of the Three Disposed Hotels resulted in a decrease in depreciation and amortization of \$4.9 million due in part to our \$103.6 million impairment of the depreciable assets at two of the hotels during 2020.

Impairment losses. Impairment losses totaled zero and \$115.4 million for the three months ended March 31, 2021 and 2020, respectively. During the first quarter of 2020, we recorded impairment losses of \$107.9 million on the Hilton Times Square, \$5.2 million on the Renaissance Westchester, and \$2.3 million related to the abandonment of a potential project to expand one of our hotels.

Interest and other income (loss). Interest and other income (loss) for the three months ended March 31, 2021 totaled a loss of \$0.4 million as compared to income of \$2.3 million for the three months ended March 31, 2020. During the three months ended March 31, 2021, we accrued a post-closing contingency of \$0.4 million to the current owner of a hotel we sold in 2018. Only a nominal amount of interest was recognized during the first quarter of 2021 due to declines in interest rates and cash balances.

During the first quarter of 2020, we recognized \$2.1 million in interest income and \$0.2 million in energy rebates due to energy efficient renovations at our hotels.

Interest expense. We incurred interest expense as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Interest expense on debt and finance lease obligation	\$ 7,783	\$ 10,728
Noncash interest on derivatives	(869)	6,080
Amortization of deferred financing costs	735	699
Total interest expense	<u>\$ 7,649</u>	<u>\$ 17,507</u>

Interest expense decreased \$9.9 million, or 56.3%, during the three months ended March 31, 2021 as compared to the three months ended March 31, 2020.

Interest expense on our debt and finance lease obligation decreased \$2.9 million in the first quarter of 2021 as compared to the same period in 2020 primarily due to our 2020 debt transactions, including the repayment of the loan secured by the Renaissance Washington DC, our partial repayments of the senior notes and our assignment of the loan secured by the Hilton Times Square to the hotel's mortgage holder, along with decreased interest on our variable rate debt. These decreases were partially offset by the amendments on our unsecured debt, which increased the amount of interest charged on our term loans and senior notes and increased the amortization of our deferred financing costs. In addition, noncash changes in the fair market value of our derivatives caused interest expense to decrease \$6.9 million in the first quarter of 2021 as compared to the same period in 2020.

Our weighted average interest rate per annum, including our variable rate debt obligation, was approximately 3.8% and 3.6% at March 31, 2021 and 2020, respectively. Approximately 70.6% and 59.2% of our outstanding notes payable had fixed interest rates at March 31, 2021 and 2020, respectively.

Gain on extinguishment of debt. Gain on extinguishment of debt totaled \$0.2 million and zero for the three months ended March 31, 2021 and 2020, respectively. During the first quarter of 2021, we recognized a gain of \$0.2 million associated with the assignment of the Hilton Times Square to the hotel's mortgage holder due to a reassessment of the potential employee-related obligations currently held in escrow.

Income tax provision, net. Income tax provision, net was incurred as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Current income tax (provision) benefit, net	\$ (43)	\$ 745
Change in deferred tax asset valuation allowance	—	(7,415)
Total income tax provision, net	\$ (43)	\$ (6,670)

We lease our hotels to the TRS Lessee and its subsidiaries, which are subject to federal and state income taxes. In addition, we and the Operating Partnership may also be subject to various state and local income taxes.

During the first quarter of 2021, we recognized a current income tax provision of \$43,000, resulting from current state income tax expense.

During the first quarter of 2020, we recognized a current net income tax benefit of \$0.7 million, resulting from tax credits and refunds, net of combined current federal and state income tax expense. In addition, we recorded a full valuation allowance of \$7.4 million on our deferred tax assets because we can no longer be assured that we will be able to realize these assets due to uncertainties regarding how long the COVID-19 pandemic will last or what the long-term impact will be on our hotel operations.

Loss from consolidated joint venture attributable to noncontrolling interest. Loss from consolidated joint venture attributable to noncontrolling interest, which represents the outside 25.0% interest in the entity that owns the Hilton San Diego Bayfront, totaled \$2.0 million and \$0.5 million for the three months ended March 31, 2021 and 2020, respectively.

Preferred stock dividends. Preferred stock dividends totaled \$3.2 million for both the three months ended March 31, 2021 and 2020, comprised of \$2.0 million in preferred stock dividends on our Series E preferred stock and \$1.2 million in preferred stock dividends on our Series F preferred stock.

Non-GAAP Financial Measures. We use the following “non-GAAP financial measures” that we believe are useful to investors as key supplemental measures of our operating performance: EBITDA_{re}; Adjusted EBITDA_{re}, excluding noncontrolling interest; FFO attributable to common stockholders; and Adjusted FFO attributable to common stockholders. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. In addition, our calculation of these measures may not be comparable to other companies that do not define such terms exactly the same as the Company. These non-GAAP measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to net income (loss), cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

We present EBITDA_{re} in accordance with guidelines established by the National Association of Real Estate Investment Trusts (“NAREIT”), as defined in its September 2017 white paper “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate.” We believe EBITDA_{re} is a useful performance measure to help investors evaluate and compare the results of our operations from period to period in comparison to our peers. NAREIT defines EBITDA_{re} as net income (calculated in accordance with GAAP) plus interest expense, income tax expense, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change in control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in the value of depreciated property in the affiliate, and adjustments to reflect the entity’s share of EBITDA_{re} of unconsolidated affiliates.

We make additional adjustments to EBITDA_{re} when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful information to investors regarding our operating performance, and that the presentation of Adjusted EBITDA_{re}, excluding noncontrolling interest, when combined with the primary GAAP presentation of net income, is beneficial to an investor’s complete understanding of our operating performance. In addition, we use both EBITDA_{re} and Adjusted EBITDA_{re}, excluding noncontrolling interest as measures in determining the value of hotel acquisitions and dispositions. We adjust EBITDA_{re} for the following items, which may occur in any period, and refer to this measure as Adjusted EBITDA_{re}, excluding noncontrolling interest:

- *Amortization of deferred stock compensation:* we exclude the noncash expense incurred with the amortization of deferred stock compensation as this expense is based on historical stock prices at the date of grant to our corporate employees and does not reflect the underlying performance of our hotels.

- *Amortization of favorable and unfavorable contracts:* we exclude the noncash amortization of the favorable management contract asset recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the unfavorable tenant lease contracts recorded in conjunction with our acquisitions of the Boston Park Plaza and the Hilton Garden Inn Chicago Downtown/Magnificent Mile. We exclude the noncash amortization of favorable and unfavorable contracts because it is based on historical cost accounting and is of lesser significance in evaluating our actual performance for the current period.
- *Amortization of right-of-use assets and liabilities:* we exclude the amortization of our right-of-use assets and liabilities, as these expenses are based on historical cost accounting and do not reflect the actual rent amounts due to the respective lessors or the underlying performance of our hotels.
- *Finance lease obligation interest – cash ground rent:* we include an adjustment for the cash finance lease expense recorded on the building lease at the Hyatt Centric Chicago Magnificent Mile. We determined that the building lease is a finance lease, and, therefore, we include a portion of the lease payment each month in interest expense. We adjust EBITDA_{re} for the finance lease in order to more accurately reflect the actual rent due to the hotel's lessor in the current period, as well as the operating performance of the hotel.
- *Undepreciated asset transactions:* we exclude the effect of gains and losses on the disposition of undepreciated assets because we believe that including them in Adjusted EBITDA_{re}, excluding noncontrolling interest is not consistent with reflecting the ongoing performance of our assets.
- *Gains or losses from debt transactions:* we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired because, like interest expense, their removal helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure.
- *Acquisition costs:* under GAAP, costs associated with acquisitions that meet the definition of a business are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the Company or our hotels.
- *Noncontrolling interest:* we exclude the noncontrolling partner's pro rata share of the net (income) loss allocated to the Hilton San Diego Bayfront partnership, as well as the noncontrolling partner's pro rata share of any EBITDA_{re} and Adjusted EBITDA_{re} components.
- *Cumulative effect of a change in accounting principle:* from time to time, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments, which include the accounting impact from prior periods, because they do not reflect our actual performance for that period.
- *Other adjustments:* we exclude other adjustments that we believe are outside the ordinary course of business because we do not believe these costs reflect our actual performance for the period and/or the ongoing operations of our hotels. Such items may include: lawsuit settlement costs; prior year property tax assessments or credits; the write-off of development costs associated with abandoned projects; property-level restructuring, severance and management transition costs; debt resolution costs; lease terminations; and property insurance proceeds or uninsured losses.

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The following table reconciles our unaudited net loss to EBITDAre and Adjusted EBITDAre, excluding noncontrolling interest for our total portfolio for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net loss	\$ (55,287)	\$ (162,519)
Operations held for investment:		
Depreciation and amortization	30,770	36,746
Interest expense	7,649	17,507
Income tax provision, net	43	6,670
Loss on sale of assets	70	—
Impairment losses - hotel properties	—	113,064
EBITDAre	(16,755)	11,468
Operations held for investment:		
Amortization of deferred stock compensation	2,752	2,207
Amortization of right-of-use assets and liabilities	(331)	(261)
Finance lease obligation interest — cash ground rent	(351)	(351)
Gain on extinguishment of debt	(222)	—
Prior year property tax adjustments, net	(827)	(81)
Impairment loss - abandoned development costs	—	2,302
Noncontrolling interest:		
Loss from consolidated joint venture attributable to noncontrolling interest	1,975	458
Depreciation and amortization	(810)	(804)
Interest expense	(161)	(420)
Amortization of right-of-use asset and liability	72	72
Impairment loss - abandoned development costs	—	(449)
Adjustments to EBITDAre, net	2,097	2,673
Adjusted EBITDAre, excluding noncontrolling interest	\$ (14,658)	\$ 14,141

Adjusted EBITDAre, excluding noncontrolling interest decreased \$28.8 million, or 203.7%, in the first quarter of 2021 as compared to the same period in 2020 primarily due to the following:

- Adjusted EBITDAre at the 17 Hotels decreased \$37.7 million, or 167.2%, as compared to the same period in 2020. Adjusted EBITDAre in the first quarter of 2021 includes a credit of \$0.7 million, consisting of \$0.9 million in available Tax Credits received by our hotels, net of additional COVID-19-related wages and benefits for furloughed or laid off hotel employees. In addition, Adjusted EBITDAre in the first quarter of 2021 includes \$4.0 million in reimbursements to offset net losses at the Hyatt Regency San Francisco as stipulated by the hotel's operating lease agreement. In comparison, Adjusted EBITDAre in the first quarter of 2020 includes \$7.9 million in COVID-19-related expenses, consisting of additional wages and benefits for furloughed or laid off hotel employees, and no reimbursements recorded to offset net losses at the Hyatt Regency San Francisco.
- The Three Disposed Hotels recorded net negative Adjusted EBITDAre of \$4.2 million in the first quarter of 2020. The Company recorded \$2.2 million in COVID-19-related expenses for the Three Disposed Hotels during the first quarter of 2020, consisting of additional wages and benefits for furloughed or laid off hotel employees.

We believe that the presentation of FFO attributable to common stockholders provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified noncash items such as real estate depreciation and amortization, any real estate impairment loss and any gain or loss on sale of real estate assets, all of which are based on historical cost accounting and may be of lesser significance in evaluating our current performance. Our presentation of FFO attributable to common stockholders conforms to the NAREIT definition of "FFO applicable to common shares." Our presentation may not be comparable to FFO reported by other REITs that do not define the terms in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

We also present Adjusted FFO attributable to common stockholders when evaluating our operating performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance, and may facilitate comparisons of operating performance between periods and our peer companies. We adjust FFO attributable to common stockholders for the following items, which may occur in any period, and refer to this measure as Adjusted FFO attributable to common stockholders:

- *Amortization of favorable and unfavorable contracts:* we exclude the noncash amortization of the favorable management contract asset recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the unfavorable tenant lease contracts recorded in conjunction with our acquisitions of the Boston Park Plaza and the Hilton Garden Inn Chicago Downtown/Magnificent Mile. We exclude the noncash amortization of favorable and unfavorable contracts because it is based on historical cost accounting and is of lesser significance in evaluating our actual performance for the current period.
- *Real estate amortization of right-of-use assets and liabilities:* we exclude the amortization of our real estate right-of-use assets and liabilities, which includes the amortization of both our finance and operating lease intangibles (with the exception of our corporate operating lease), as these expenses are based on historical cost accounting and do not reflect the actual rent amounts due to the respective lessors or the underlying performance of our hotels.
- *Gains or losses from debt transactions:* we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired, as well as the noncash interest on our derivatives and finance lease obligation. We believe that these items are not reflective of our ongoing finance costs.
- *Acquisition costs:* under GAAP, costs associated with acquisitions that meet the definition of a business are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the Company or our hotels.
- *Noncontrolling interest:* we deduct the noncontrolling partner's pro rata share of any FFO adjustments related to our consolidated Hilton San Diego Bayfront partnership.
- *Cumulative effect of a change in accounting principle:* from time to time, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments, which include the accounting impact from prior periods, because they do not reflect our actual performance for that period.
- *Other adjustments:* we exclude other adjustments that we believe are outside the ordinary course of business because we do not believe these costs reflect our actual performance for that period and/or the ongoing operations of our hotels. Such items may include: lawsuit settlement costs; prior year property tax assessments or credits; the write-off of development costs associated with abandoned projects; changes to deferred tax assets, liabilities or valuation allowances; property-level restructuring, severance and management transition costs; debt resolution costs; lease terminations; property insurance proceeds or uninsured losses; and income tax benefits or provisions associated with the application of net operating loss carryforwards, uncertain tax positions or with the sale of assets other than real estate investments.

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The following table reconciles our unaudited net loss to FFO attributable to common stockholders and Adjusted FFO attributable to common stockholders for our total portfolio for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net loss	\$ (55,287)	\$ (162,519)
Preferred stock dividends	(3,207)	(3,207)
Operations held for investment:		
Real estate depreciation and amortization	30,143	36,122
Loss on sale of assets	70	—
Impairment losses - hotel properties	—	113,064
Noncontrolling interest:		
Loss from consolidated joint venture attributable to noncontrolling interest	1,975	458
Real estate depreciation and amortization	(810)	(804)
FFO attributable to common stockholders	(27,116)	(16,886)
Operations held for investment:		
Real estate amortization of right-of-use assets and liabilities	85	146
Noncash interest on derivatives	(869)	6,080
Gain on extinguishment of debt	(222)	—
Prior year property tax adjustments, net	(827)	(81)
Impairment loss - abandoned development costs	—	2,302
Noncash income tax provision, net	—	7,415
Noncontrolling interest:		
Real estate amortization of right-of-use asset and liability	72	72
Impairment loss - abandoned development costs	—	(449)
Adjustments to FFO attributable to common stockholders, net	(1,761)	15,485
Adjusted FFO attributable to common stockholders	\$ (28,877)	\$ (1,401)

Adjusted FFO attributable to common stockholders decreased \$27.5 million, or 1,961.2%, in the first quarter of 2021 as compared to the same period in 2020 primarily due to the same reasons noted in the discussion above regarding Adjusted EBITDAre, excluding noncontrolling interest.

Liquidity and Capital Resources

During the periods presented, our sources of cash included our operating activities and working capital, as well as proceeds from hotel disposition deposits, our credit facility and contributions from our joint venture partner. Our primary uses of cash were for capital expenditures for hotels and other assets, acquisitions of assets, operating expenses, including funding the negative cash flow at our hotels, repurchases of our common stock, repayments of notes payable, dividends and distributions on our common and preferred stock and distributions to our joint venture partner. We cannot be certain that traditional sources of funds will be available in the future.

Operating activities. Our net cash provided by or used in operating activities fluctuates primarily as a result of changes in hotel revenue and the operating cash flow of our hotels. Our net cash provided by or used in operating activities may also be affected by changes in our portfolio resulting from hotel acquisitions, dispositions or renovations. Net cash used in operating activities was \$38.2 million and \$2.5 million for the three months ended March 31, 2021 and 2020, respectively. The net increase in cash used in operating activities during the first three months of 2021 as compared to the same period in 2020 was primarily due to the temporary suspensions and reduced operations at our hotels caused by the COVID-19 pandemic.

Investing activities. Our net cash provided by or used in investing activities fluctuates primarily as a result of acquisitions, dispositions and renovations of hotels and other assets. Net cash used in investing activities during the first three months of 2021 as compared to the first three months of 2020 was as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Disposition deposit	\$ —	\$ 3,500
Acquisition of hotel property	—	(346)
Renovations and additions to hotel properties and other assets	(6,526)	(17,016)
Net cash used in investing activities	\$ (6,526)	\$ (13,862)

During the first three months of 2021, we invested \$6.5 million for renovations and additions to our portfolio and other assets.

During the first three months of 2020, we received a nonrefundable deposit of \$3.5 million from the buyer of the Renaissance Harborplace. This cash inflow was offset as we paid \$0.3 million to purchase an additional wet boat slip at the Oceans Edge Resort & Marina and invested \$17.0 million for renovations and additions to our portfolio and other assets

Financing activities. Our net cash provided by or used in financing activities fluctuates primarily as a result of our distributions paid, issuance and repurchase of common stock, issuance and repayment of notes payable and our credit facility, debt restructurings and issuance and redemption of other forms of capital, including preferred equity. Net cash (used in) provided by financing activities during the first three months of 2021 as compared to the first three months of 2020 was as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Repurchases of outstanding common stock	\$ —	\$ (103,894)
Repurchases of common stock for employee tax obligations	(3,516)	(3,992)
Proceeds from credit facility	—	300,000
Payments on notes payable	(832)	(1,898)
Dividends and distributions paid	(3,208)	(135,872)
Distributions to noncontrolling interest	—	(2,000)
Contribution from noncontrolling interest	1,375	—
Net cash (used in) provided by financing activities	\$ (6,181)	\$ 52,344

During the first three months of 2021, we paid the following: \$3.5 million to repurchase common stock to satisfy the tax obligations in connection with the vesting of restricted common stock issued to employees; \$0.8 million in principal payments on our notes payable; and \$3.2 million in dividends to our preferred stockholders. These cash outflows were partially offset by a \$1.4 million contribution from our joint venture partner.

During the first three months of 2020, we drew \$300.0 million from our credit facility. This cash inflow was partially offset as we paid the following: \$103.9 million to repurchase 9,770,081 shares of our outstanding common stock; \$4.0 million to repurchase common stock to satisfy the tax obligations in connection with the vesting of restricted common stock issued to employees; \$1.9 million in principal payments on our notes payable; \$135.9 million in dividends and distributions to our common and preferred stockholders; and \$2.0 million in distributions to our joint venture partner.

Future. While operations are beginning to improve, we believe the ongoing effects of the COVID-19 pandemic and the recent economic downturn on our operations will continue to have a material negative impact on our financial results and liquidity through at least the second quarter of 2021. As previously noted, operations continue to be suspended at one of the 17 Hotels as of May 1, 2021, with the remainder operating at reduced, albeit increasing, capacities due to COVID-19; therefore, our traditional source of cash from operating activities has been significantly reduced. Despite these challenges, we believe that we have sufficient liquidity, as well as access to our credit facility and capital markets, to withstand the current decline in our operating cash flow. We expect our primary sources of cash will continue to be our working capital and credit facility, dispositions of hotel properties, and proceeds from public and private offerings of debt securities and common and preferred stock. However, there can be no assurance that the capital markets will be available to us on favorable terms or at all.

We expect our primary uses of cash to be for operating expenses, including funding the cash flow needs at our hotels, capital investments in our hotels, repayment of principal on our notes payable and possibly on our unsecured debt, interest expense, dividends on our preferred stock and acquisitions of hotels or interests in hotels.

In April 2021, we purchased the fee-simple interest in the Montage Healdsburg, located in California, for \$265.0 million, excluding closing costs. We funded this acquisition through the issuance of 2,650,000 shares of Series G Cumulative Redeemable Preferred Stock (the "Series G preferred stock") with an aggregate liquidation preference of \$66.25 million, as well as \$198.75 million of cash on hand. The Series G preferred stock, which is callable at the liquidation preference plus accrued and unpaid dividends by us at any time, will accrue dividends at an initial rate equal to the Montage Healdsburg's annual net operating income yield on our investment in the hotel. The Series G preferred stock is not convertible into any other security.

The Montage Healdsburg sits adjacent to the separately owned Montage Residences Healdsburg, which, together with the Resort, comprise a 258-acre destination. Montage Residences Healdsburg will feature 40 to-be-built luxury homes that will be eligible to participate in the optional turn-key resort rental program. The seller of the Resort will continue to own and be responsible for the development and sales of Montage Residences Healdsburg.

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At this time, we do not expect to pay a quarterly common stock dividend in 2021. The resumption in quarterly common stock dividends will be determined by our board of directors after considering our obligations under our various financing agreements, projected taxable income, compliance with our debt covenants, long-term operating projections, expected capital requirements and risks affecting our business. We have taken additional steps to preserve our liquidity, including the deferral of portions of our planned 2021 non-essential capital improvements into our portfolio, as well as the temporary suspension of our stock repurchase program.

We believe that the steps we have taken to maintain an appropriate cash position and preserve our financial flexibility, combined with the amendments to our unsecured debt, our already strong balance sheet and our low leverage will be sufficient to allow us to navigate through this crisis. Given the unprecedented impact of COVID-19 on the global market and our hotel operations, we cannot, however, assure you that our forecast or the assumptions we used to estimate our liquidity requirements will be correct. In addition, the magnitude and duration of the COVID-19 pandemic is uncertain. We cannot accurately estimate the impact on our business, financial condition or operational results with reasonable certainty.

Cash Balance. As of March 31, 2021, our unrestricted cash balance was \$320.3 million. Adjusting for our April 2021 acquisition of the Montage Healdsburg, our pro forma unrestricted cash balance is \$121.5 million. We believe that our current unrestricted cash balance and our ability to draw the \$500.0 million of capacity available for borrowing under the unsecured revolving credit facility will enable us to successfully manage our Company while operations at the 17 Hotels are either temporarily suspended or reduced.

Certain of our loan agreements contain cash trap provisions that may be triggered if the performance of the hotels securing the loans decline. In January 2021, these provisions were triggered for the loans secured by the Embassy Suites La Jolla and the JW Marriott New Orleans. During the first quarter of 2021, the hotels were not able to generate any excess cash for the benefit of the lenders; however, we expect that as operations improve during the second quarter of 2021, the hotels will begin to generate excess cash which will be held in lockbox accounts for the benefit of the lenders and included in restricted cash on our consolidated balance sheet until the hotels reach profitability levels that terminate the cash traps. We expect the mortgage secured by the Hilton San Diego Bayfront will also enter a cash trap in 2021.

Debt. As of March 31, 2021, we had \$747.1 million of consolidated debt, \$365.3 million of cash and cash equivalents, including restricted cash, and total assets of \$2.9 billion. We believe that by maintaining appropriate debt levels, staggering maturity dates and maintaining a highly flexible structure, we will have lower capital costs than more highly leveraged companies, or companies with limited flexibility due to restrictive corporate-level financial covenants.

As of March 31, 2021, we have no amount outstanding on the revolving portion of our credit facility, with \$500.0 million of capacity available for additional borrowing under the facility. Our ability to draw on the revolving portion of the credit facility may be subject to our compliance with various financial covenants on our secured and unsecured debt. The revolving portion of the credit facility agreement matures in April 2023, but may be extended for two six-month periods to April 2024, upon the payment of applicable fees and satisfaction of certain customary conditions.

We are subject to various financial covenants on our secured and unsecured debt. Due to COVID-19's expected negative impact on our operations through at least the second quarter of 2021, it is possible that we may not meet the terms of our unsecured debt financial covenants once such covenants are effective again in 2022. As noted above, due to COVID-19, operations continue to be suspended at one of the 17 Hotels as of May 1, 2021, with the remainder operating at reduced, albeit increasing, capacities. Our future liquidity will depend on the gradual return of guests, particularly group business, to our hotels and the stabilization of demand throughout our portfolio.

As of March 31, 2021, all of our outstanding debt had fixed interest rates or had been swapped to fixed interest rates, except the \$220.0 million non-recourse mortgage on the Hilton San Diego Bayfront, which is subject to an interest rate cap agreement that caps the floating interest rate at 6.0% until December 2021. Our remaining mortgage debt is in the form of single asset non-recourse loans rather than cross-collateralized multi-property pools. In addition to our mortgage debt, as of March 31, 2021, we have two unsecured corporate-level term loans as well as two unsecured corporate-level senior notes.

We may in the future seek to obtain mortgages on one or more of our 14 unencumbered hotels (subject to certain stipulations under our unsecured term loans and senior notes), 13 of which are currently held by subsidiaries whose interests are pledged to our credit facility. Our 14 unencumbered hotels include: Boston Park Plaza; Embassy Suites Chicago; Hilton Garden Inn Chicago Downtown/Magnificent Mile; Hilton New Orleans St. Charles; Hyatt Centric Chicago Magnificent Mile; Hyatt Regency San Francisco; Marriott Boston Long Wharf; Oceans Edge Resort & Marina; Renaissance Long Beach; Renaissance Orlando at SeaWorld®; Renaissance Washington DC; Renaissance Westchester; The Bidwell Marriott Portland; and Wailea Beach Resort. Our acquisition of the Montage Healdsburg in April 2021 increases both the number of our unencumbered hotels and the number of our hotels currently held by subsidiaries whose interests are pledged to our credit facility to 15 and 14, respectively. Should we obtain

secured financing on any or all of our unencumbered hotels, the amount of capital available through our credit facility may be reduced.

Contractual Obligations. The following table summarizes our payment obligations and commitments as of March 31, 2021 (in thousands):

	Payment due by period				
	Total	Less Than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable (1)	\$ 747,113	\$ 3,339	\$ 412,098	\$ 216,676	\$ 115,000
Interest obligations on notes payable (2)	107,731	29,547	43,559	23,608	11,017
Finance lease obligation, including imputed interest	107,662	1,403	2,806	2,806	100,647
Operating lease obligations, including imputed interest (3)	40,170	6,688	13,535	12,528	7,419
Construction commitments	23,352	23,352	—	—	—
Employment obligations	3,047	3,047	—	—	—
Total	\$ 1,029,075	\$ 67,376	\$ 471,998	\$ 255,618	\$ 234,083

- (1) Notes payable includes the \$220.0 million mortgage secured by the Hilton San Diego Bayfront, which initially matures in December 2021 with two remaining one-year options to extend. We intend to exercise the remaining two one-year options to extend the maturity to December 2023.
- (2) Interest on our variable rate debt is calculated based on the variable rate at March 31, 2021, and includes the effect of our interest rate derivative agreements.
- (3) Operating lease obligations on one of our ground leases expiring in 2071 requires a reassessment of rent payments due after 2025, agreed upon by both us and the lessor; therefore, no amounts are included in the above table for this ground lease after 2025.

Capital Expenditures and Reserve Funds

We believe we maintain each of our hotels in good repair and condition and in general conformity with applicable franchise and management agreements, ground, building and airspace leases, laws and regulations. Our capital expenditures primarily relate to the ongoing maintenance of our hotels and are budgeted in the reserve accounts described in the following paragraph. We also incur capital expenditures for cyclical renovations, hotel repositionings and development. We invested \$6.5 million in our portfolio and other assets during the first three months of 2021. As of March 31, 2021, we have contractual construction commitments totaling \$23.4 million for ongoing renovations. As noted above, in light of the COVID-19 pandemic, we elected to conserve cash by deferring a portion of our planned 2020 and 2021 non-essential capital improvements into our portfolio. In February 2021, however, we entered into an agreement with Marriott to rebrand the Renaissance Washington DC to The Westin Washington DC, upon substantial completion of a repositioning of the hotel. If we renovate or develop additional hotels or other assets in the future, our capital expenditures will likely increase.

With respect to our hotels that are operated under management or franchise agreements with major national hotel brands and for all of our hotels subject to first mortgage liens, we are obligated to maintain an FF&E reserve account for future planned and emergency-related capital expenditures at these hotels. The amount funded into each of these reserve accounts is determined pursuant to the management, franchise and loan agreements for each of the respective hotels, ranging between zero and 5.0% of the respective hotel's applicable annual revenue. As of March 31, 2021, our balance sheet includes restricted cash of \$33.9 million, which was held in FF&E reserve accounts for future capital expenditures at the majority of the 17 Hotels. According to certain loan agreements, reserve funds are to be held by the lenders or managers in restricted cash accounts, and we are not required to spend the entire amount in such reserve accounts each year. In light of the COVID-19 pandemic, some of our third-party managers have suspended the requirement to fund into the FF&E reserves throughout 2021. Additionally, some of our third-party managers are permitting owners the ability to draw from the FF&E reserve to fund operating expenses, subject to certain conditions including a future repayment to the reserve.

Seasonality and Volatility

As is typical of the lodging industry, we experience some seasonality in our business. Revenue for certain of our hotels is generally affected by seasonal business patterns (e.g., the first quarter is strong in Hawaii, Key West and Orlando, the second quarter is strong for the Mid-Atlantic business hotels and the fourth quarter is strong for Hawaii and Key West). Quarterly revenue also may be adversely affected by renovations and repositionings, our managers' effectiveness in generating business and by events beyond our control, such as economic and business conditions, including a U.S. recession, trade conflicts and tariffs, changes impacting global travel, regional or global economic slowdowns, any flu or disease-related pandemic that impacts travel or the ability to travel, including the COVID-19 pandemic, the adverse effects of climate change, the threat of terrorism, terrorist events, civil unrest,

government shutdowns, events that reduce the capacity or availability of air travel, increased competition from other hotels in our markets, new hotel supply or alternative lodging options and unexpected changes in business, commercial travel, leisure travel and tourism.

Inflation

Inflation may affect our expenses, including, without limitation, by increasing such costs as labor, employee-related benefits, food, commodities, taxes, property and liability insurance and utilities.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities.

We evaluate our estimates on an ongoing basis. We base our estimates on historical experience, information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the most significant judgments and estimates used in the preparation of our consolidated financial statements.

- ***Impairment of long-lived assets.*** Impairment losses are recorded on long-lived assets to be held and used by us when indicators of impairment are present and the future undiscounted net cash flows, including potential sale proceeds, expected to be generated by those assets, based on our anticipated investment horizon, are less than the assets’ carrying amount. We evaluate our long-lived assets to determine if there are indicators of impairment on a quarterly basis. No single indicator would necessarily result in us preparing an estimate to determine if a hotel’s future undiscounted cash flows are less than the book value of the hotel. We use judgment to determine if the severity of any single indicator, or the fact there are a number of indicators of less severity that when combined, would result in an indication that a hotel requires an estimate of the undiscounted cash flows to determine if an impairment has occurred. If a hotel is considered to be impaired, the related assets are adjusted to their estimated fair value and an impairment loss is recognized. The impairment loss recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. We perform a fair value assessment, using one or more discounted cash flow analyses to estimate the fair value of the hotel, taking into account the hotel’s expected cash flow from operations, our estimate of how long we will own the hotel and the estimated proceeds from the disposition of the hotel. When multiple cash flow analyses are prepared, a probability is assigned to each cash flow analysis based upon the estimated likelihood of each scenario. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of disposition and terminal capitalization rate. Our judgment is required in determining the discount rate applied to estimated cash flows, the estimated growth of revenues and expenses, net operating income (loss) and margins, the need for capital expenditures, as well as specific market and economic conditions.
- ***Acquisition related assets and liabilities.*** Accounting for the acquisition of a hotel property or other entity requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective relative fair values for an asset acquisition or at their estimated fair values for a business combination. The most difficult estimations of individual fair values are those involving long-lived assets, such as property, equipment and intangible assets, together with any finance or operating lease right-of-use assets and their related obligations. When we acquire a hotel property or other entity, we use all available information to make these fair value determinations, and engage independent valuation specialists to assist in the fair value determinations of the long-lived assets acquired and the liabilities assumed. Due to the inherent subjectivity in determining the estimated fair value of long-lived assets, we believe that the recording of acquired assets and liabilities is a critical accounting policy.

In addition, the acquisition of a hotel property or other entity requires an analysis of the transaction to determine if it qualifies as the purchase of a business or an asset. If the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then the transaction is an asset acquisition. Transaction costs associated with asset acquisitions are capitalized and subsequently depreciated over the life of the related asset, while the same costs associated with a business combination are expensed as incurred and included in corporate overhead on our consolidated statements of operations. Also, asset acquisitions are not subject to a measurement period, as are business combinations.

- ***Depreciation and amortization expense.*** Depreciation expense is based on the estimated useful life of our assets. The life of the assets is based on a number of assumptions, including the cost and timing of capital expenditures to maintain and refurbish our hotels, as well as specific market and economic conditions. Hotel properties are depreciated using the

straight-line method over estimated useful lives primarily ranging from five to 40 years for buildings and improvements and three to 12 years for FF&E. Finance lease right-of-use assets other than land are depreciated using the straight-line method over the shorter of either their estimated useful life or the life of the related finance lease obligation. Intangible assets are amortized using the straight-line method over the shorter of their estimated useful life or the length of the related agreement. While we believe our estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of our hotels. We have not changed the useful lives of any of our assets during the periods discussed.

- **Income Taxes.** To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders. As a REIT, we generally will not be subject to federal corporate income tax on that portion of our taxable income that is currently distributed to stockholders. We are subject to certain state and local taxes on our income and property, and to federal income and excise taxes on our undistributed taxable income. In addition, our wholly owned TRS, which leases our hotels from the Operating Partnership, is subject to federal and state income taxes. We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and for net operating loss, capital loss and tax credit carryforwards. The deferred tax assets and liabilities are measured using the enacted income tax rates in effect for the year in which those temporary differences are expected to be realized or settled. The effect on the deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We review any uncertain tax positions and, if necessary, we will record the expected future tax consequences of uncertain tax positions in the consolidated financial statements. Tax positions not deemed to meet the “more-likely-than-not” threshold are recorded as a tax benefit or expense in the current year. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes federal and certain states.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

To the extent that we incur debt with variable interest rates, our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have no derivative financial instruments held for trading purposes. We use derivative financial instruments, which are intended to manage interest rate risks on our floating rate debt.

As of March 31, 2021, 70.6% of our debt obligations are fixed in nature, which mitigates the effect of changes in interest rates on our cash interest payments. If the market rate of interest on our variable rate debt increases or decreases by 100 basis points, interest expense would increase or decrease, respectively, our future consolidated earnings and cash flows by approximately \$2.2 million based on the variable rate at March 31, 2021. After adjusting for the noncontrolling interest in the Hilton San Diego Bayfront, this increase or decrease in interest expense would increase or decrease, respectively, our future consolidated earnings and cash flows by \$1.7 million, based on the variable rate at March 31, 2021.

Item 4. Controls and Procedures

Attached as exhibits to this Form 10-Q are the certifications required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended. This section includes information concerning the controls and control evaluations referred to in the certifications.

Evaluation of Disclosure Controls and Procedures. Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During our fiscal quarter to which this Quarterly Report on Form 10-Q relates, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

None.

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

(c) Issuer Purchases of Equity Securities

In February 2021, the Company's board of directors reauthorized the Company's existing stock repurchase program, allowing the Company to acquire up to an aggregate of \$500.0 million of the Company's common and preferred stock. The 2021 stock repurchase program has no stated expiration date. Future repurchases will depend on various factors, including the Company's capital needs, restrictions under its various financing agreements, as well as the price of the Company's common and preferred stock.

In February 2021, the Company withheld 307,863 shares of its restricted common stock at an average market value of \$11.42 per share, and used the proceeds to satisfy the tax obligations in connection with the vesting of restricted common shares issued to employees.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2021 - January 31, 2021	—	\$ —	—	\$ 500,000,000
February 1, 2021 - February 28, 2021	307,863	\$ 11.42	—	\$ 500,000,000
March 1, 2021 - March 31, 2021	—	\$ —	—	\$ 500,000,000
Total	<u>307,863</u>	<u>\$ 11.42</u>	<u>—</u>	<u>\$ 500,000,000</u>

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

The following Exhibits are filed as a part of this report:

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Sunstone Hotel Investors, Inc. (incorporated by reference to Exhibit 3.1 to the registration statement on Form S-11 (File No. 333-117141) filed by the Company).
3.2	Second Amended and Restated Bylaws of Sunstone Hotel Investors, Inc. effective as of November 15, 2018 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on November 15, 2018).
3.3	Articles Supplementary Prohibiting the Company From Electing to be Subject to Section 3-803 of the Maryland General Corporation Law Absent Shareholder Approval (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on April 29, 2013).
3.4	Articles Supplementary for Series E preferred stock (incorporated by reference to Exhibit 3.5 to the registration statement on Form 8-A, filed by the Company on March 10, 2016).
3.5	Articles Supplementary for Series F preferred stock (incorporated by reference to Exhibit 3.5 to the registration statement on Form 8-A, filed by the Company on May 16, 2016).
3.6	Articles Supplementary for Series G preferred stock (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on April 28, 2021).
10.1	Employment Agreement, dated as of March 2, 2021, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and Christopher Ostapovicz. * #
10.2	Amended and Restated Employment Agreement, dated as of March 31, 2020, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and John V. Arabia. * #
10.3	Amended and Restated Employment Agreement, dated as of March 31, 2020, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and Bryan A. Giglia. * #
10.4	Amended and Restated Employment Agreement, dated as of March 31, 2020, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and Marc A. Hoffman. * #
10.5	Amended and Restated Employment Agreement, dated as of March 31, 2020, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and Robert Springer. * #
10.6	Amended and Restated Employment Agreement, dated as of March 31, 2021, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and David M. Klein. * #
10.7	Transition and Separation Agreement, dated March 2, 2021, by and among Sunstone Hotel Investors, Inc., Sunstone Hotel Partnership, LLC and Marc A. Hoffman. * #
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document. *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. *
104	Cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 formatted in Inline XBRL (included in Exhibit 101).

* Filed herewith.

Management contract of compensatory plan or arrangement.

SIGNATURES

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

Sunstone Hotel Investors, Inc.

Date: May 5, 2021

By: /s/ Bryan A. Giglia
Bryan A. Giglia
(Chief Financial Officer and Duly Authorized Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 2, 2021 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and Christopher Ostapovicz (the “**Executive**”).

WHEREAS, the Company desires to employ the Executive and to enter into an agreement embodying the terms of such employment; and

WHEREAS, the Executive desires to accept employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 8, 2021 and ending on March 31, 2022 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as Senior Vice President and Chief Operating Officer of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Chief Executive Officer of the Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time; provided, however, service on a corporate board shall require the prior written approval of the Chief Executive Officer and Nominating and Corporate Governance Committee, or (B) manage his personal investments, so long as such activities do not materially

interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$375,000 per annum, which amount reflects the Executive's 2021 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"). The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 60% of Base Salary; (2) target equal to 102.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 145% of Base Salary; provided, however, that (a) so long as the Executive is employed by the Company as of the date on which 2021 annual bonuses are paid to senior executives, the Executive shall receive a minimum Annual Bonus for calendar year 2021 of \$384,375 (which, for the avoidance of doubt, shall not be pro-rated based on time served in calendar year 2021) and (b) except for fiscal year 2021, no minimum bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 150% of Base Salary; (2) target equal to 212.5% of Base Salary; and (3) high (maximum) equal to 275% of Base Salary; provided, however, that (a) the Executive shall receive a minimum equity award for calendar year 2021 (granted in calendar year 2022) of \$796,875 (which, for the avoidance of doubt, shall not be pro-rated based on time served in calendar year 2021) and (b) except for fiscal year 2021, no minimum equity award is guaranteed and any award may equal zero in any given year.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than three weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

(ix) Signing Equity Award. In addition, as soon as practicable following the Effective Date, the Company shall grant the Executive a restricted stock award with a dollar-denominated value of \$500,000 (the "**Signing Award**"). The number of shares of the Company's common stock subject to the Signing Award will be determined by dividing the dollar-denominated value by the trailing 20 market day average closing price of the Company's common stock through and including the day prior to the Effective Date. The Signing Award shall vest as to one-third of the shares subject to the award on February 15, 2022, one-third on February 15, 2023, and one-third on February 15, 2024, subject to the Executive's continued employment through the applicable vesting date. The Signing Award shall be granted under the Company's 2004 Long-Term Incentive Plan (as amended and restated) (the "**Plan**") and the terms and conditions of the Signing Award shall be set forth in a separate award agreement in a form to be entered into by and between the Company and the Executive. Except as otherwise specifically provided in this Agreement, the Signing Award shall be governed in all respects by the terms of and conditions of the Plan and the award agreement but shall not conflict with the terms of this Agreement.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the

Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a "**Notice of Termination**" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "**Date of Termination**" means (i) if the Executive's employment is terminated by the Company other than due to the Executive's death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive's employment is terminated by the Executive other than due to the Executive's death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive's employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive's earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the "**Accrued Obligations**").

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the “**Severance Amount**”) equal to the sum of:

- (1) 1.5 times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,
- (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination, to the extent not previously paid (if any), and
- (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company’s equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive’s Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the “**Vesting Acceleration**”). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive’s Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive’s valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the “**Code**”), the Company shall continue to provide, at the Company’s expense, the Executive and the Executive’s eligible dependents with coverage under its group health plans at the same levels as would have applied if the Executive’s employment had not been

terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependents with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement, “**Change in Control**” shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any “person” or “group” (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 (“**Exchange Act**”) and the rules thereunder) having “beneficial ownership” (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors (“**voting securities**”) of Sunstone that represent greater than 50% of the combined voting power of Sunstone’s then outstanding voting securities (unless the Executive has beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

- (d) The approval by Sunstone's stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone's stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone's stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such payment if such transaction also constitutes a "change in control event" (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive's employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the "Total Payments") would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the "Excise Tax") then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the "Independent Advisors") selected by the Company, does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4) (A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the "base amount" (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive's termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents, subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive agree to execute, prior to or on the Effective Date, the Indemnification Agreement attached hereto as Exhibit B (the "**Indemnification Agreement**"). The Executive hereby acknowledges that the Executive shall enter into an arrangement with the Company containing confidentiality and other protective covenants (the "**Confidentiality Policy**") and that the Executive shall be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive's employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association's ("**AAA**") National Rules for the Resolution of Employment Disputes (located at: <https://www.adr.org/sites/default/files/Employment%20Rules.pdf>), as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator's fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and

Housing Act, the California Labor Code, and any other statutes or laws relating to an employee's relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers' compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder (“**Section 409A**”) or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is "at-will" for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ Christopher G. Ostapovicz
Christopher Ostapovicz

By /s/ John V. Arabia
Name: John Arabia
Its President and CEO

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: /s/ John V. Arabia
Name: John Arabia
Its President and CEO

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Employment Agreement, dated as of March 2, 2021, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation of other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

[●]

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B
INDEMNIFICATION AGREEMENT

(attached)

FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 31, 2020 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and John Arabia (the “**Executive**”).

WHEREAS, the Company and the Executive are parties to that certain Third Amended and Restated Employment Agreement, dated November 1, 2019 (the “**Prior Agreement**”);

WHEREAS, the Company and the Executive desire to terminate the Prior Agreement;

WHEREAS, the Company desires to enter into a new agreement embodying the terms of Executive’s continued employment with the Company; and

WHEREAS, the Executive desires to continue employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 31, 2020 and ending on March 31, 2021 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as President and Chief Executive Officer of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Board of Directors of the Company (the “**Board**”).

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time, or (B) manage his personal investments, so long as such activities do

not materially interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$826,200 per annum, which amount reflects the Executive's 2020 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board. The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 75% of Base Salary; (2) target equal to 162.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 250% of Base Salary; provided, however, no minimum Annual Bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 175% of Base Salary; (2) target equal to 325% of Base Salary; and (3) high (maximum) equal to 450% of Base Salary; provided, however, no minimum equity award is guaranteed and any award may equal zero in any given year. The Executive acknowledges and agrees that the "single trigger" accelerated vesting provision contained in this Section 2(b)(iii) of the Prior Agreement was superseded by this Agreement, such that such accelerated vesting provision shall not apply, including with respect to any Company equity awards outstanding as of the Effective Date.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and

programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than four weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a "**Notice of Termination**" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's

employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. “**Date of Termination**” means (i) if the Executive's employment is terminated by the Company other than due to the Executive's death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive's employment is terminated by the Executive other than due to the Executive's death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive's employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive's earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the “**Accrued Obligations**”).

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the “**Severance Amount**”) equal to the sum of:

- (1) Three times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,
 - (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination, to the extent not previously paid (if any), and
 - (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by
-

multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive's Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the "**Vesting Acceleration**"). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive's Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the "**Code**"), the Company shall continue to provide, at the Company's expense, the Executive and the Executive's eligible dependants with coverage under its group health plans at the same levels as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependants with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the

Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement. "**Change in Control**" shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any "person" or "group" (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**") and the rules thereunder) having "beneficial ownership" (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors ("**voting securities**") of Sunstone that represent greater than 50% of the combined voting power of Sunstone's then outstanding voting securities (unless the Executive has beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

(d) The approval by Sunstone’s stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone’s stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone’s stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such payment if such transaction also constitutes a “change in control event” (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive's employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the "Total Payments") would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the "Excise Tax") then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the "Independent Advisors") selected by the Company, does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the "base amount" (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive's termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents, subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive previously executed the Indemnification Agreement attached hereto as Exhibit B (the “**Indemnification Agreement**”). The Executive hereby acknowledges that the Executive previously has entered into an arrangement with the Company containing confidentiality and other protective covenants (the “**Confidentiality Policy**”) and that the Executive shall continue to be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive’s employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association’s (“AAA”) National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator’s fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and any other statutes or laws relating to an employee’s relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers’ compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that

constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive’s or the Company’s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is “at-will” for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company, including, without limitation, the Prior Agreement.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ John V. Arabia
John Arabia

By /s/ Bryan A. Giglia
Name: Bryan A. Giglia
Its Executive Vice President – Chief
Financial Officer

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: /s/ Bryan A. Giglia
Name: Bryan A. Giglia
Its Executive Vice President
– Chief Financial Officer

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Fourth Amended and Restated Employment Agreement, dated as of March 31, 2020, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation of other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

John Arabia

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B

INDEMNIFICATION AGREEMENT

(attached)

THIRD AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS THIRD AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 31, 2020 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and Bryan A. Giglia (the “**Executive**”).

WHEREAS, the Company and the Executive are parties to that certain Second Amended and Restated Employment Agreement, dated November 1, 2019 (the “**Prior Agreement**”);

WHEREAS, the Company and the Executive desire to terminate the Prior Agreement;

WHEREAS, the Company desires to enter into a new agreement embodying the terms of Executive’s continued employment with the Company; and

WHEREAS, the Executive desires to continue employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 31, 2020 and ending on March 31, 2021 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as Executive Vice President – Chief Financial Officer of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Chief Executive Officer of the Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time; provided, however, service on a corporate board shall require the prior

written approval of the Chief Executive Officer and Nominating and Corporate Governance Committee, or (B) manage his personal investments, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$520,200 per annum, which amount reflects the Executive's 2020 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"). The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 62.5% of Base Salary; (2) target equal to 112.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 162.5% of Base Salary; provided, however, no minimum Annual Bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 162.5% of Base Salary; (2) target equal to 237.5% of Base Salary; and (3) high (maximum) equal to 312.5% of Base Salary; provided, however, no minimum equity award is guaranteed and any award may equal zero in any given year. The Executive acknowledges and agrees that the "single trigger" accelerated vesting provision contained in this Section 2(b)(iii) of the Prior Agreement was superseded by this Agreement, such that such accelerated vesting provision shall not apply, including with respect to any Company equity awards outstanding as of the Effective Date.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than four weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a “**Notice of Termination**” means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) Date of Termination. “**Date of Termination**” means (i) if the Executive’s employment is terminated by the Company other than due to the Executive’s death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive’s employment is terminated by the Executive other than due to the Executive’s death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive’s employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive’s employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive’s earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the “**Accrued Obligations**”).

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the “**Severance Amount**”) equal to the sum of:

- (1) Two times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,
 - (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that
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ends on or before the Date of Termination, to the extent not previously paid (if any), and

- (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive's Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the "**Vesting Acceleration**"). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive's Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the "**Code**"), the Company shall continue to provide, at the Company's expense, the Executive and the Executive's eligible dependants with coverage under its group health plans at the same levels as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependants with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the

Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement. "**Change in Control**" shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any "person" or "group" (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**") and the rules thereunder) having "beneficial ownership" (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors ("**voting securities**") of Sunstone that represent greater than 50% of the combined voting power of Sunstone's then outstanding voting securities (unless the Executive has beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

(d) The approval by Sunstone’s stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone’s stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone’s stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing

of such payment if such transaction also constitutes a “change in control event” (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive’s employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the “Total Payments”) would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the “Excise Tax”) then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the “Independent Advisors”) selected by the Company, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive’s termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents,

subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive previously executed the Indemnification Agreement attached hereto as Exhibit B (the “**Indemnification Agreement**”). The Executive hereby acknowledges that the Executive previously has entered into an arrangement with the Company containing confidentiality and other protective covenants (the “**Confidentiality Policy**”) and that the Executive shall continue to be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive’s employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association’s (“AAA”) National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator’s fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and any other statutes or laws relating to an employee’s relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers’ compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE

UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement

of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive’s or the Company’s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is “at-will” for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and

replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company, including, without limitation, the Prior Agreement.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ Bryan A. Giglia
Bryan A. Giglia

By /s/ John V. Arabia
Name: John Arabia
Its President and CEO

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: /s/ John V. Arabia
Name: John Arabia
Its President and CEO

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Third Amended and Restated Employment Agreement, dated as of March 31, 2020, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation of other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

Bryan A. Giglia

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B

INDEMNIFICATION AGREEMENT

(attached)

FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 31, 2020 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and Marc A. Hoffman (the “**Executive**”).

WHEREAS, the Company and the Executive are parties to that certain Third Amended and Restated Employment Agreement, dated November 1, 2019 (the “**Prior Agreement**”);

WHEREAS, the Company and the Executive desire to terminate the Prior Agreement;

WHEREAS, the Company desires to enter into a new agreement embodying the terms of Executive’s continued employment with the Company; and

WHEREAS, the Executive desires to continue employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 31, 2020 and ending on March 31, 2021 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as Executive Vice President – Chief Operating Officer of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Chief Executive Officer of the Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time; provided, however, service on a corporate board shall require the prior

written approval of the Chief Executive Officer and Nominating and Corporate Governance Committee, or (B) manage his personal investments, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$554,370 per annum, which amount reflects the Executive's 2020 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"). The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 62.5% of Base Salary; (2) target equal to 112.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 162.5% of Base Salary; provided, however, no minimum Annual Bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 162.5% of Base Salary; (2) target equal to 237.5% of Base Salary; and (3) high (maximum) equal to 312.5% of Base Salary; provided, however, no minimum equity award is guaranteed and any award may equal zero in any given year. The Executive acknowledges and agrees that the "single trigger" accelerated vesting provision contained in this Section 2(b)(iii) of the Prior Agreement was superseded by this Agreement, such that such accelerated vesting provision shall not apply, including with respect to any Company equity awards outstanding as of the Effective Date.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than four weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a “**Notice of Termination**” means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) Date of Termination. “**Date of Termination**” means (i) if the Executive’s employment is terminated by the Company other than due to the Executive’s death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive’s employment is terminated by the Executive other than due to the Executive’s death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive’s employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive’s employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive’s earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the “**Accrued Obligations**”).

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the “**Severance Amount**”) equal to the sum of:

- (1) Two times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,
 - (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that
-

ends on or before the Date of Termination, to the extent not previously paid (if any), and

- (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive's Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the "**Vesting Acceleration**"). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive's Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the "**Code**"), the Company shall continue to provide, at the Company's expense, the Executive and the Executive's eligible dependants with coverage under its group health plans at the same levels as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependants with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the

Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement, "**Change in Control**" shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any "person" or "group" (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**") and the rules thereunder) having "beneficial ownership" (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors ("**voting securities**") of Sunstone that represent greater than 50% of the combined voting power of Sunstone's then outstanding voting securities (unless the Executive has beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

(d) The approval by Sunstone’s stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone’s stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone’s stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing

of such payment if such transaction also constitutes a “change in control event” (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive’s employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the “Total Payments”) would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the “Excise Tax”) then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the “Independent Advisors”) selected by the Company, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive’s termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents,

subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive previously executed the Indemnification Agreement attached hereto as Exhibit B (the “**Indemnification Agreement**”). The Executive hereby acknowledges that the Executive previously has entered into an arrangement with the Company containing confidentiality and other protective covenants (the “**Confidentiality Policy**”) and that the Executive shall continue to be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive’s employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association’s (“AAA”) National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator’s fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and any other statutes or laws relating to an employee’s relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers’ compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE

UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement

of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive’s or the Company’s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is “at-will” for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and

replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company, including, without limitation, the Prior Agreement.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ Marc A. Hoffman
Marc A. Hoffman

By /s/ John V. Arabia
Name: John Arabia
Its President and CEO

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: s/ John V. Arabia
Name: John Arabia
Its President and CEO

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Fourth Amended and Restated Employment Agreement, dated as of March 31, 2020, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation or other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

Marc A. Hoffman

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B

INDEMNIFICATION AGREEMENT

(attached)

THIRD AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS THIRD AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 31, 2020 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and Robert C. Springer (the “**Executive**”).

WHEREAS, the Company and the Executive are parties to that certain Second Employment Agreement, dated November 1, 2019 (the “**Prior Agreement**”);

WHEREAS, the Company and the Executive desire to terminate the Prior Agreement;

WHEREAS, the Company desires to enter into a new agreement embodying the terms of Executive’s continued employment with the Company; and

WHEREAS, the Executive desires to continue employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 31, 2020 and ending on March 31, 2021 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as Executive Vice President – Chief Investment Officer of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Chief Executive Officer of the Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time; provided, however, service on a corporate board shall require the prior

written approval of the Chief Executive Officer and Nominating and Corporate Governance Committee, or (B) manage his personal investments, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$441,600 per annum, which amount reflects the Executive's 2020 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"). The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 62.5% of Base Salary; (2) target equal to 112.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 162.5% of Base Salary; provided, however, no minimum Annual Bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 162.5% of Base Salary; (2) target equal to 237.5% of Base Salary; and (3) high (maximum) equal to 312.5% of Base Salary; provided, however, no minimum equity award is guaranteed and any award may equal zero in any given year. The Executive acknowledges and agrees that the "single trigger" accelerated vesting provision contained in this Section 2(b)(iii) of the Prior Agreement was superseded by this Agreement, such that such accelerated vesting provision shall not apply, including with respect to any Company equity awards outstanding as of the Effective Date.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than four weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a “**Notice of Termination**” means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) Date of Termination. “**Date of Termination**” means (i) if the Executive’s employment is terminated by the Company other than due to the Executive’s death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive’s employment is terminated by the Executive other than due to the Executive’s death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive’s employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive’s employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive’s earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the “**Accrued Obligations**”).

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the “**Severance Amount**”) equal to the sum of:

- (1) Two times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,
 - (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that
-

ends on or before the Date of Termination, to the extent not previously paid (if any), and

- (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive's Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the "**Vesting Acceleration**"). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive's Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the "**Code**"), the Company shall continue to provide, at the Company's expense, the Executive and the Executive's eligible dependants with coverage under its group health plans at the same levels as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependants with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the

Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement, "**Change in Control**" shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any "person" or "group" (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**") and the rules thereunder) having "beneficial ownership" (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors ("**voting securities**") of Sunstone that represent greater than 50% of the combined voting power of Sunstone's then outstanding voting securities (unless the Executive has beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

(d) The approval by Sunstone’s stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone’s stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone’s stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing

of such payment if such transaction also constitutes a “change in control event” (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive’s employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the “Total Payments”) would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the “Excise Tax”) then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the “Independent Advisors”) selected by the Company, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive’s termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents,

subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive previously executed the Indemnification Agreement attached hereto as Exhibit B (the “**Indemnification Agreement**”). The Executive hereby acknowledges that the Executive previously has entered into an arrangement with the Company containing confidentiality and other protective covenants (the “**Confidentiality Policy**”) and that the Executive shall continue to be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive’s employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association’s (“AAA”) National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator’s fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and any other statutes or laws relating to an employee’s relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers’ compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE

UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement

of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive’s or the Company’s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is “at-will” for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and

replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company, including, without limitation, the Prior Agreement.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ Robert C. Springer
Robert C. Springer

By /s/ John V. Arabia
Name: John Arabia
Its President and CEO

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: /s/ John V. Arabia
Name: John Arabia
Its President and CEO

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Third Amended and Restated Employment Agreement, dated as of March 31, 2020, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation of other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

Robert C. Springer

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B

INDEMNIFICATION AGREEMENT

(attached)

FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FOURTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Agreement**”), dated as of March 31, 2021 (the “**Effective Date**”), is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”), Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), and David M. Klein (the “**Executive**”).

WHEREAS, the Company and the Executive are parties to that certain Third Amended and Restated Employment Agreement, dated March 31, 2020 (the “**Prior Agreement**”);

WHEREAS, the Company and the Executive desire to terminate the Prior Agreement;

WHEREAS, the Company desires to enter into a new agreement embodying the terms of Executive’s continued employment with the Company; and

WHEREAS, the Executive desires to continue employment with the Company, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Subject to the provisions for earlier termination hereinafter provided, the Executive’s employment hereunder shall be for a term (the “**Employment Period**”) commencing on March 31, 2021 and ending on March 31, 2022 (the “**Initial End Date**”); provided, however, that the Employment Period shall automatically renew for successive one-year periods on each anniversary of the Initial End Date (such extension, the “**Renewal Period**”), unless either party provides the other party with written notice in accordance with Section 12(c) below of intent not to renew the Employment Period on terms and conditions at least as favorable as the terms and conditions herein (a “**Non-Renewal**”) at least 30 days prior to the end of the then-current Employment Period. For the avoidance of doubt, and subject to Sections 4(c) and 4(d) below, the expiration of the Employment Period, and/or the termination of the Executive’s employment in connection with such expiration, shall not constitute a termination of employment by the Company without Cause or by the Executive for Good Reason (each as defined below).

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, the Executive shall serve as Executive Vice President – General Counsel of Sunstone and the Operating Partnership and shall perform such employment duties as are usual and customary for such positions and such other duties as the Company shall from time to time reasonably assign to the Executive. The Executive shall report directly to the Chief Executive Officer of the Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his business time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. Notwithstanding the foregoing, during the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees consistent with the Company’s conflicts of interests policies and corporate governance guidelines in effect from time to time; provided, however, service on a corporate board shall require the prior

written approval of the Chief Executive Officer and Nominating and Corporate Governance Committee, or (B) manage his personal investments, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an executive officer of the Company.

(iii) The Executive agrees that he will not take personal advantage of any business opportunity that arises during his employment by the Company and which may be of benefit to the Company; provided, however, that the Executive may take advantage of any such opportunities to the extent the Executive satisfies all conditions precedent to doing so, as required by the Company's Code of Business Conduct and Ethics.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive a base salary (the "**Base Salary**") of \$361,080 per annum, which amount reflects the Executive's 2021 Base Salary and may be increased by the Compensation Committee, as provided below. The Base Salary shall be paid in installments at such intervals as the Company pays executive salaries generally, but not less often than monthly. During the Employment Period, the Base Salary shall be reviewed at least annually for possible increase in the Company's sole discretion, as determined by the compensation committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"). The term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so adjusted. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) Annual Bonus. In addition to the Base Salary, the Executive shall be eligible to earn, for each calendar year ending during the Employment Period, an annual cash performance bonus (an "**Annual Bonus**") under the Company's bonus plan or plans applicable to senior executives. The amount of any Annual Bonus and the performance goals applicable to such Annual Bonus for the relevant year shall be determined by the Compensation Committee in accordance with the terms and conditions of said bonus plan as in effect from time to time with the following targets: (1) threshold equal to 60% of Base Salary; (2) target equal to 102.5% of Base Salary (the "**Target Annual Bonus**"); and (3) high (maximum) equal to 145% of Base Salary; provided, however, no minimum Annual Bonus is guaranteed and any Annual Bonus may equal zero in any given year. The Annual Bonus payable, if any, in respect of any calendar year performance period shall be paid no later than the March 15 immediately following such calendar year performance period.

(iii) Equity Awards. During the Employment Period, the Executive shall be eligible to earn equity awards under the Company's long-term incentive plan, subject to vesting and other conditions determined by the Compensation Committee, in its sole discretion. The form, amount and terms of equity awards, if any, shall be determined by the Compensation Committee in accordance with the terms and conditions of plans as in effect from time to time with the following targets (based on the achievement of applicable Company and/or individual performance goals, as determined by the Compensation Committee in its sole discretion): (1) threshold equal to 150% of Base Salary; (2) target equal to 212.5% of Base Salary; and (3) high (maximum) equal to 275% of Base Salary; provided, however, no minimum equity award is guaranteed and any award may equal zero in any given year. The Executive acknowledges and agrees that the "single trigger" accelerated vesting provision contained in this Section 2(b)(iii) of that certain Second Amended and Restated Employment Agreement by and between the Company and Executive, dated November 1, 2019, was superseded by the Prior Agreement, such that such accelerated vesting

provision shall not apply, including with respect to any Company equity awards outstanding as of March 31, 2020.

(iv) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be eligible to participate in all other incentive plans, practices, policies and programs, and all savings and retirement plans, policies and programs, in each case that are applicable generally to senior executives of the Company.

(v) Welfare Benefit Plans. During the Employment Period, the Executive and the Executive's eligible family members shall be eligible to participate in the welfare benefit plans, practices, policies and programs (including, if applicable, medical, dental, vision, disability, employee life, group life and accidental death insurance plans and programs) maintained by the Company for its senior executives.

(vi) Business Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company provided to senior executives of the Company.

(vii) Fringe Benefits. During the Employment Period, the Executive shall be entitled to such fringe benefits and perquisites as are provided by the Company to its senior executives from time to time, in accordance with the policies, practices and procedures of the Company.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to its senior executives, but in no event shall the Executive accrue less than four weeks of vacation per calendar year (pro-rated for any partial year of service); provided, however, that the Executive shall not accrue any vacation time in excess of 1.5 times the Executive's applicable annual vacation accrual (the "**Accrual Limit**"), and shall cease accruing vacation time if the Executive's accrued vacation reaches the Accrual Limit until such time as the Executive's accrued vacation time drops below the Accrual Limit.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate upon the Executive's death or Disability during the Employment Period. For purposes of this Agreement, "**Disability**" means the Executive's inability by reason of permanent physical or mental illness to fulfill his obligations hereunder for 120 consecutive days or on a total of 180 days in any 12 month period which, in the reasonable opinion of an independent physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative, renders the Executive unable to perform the essential functions of his job, even after reasonable accommodations are made by the Company. The Company is not, however, required to make unreasonable accommodations for the Executive or accommodations that would create an undue hardship on the Company. For purposes of clarity, this provision is not intended to, and does not, alter or affect any and all rights the Executive has to avail himself of leaves of absence in accordance with Company policies applicable to senior executives or his rights under applicable disability and leave of absences laws, including, without limitation, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and the California Family Rights Act.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following events:

(i) The Executive's continued and willful failure to perform or gross negligence in performing his duties owed to the Company, which is not cured within 15 days following a written notice being delivered to the Executive, which notice specifies such failure or negligence;

(ii) The Executive's willful commission of an act of fraud or material dishonesty in the performance of his duties, the nature of which, and the support for which, shall be provided to the Executive in writing;

(iii) The indictment of the Executive, conviction of the Executive, or entry by the Executive of a guilty or no contest plea to any felony or any other felony or misdemeanor involving moral turpitude;

(iv) Any material breach by the Executive of his fiduciary duty or duty of loyalty to the Company; or

(v) The Executive's material breach of any of the provisions of this Agreement, or any other written agreement between the Executive and the Company, which is not cured within 15 days following written notice thereof from the Company.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason or by the Executive without Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any one or more of the following events without the Executive's prior written consent:

(i) A material reduction in the Executive's title, duties, authority, responsibilities, reporting relationships, including, without limitation, the Company ceasing to be a public company or ceasing to be traded on the New York Stock Exchange (or similar exchange) following a Change in Control, or the assignment to the Executive of any duties materially inconsistent with the Executive's position, title, authority, duties or responsibilities;

(ii) During the Employment Period, a reduction by the Company of the Executive's annual Base Salary (as in effect or as may be increased from time to time) by greater than three percent (3%);

(iii) In connection with a renewal of this Agreement at the end of the Employment Period, a reduction of the Executive's annual Base Salary by greater than three percent (3%) of the Executive's annual Base Salary in effect on the last day of the prior fiscal year;

(iv) The relocation of the Company's headquarters to a location more than 35 miles from the Company's current headquarters in Irvine, California; and

(v) The Company's material breach of its obligations under this Agreement.

For purposes of this Agreement, a termination of employment by the Executive shall not be deemed to be for Good Reason unless (A) the Executive gives the Company written notice describing the event or events which are the basis for such termination within 90 days after the event or events occur, (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 30 days after

the Company's receipt of such notice, and (C) the Executive terminates his employment no later than 45 days after the Executive provides notice to the Company in accordance with clause (A) of this paragraph.

(d) Notice of Termination. Any termination other than due to death shall be communicated by Notice of Termination to the other parties hereto given in accordance with Section 12(c) below. For purposes of this Agreement, a "**Notice of Termination**" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice or, in the case of a termination by the Executive for Good Reason more than 45 days after the date on which the Executive provides written notice in accordance with Section 3(c) above). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "**Date of Termination**" means (i) if the Executive's employment is terminated by the Company other than due to the Executive's death or Disability, the date of receipt of the Notice of Termination or any later date specified therein (which date shall not be more than 30 days after the giving of such notice), as the case may be, (ii) if the Executive's employment is terminated by the Executive other than due to the Executive's death or Disability, the Date of Termination shall be the 30th day after the date on which the Executive notifies the Company of such termination (or, in the case of a termination by the Executive for Good Reason on the 45th day after the date on which the Executive provides written notice in accordance with Section 3(c) above), unless otherwise agreed by the Company and the Executive, and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date the death or Disability of the Executive is determined as described in Section 3(a) above, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Without Cause or for Good Reason. If, during the Employment Period, the Company shall terminate the Executive's employment without Cause or the Executive shall terminate his employment for Good Reason:

(i) The Executive shall be paid the Executive's earned but unpaid Base Salary, accrued but unpaid vacation pay through the Date of Termination, any vested amounts due to the Executive under any plan, program or policy of the Company, to the extent not previously paid (if any) (together, the "**Accrued Obligations**").

(ii) In addition, the Executive shall be paid or shall receive:

(A) An amount (the "**Severance Amount**") equal to the sum of:

(1) Two times the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the greater of (x) the Target Annual Bonus and (y) the actual Annual Bonus paid to the Executive in respect of the last full calendar year immediately preceding the Date of Termination,

- (2) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination, to the extent not previously paid (if any), and
- (3) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Target Annual Bonus (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365;

(B) The portion of any then-outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) which would have become vested and, as applicable, exercisable during the 12 month period immediately following the Executive's Date of Termination had the Executive remained continuously employed by the Company during such period shall become immediately vested and, as applicable, exercisable; provided, however, that if the termination occurs on or within 12 months following a Change in Control, then any such equity awards shall vest and become exercisable in full (the "**Vesting Acceleration**"). The accelerated portion of such equity awards shall remain outstanding and eligible to vest following the Date of Termination and shall actually vest and become exercisable (if applicable) and non-forfeitable upon the effectiveness of the Release (as defined below). The portion of any outstanding restricted stock and other equity awards that does not become vested and, as applicable, exercisable in accordance with this Section 4(a)(ii)(B) (whether because such portion would not have vested during the 12 month period immediately following the Executive's Date of Termination or because the Executive does not timely execute and not revoke the Release) shall automatically be cancelled and forfeited, and the Executive shall have no further interest therein.

(C) During the period commencing on the Date of Termination and ending on the earlier to occur of (i) the 18 month anniversary of the Date of Termination and (ii) the date on which the Executive becomes eligible for coverage under the group health plan of a subsequent employer (of which eligibility the Executive hereby agrees to give prompt notice to the Company), subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Internal Revenue Code and the regulations thereunder (together, the "**Code**"), the Company shall continue to provide, at the Company's expense, the Executive and the Executive's eligible dependants with coverage under its group health plans at the same levels as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination (the "**COBRA Coverage**"), provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal

monthly installments over the continuation coverage period (or the remaining portion thereof).

The Accrued Obligations shall be paid when due under applicable law and, subject to Section 12(e) below, the Severance Amount shall be paid on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(iii) Notwithstanding anything herein to the contrary, it shall be a condition to the Executive's right to receive any of the Severance Amount, the Vesting Acceleration and/or the COBRA Coverage that the Executive timely execute and deliver to the Company within 21 days (or 45 days, if required by applicable law) and not revoke a release of claims (if any revocation period is required by applicable law) in substantially the form attached hereto as Exhibit A (the "**Release**").

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period:

(i) The Accrued Obligations shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(ii) In addition to, and irrespective of, the amount earned during the applicable calendar year, 100% of the Executive's annual Base Salary, as in effect on the Date of Termination, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iii) A pro rata portion of the Annual Bonus for the partial fiscal year in which the Date of Termination occurs, determined by multiplying the Executive's Target Annual Bonus under the applicable Company bonus program (or such higher amount in the sole discretion of the Compensation Committee) by a fraction, the numerator of which is the number of days elapsed in the calendar year during which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, within 30 days after the Date of Termination;

(iv) Any Annual Bonus required to be paid to the Executive pursuant to Section 2(b)(ii) above for any fiscal year of the Company that ends on or before the Date of Termination shall be paid to the Executive's estate or beneficiaries or to the Executive, as applicable, to the extent not previously paid (if any), within 30 days after the Date of Termination;

(v) All outstanding restricted stock and other equity awards granted to the Executive under any of the Company's equity incentive plans (or awards substituted therefor covering the securities of a successor company) that vest based solely on the passage of time and Executive's continued employment or service with the Company shall immediately become vested in full; and

(vi) During the 18 month period following the Date of Termination, subject to the Executive's valid election to continue healthcare coverage under Section 4980B of the Code, the Company shall continue to provide the Executive and the Executive's eligible dependants with COBRA Coverage, provided, however, that (x) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (y) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the

Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to 150% of each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof).

(c) Company Non-Renewal On or Following a Change in Control. If, on or within 12 months following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to all of the payments and benefits set forth in Section 4(a)(ii) above (including full accelerated vesting of any then-outstanding Company equity awards).

(d) Company Non-Renewal Other than On or Following a Change in Control. If, other than on or during the 12 month period following a Change in Control, the Executive's employment is terminated (by the Company or by the Executive) by reason of a Non-Renewal of the Employment Period by the Company and the Executive is willing and able, at the time of such Non-Renewal, to continue performing services on terms and conditions at least as favorable as the terms and conditions set forth herein during the Renewal Period:

(i) The Accrued Obligations shall be paid to the Executive when due under applicable law; and

(ii) Subject to Section 12(e) below and the Executive's timely execution and non-revocation of a Release in accordance with Section 4(a) above, the Executive shall be entitled to an amount equal to 50% of the sum of (i) the Base Salary in effect on the Date of Termination (but in no event less than the highest Base Salary paid to the Executive during the Employment Period) and (ii) the Target Annual Bonus, payable on the 60th day after the Date of Termination (or, if not a business day, on the first business day following such 60th day).

(e) Other Terminations. If the Executive's employment with the Company terminates by the Company for Cause or by the Executive without Good Reason (other than by reason of a Non-Renewal of the Employment Period as described in Section 4(c) or Section 4(d) above), the Company shall pay to the Executive the Accrued Obligations when due under applicable law and shall have no further obligations to the Executive under this Agreement.

5. Change in Control. For purposes of this Agreement, "**Change in Control**" shall mean the occurrence of any of the following events:

(a) Any transaction or event resulting in the beneficial ownership of voting securities, directly or indirectly, by any "person" or "group" (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**") and the rules thereunder) having "beneficial ownership" (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors ("**voting securities**") of Sunstone that represent greater than 50% of the combined voting power of Sunstone's then outstanding voting securities (unless the Executive has

beneficial ownership of at least 50% of such voting securities), other than any transaction or event resulting in the beneficial ownership of securities:

(i) By a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone or by any employee benefit plan (or related trust) sponsored or maintained by Sunstone or any person controlled by Sunstone, or

(ii) By Sunstone or a corporation owned, directly or indirectly, by the stockholders of Sunstone in substantially the same proportions as their ownership of the stock of Sunstone, or

(iii) Pursuant to a transaction described in clause (c) below that would not be a Change in Control under clause (c);

(b) Individuals who, as of the Effective Date, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election by Sunstone’s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) The consummation by Sunstone (whether directly involving Sunstone or indirectly involving Sunstone through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of Sunstone’s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction:

(i) which results in Sunstone’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Sunstone or the person that, as a result of the transaction, controls, directly or indirectly, Sunstone or owns, directly or indirectly, all or substantially all of Sunstone’s assets or otherwise succeeds to the business of Sunstone (Sunstone or such person, the “**Successor Entity**”)) directly or indirectly, greater than 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group beneficially owns voting securities representing greater than 50% of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (ii) as beneficially owning greater than 50% of the combined voting power of the Successor Entity solely as a result of the voting power held in Sunstone prior to the consummation of the transaction; or

(d) The approval by Sunstone’s stockholders of a liquidation or dissolution of Sunstone.

For purposes of clause (a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of Sunstone’s stockholders, and for purposes of clause (c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of Sunstone’s stockholders.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment (or any portion of an payment) that provides for the deferral of compensation that is subject to

Section 409A (as defined below), to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such payment if such transaction also constitutes a “change in control event” (within the meaning of Section 409A).

6. Excess Parachute Payments, Limitation on Payments.

(a) Best Pay Cap. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by the Executive (including any payment or benefit received in connection with a termination of the Executive’s employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 4 hereof, being hereinafter referred to as the “Total Payments”) would be subject (in whole or part) to the excise tax imposed under Section 4999 of the Code (the “Excise Tax”) then, if elected by the Executive, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, any cash payments shall first be reduced, and any noncash payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account; (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the “Independent Advisors”) selected by the Company, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of the Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

7. Restrictive Covenants.

(a) While employed by the Company (whether pursuant to this Agreement or otherwise) and for a period of 12 months following the Executive’s termination of employment for any reason, the Executive shall not directly or indirectly solicit, induce, or encourage any employee or consultant of any member of the Company and its parents, subsidiaries and affiliates to terminate their employment or other relationship with the Company and its parents, subsidiaries and affiliates or to cease to render services to any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(b) During his employment with the Company (whether pursuant to this Agreement or otherwise) and thereafter, the Executive shall not use any trade secret of the Company or its parents, subsidiaries or affiliates to solicit, induce, or encourage any customer, client, vendor, or other party doing business with any member of the Company and its parents, subsidiaries and affiliates to terminate its relationship therewith or transfer its business from any member of the Company and its parents, subsidiaries and affiliates and the Executive shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Executive agrees not to disparage the Company, and the Executive agrees not to disparage any parent, subsidiary or affiliate of the Company and/or any officers, directors, employees, shareholders and/or agents of the Company or any parent, subsidiary or affiliate of the Company, in any manner intended or reasonably likely to be harmful to them, their business, business reputation or personal reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or from filing a charge with, reporting possible violations to, or participating or cooperating with the Securities and Exchange Commission or any other federal, state or local regulatory body or law enforcement agency, including in relation to any whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation.

(d) In recognition of the facts that irreparable injury will result to the Company in the event of a breach by the Executive of his obligations under Sections 7(a), (b) and (c) hereof, that monetary damages for such breach would not be readily calculable, and that the Company would not have an adequate remedy at law therefor, the Executive acknowledges, consents and agrees that in the event of such breach, or the threat thereof, the Company shall be entitled, in addition to any other legal remedies and damages available, to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by the Executive.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as expressly provided, such amounts shall not be reduced whether or not the Executive obtains other employment.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid

which assumes and agrees to perform this Agreement by operation of law, or otherwise, including without limitation, a Change in Control.

10. Payment of Financial Obligations. The payment or provision to the Executive by the Company of any remuneration, benefits or other financial obligations pursuant to this Agreement shall be allocated to the Operating Partnership, Sunstone, Sunstone Hotel TRS Lessee, Inc. and, if applicable, any of their respective subsidiaries and/or affiliates in accordance with any employee sharing and expense allocation agreement, by and between Sunstone and the Operating Partnership, as in effect from time to time.

11. Ancillary Agreements. The Company and the Executive previously executed the Indemnification Agreement attached hereto as Exhibit B (the “**Indemnification Agreement**”). The Executive hereby acknowledges that the Executive previously has entered into an arrangement with the Company containing confidentiality and other protective covenants (the “**Confidentiality Policy**”) and that the Executive shall continue to be bound by the terms and conditions of the Confidentiality Policy.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between the Executive and the Company (and or any of its owners, directors, officers, employees, affiliates, or agents) relating to or arising out of the Executive’s employment or the cessation of that employment will be submitted to final and binding arbitration in the county in which the Executive worked for determination by one arbitrator with hotel industry experience in accordance with the American Arbitration Association’s (“AAA”) National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery in accordance with the applicable rules of the arbitration forum, except that the arbitrator shall have the authority to order and permit discovery as the arbitrator may deem necessary and appropriate in accordance with applicable state or federal discovery statutes. The arbitrator shall issue a reasoned, written decision, and shall have full authority to award all remedies which would be available in court. The parties shall share the filing fees required for the arbitration, provided that the Executive shall not be required to pay an amount in excess of the lesser of the filing fees required by a federal or state court with jurisdiction. The Company shall pay the arbitrator’s fees and any AAA administrative expenses. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include (but are not limited to) unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including but not limited to, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, the California Labor Code, and any other statutes or laws relating to an employee’s relationship with his her employer, regardless of whether such dispute is initiated by the Executive or the Company. Thus, this bilateral arbitration agreement applies to any and all claims that the Company may have against the Executive, including but not limited to, claims for misappropriation of Company property, disclosure of proprietary information or trade secrets, interference with contract, trade libel, gross negligence, or any other claim for alleged wrongful conduct or breach of the duty of loyalty by the Executive. However, notwithstanding anything to the contrary contained herein, the Company and the Executive shall have their respective rights to seek and obtain injunctive relief with respect to any controversy, claim or dispute to the extent permitted by law. Claims for workers’ compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is

prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by either the Executive or the Company to the appropriate court or government agency. BY AGREEING TO THIS BINDING ARBITRATION PROVISION, BOTH THE EXECUTIVE AND THE COMPANY GIVE UP ALL RIGHTS TO TRIAL BY JURY. THE EXECUTIVE AND THE COMPANY WAIVE ANY CONSTITUTIONAL OR OTHER RIGHT TO BRING CLAIMS COVERED BY THIS AGREEMENT OTHER THAN IN THEIR INDIVIDUAL CAPACITIES. EXCEPT AS MAY BE PROHIBITED BY LAW, THIS WAIVER INCLUDES THE ABILITY TO ASSERT CLAIMS AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. This arbitration agreement is to be construed as broadly as is permissible under applicable law.

(c) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: at the Executive's most recent address on the records of the Company.

If to Sunstone or the Operating Partnership:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, California 92618
Attn: Corporate Secretary

with a copy to:

Latham & Watkins
355 South Grand Ave., Suite 100
Los Angeles, California 90071-1560
Attn: Steven Stokdyk, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any transfer or deemed transfer of funds hereunder is likely to be construed as a personal loan prohibited by Section 13(k) of the Exchange Act and the rules and regulations promulgated thereunder, then such transfer or deemed transfer shall not be made to the extent necessary or appropriate so as not to violate the Exchange Act and the rules and regulations promulgated thereunder.

(e) Section 409A.

(i) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A.

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided hereunder (including any right to a series of installment payments) shall be construed as a separate identified payment or a right to a series of separate payments for purposes of Section 409A.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (i) the expenses eligible

for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (ii) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “nonqualified deferred compensation” under Section 409A upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

(v) Notwithstanding anything to the contrary in this Agreement, no compensation or benefits payable in connection with a “separation from service” (within the meaning of Section 409A) shall be paid to the Executive during the six-month period following his “separation from service” to the extent that the Company determines that the Executive is a “specified employee” at the time of such “separation from service” and that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(b)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes, including as a result of the Executive’s death), the Company shall pay to the Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Executive during such six-month period, without interest thereon.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision or term hereof is deemed to have exceeded applicable legal authority or shall be in conflict with applicable legal limitations, such provision shall be reformed and rewritten as necessary to achieve consistency with such applicable law.

(g) Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) No Waiver. The Executive’s or the Company’s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) Employment-At-Will. The Executive acknowledges that his employment with the Company is “at-will” for all purposes and, subject to the termination and severance obligations contained in Sections 3 and 4 above, the Executive hereby agrees that the Company may dismiss him and terminate his employment with the Company at any time, with or without Cause. Inclusion under any benefit plan or compensation arrangement will not give the Executive any right or claim to any benefit hereunder except to the extent such right has become fixed under the express terms of this Agreement.

(j) Entire Agreement. As of the Effective Date, this Agreement, together with the Indemnification Agreement and the Confidentiality Agreement, constitutes the final, complete and exclusive agreement between the Executive and the Company with respect to the subject matter hereof and replaces and supersedes any and all other agreements, offers or promises, whether oral or written, made to the Executive by the Company, including, without limitation, the Prior Agreement.

(k) Survival. Section 4 (Obligations of the Company Upon Termination), Section 7 (Restrictive Covenants) and Section 12(b) (Arbitration), as well as the Indemnification Agreement and Confidentiality Policy, shall survive termination or expiration of this Agreement and shall continue in effect.

(l) Representations and Warranties. The Executive represents and warrants to the Company that (i) this Agreement is valid and binding upon and enforceable against him in accordance with its terms, (ii) the Executive is not bound by or subject to any contractual or other obligation that would be violated by his execution or performance of this Agreement, including, but not limited to, any non-competition agreement presently in effect, and (iii) the Executive is not subject to any pending or, to the Executive's knowledge, threatened claim, action, judgment, order, or investigation that could adversely affect his ability to perform his obligations under this Agreement or the business reputation of the Company. The Executive has not entered into, and agrees that he will not enter into, any agreement either written or oral in conflict herewith.

(m) Consultation with Counsel. The Executive acknowledges that he has had a full and complete opportunity to consult with counsel and other advisors of his own choosing concerning the terms, enforceability and implications of this Agreement, and that the Company has not made any representations or warranties to the Executive concerning the terms, enforceability or implications of this Agreement other than as reflected in this Agreement.

(n) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

[signatures follow on next page]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

SUNSTONE HOTEL INVESTORS, INC.
a Maryland corporation

/s/ David M. Klein
David M. Klein

By /s/ John V. Arabia
Name: John Arabia
Its President and CEO

SUNSTONE HOTEL PARTNERSHIP, LLC
a Maryland corporation

By **Sunstone Hotel Investors, Inc.**
Its Managing Member

By: /s/ John V. Arabia
Name: John Arabia
Its President and CEO

EXHIBIT A

GENERAL RELEASE

For a valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation, Sunstone Operating Partnership, LLC, a Delaware limited liability company and each of their partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment, any alleged torts or other alleged legal restrictions on Releasee’s right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, the Americans With Disabilities Act, and the California Fair Employment and Housing Act. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 4(a), 4(c) or 4(d) of that certain Fourth Amended and Restated Employment Agreement, dated as of March 31, 2021, between Sunstone Hotel Investors, Inc., Sunstone Operating Partnership, LLC and the undersigned (the “**Employment Agreement**”), whichever is applicable to the payments and benefits provided in exchange for this Release, (ii) with respect to Section 2(b)(vi) of the Employment Agreement, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (iv) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation of other similar governing document of the Company, (v) to any Claims which cannot be waived by an employee under applicable law or (vi) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

THE UNDERSIGNED ACKNOWLEDGES THAT HE HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

[IN ACCORDANCE WITH THE OLDER WORKERS BENEFIT PROTECTION ACT OF 1990, THE UNDERSIGNED IS HEREBY ADVISED AS FOLLOWS:

(A) HE HAS THE RIGHT TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE;

(B) HE HAS TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE BEFORE SIGNING IT: AND

(C) HE HAS SEVEN (7) DAYS AFTER SIGNING THIS RELEASE TO REVOKE THIS RELEASE, AND THIS RELEASE WILL BECOME EFFECTIVE UPON THE EXPIRATION OF THAT REVOCATION PERIOD.¹

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____, 20__.

David M. Klein

¹ NTD: Include only if the executive is 40 or older at time release is signed.

EXHIBIT B

INDEMNIFICATION AGREEMENT

(attached)

TRANSITION AND SEPARATION AGREEMENT

This Transition and Separation Agreement (the “**Agreement**”) is entered into by and among Marc A. Hoffman (“**Executive**”), Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”) and Sunstone Hotel Partnership, LLC, a Delaware limited liability company (the “**Operating Partnership**,” and together with Sunstone, the “**Company**”), effective as of March 2, 2021 (the “**Effective Date**”). The purpose of this Agreement is to provide time and separation benefits to ease Executive’s transition from the Company and to settle and resolve any and all disputes and controversies of any nature existing between Executive and the Company, including, but not limited to, any claims arising out of Executive’s employment with, transition with and ultimate departure from, the Company.

1. Transition; Separation of Employment.

(a) *Continued Employment.* Executive shall remain employed by the Company as the Company’s Executive Vice President – Chief Operating Officer on the terms and conditions contained in that certain Third Amended and Restated Employment Agreement by and between Executive and the Company dated as of November 1, 2019 (the “**Employment Agreement**”) from the Effective Date through a date to be determined by the Company and subsequently provided to Executive, which date shall be after March 31, 2021, but on or before June 30, 2021, and provided in writing to Executive no less than 14 days prior to the specified date (such period, the “**Transition Period**” and such last day, the “**Separation Date**”). Executive agrees that, prior to the Separation Date, Executive will perform his duties, responsibilities and functions for the Company as would be usual and customary for Executive’s position (including the training and transition of a new Chief Operating Officer, as contemplated below), and shall not engage in any other employment, occupation, consulting or other business activity. Effective as of the Separation Date, Executive’s employment with the Company and all of its affiliates shall terminate. Capitalized terms not defined herein shall have such meaning as is set forth in the Employment Agreement.

(b) *Employment Agreement; Acknowledgements.* Executive acknowledges that, for all or part of the Transition Period, the Company may appoint an additional Chief Operating Officer of the Company. The terms and conditions of the Employment Agreement shall continue to govern Executive’s employment during the Transition Period, provided, however, that Executive acknowledges and agrees that (i) neither the execution of this Agreement, nor the Company’s appointment or hiring of a new or additional Chief Operating Officer, shall constitute a Non-Renewal of the Employment Agreement or provide Executive with Good Reason pursuant to the Employment Agreement, and Executive’s termination of employment upon the Separation Date shall not constitute a termination without Cause, by reason of a Non-Renewal or for Good Reason, in any case, for purposes of the Employment Agreement and (ii) upon Executive’s termination of employment on the Separation Date, Executive shall not be entitled to any payments or benefits except as set forth herein.

(b) *Return of Company Property.* Executive agrees that he shall, prior to the Separation Date, return to the Company all documents of the Company and its affiliates (and all copies thereof) and all other Company or Company affiliate property that Executive has in his possession, custody or control. Such property includes, without limitation: (i) any materials of any kind that Executive knows contain or embody any proprietary or confidential information of the Company or an affiliate of the Company (and all reproductions thereof), (ii) computers (including, but not limited to, laptop computers, desktop computers and similar devices) and other portable electronic devices (including, but not limited to, tablet computers), cellular phones/smartphones, credit cards, phone cards, entry cards, identification badges and keys, and (iii) any correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents concerning the customers, business plans, marketing strategies, products and/or processes of the Company or any of its affiliates and any information received from the Company or any of its affiliates regarding third parties.

2. Compensation.

(a) Salary; Annual Bonus. During the Transition Period, the Company shall continue to pay Executive a base salary in the amount of \$554,370.00 per annum (the “**Salary**”), payable in accordance with the Company’s normal payroll practices (but no less often than monthly). Executive acknowledges and agrees that Executive shall not be eligible to receive a bonus with respect to any portion of calendar year 2021.

(b) Benefits. During the Transition Period, Executive shall continue to be eligible to continue to participate in the benefit plans, programs and arrangements of the Company maintained by the Company for the benefit of its similarly situated employees from time to time, consistent with the terms thereof and as such plans, programs and arrangements may be amended from time to time.

(c) Accrued Obligations; Vested Benefits.

(i) Upon the Separation Date, the Company will pay to Executive (i) all accrued salary and all accrued, unused vacation / paid time off through the Separation Date, and (ii) any unreimbursed business expenses incurred by Executive, in accordance with Company policy, prior to the Separation Date (collectively, the “**Accrued Obligations**”).

(iii) Executive shall be entitled to retain or receive any vested amounts due to Executive under any employee benefit plan, program or policy of the Company, in any case pursuant to and in accordance with the terms and conditions of the applicable plan, program or policy.

3. Equity Awards. In consideration of, subject to and conditioned upon (i) Executive’s execution within 21 days following the Separation Date, and non-revocation during the seven days thereafter, of a general release of claims in the form attached hereto as Exhibit A (the “**Release**”) and (ii) Executive’s continued compliance with the terms and conditions of Section 6 hereof, each Company equity award granted to Executive (each, an “**Equity Award**”) that is outstanding as of the Separation Date shall vest in full. The schedule attached hereto as Exhibit B sets forth each Equity Award held by Executive as of the Effective Date.

4. Withholdings and Other Deductions. All compensation payable to Executive hereunder shall be subject to such withholdings and deductions as the Company is from time to time required to make pursuant to law, governmental regulation or order.

5. Warranty. Executive acknowledges that, upon receipt of the Accrued Obligations, Executive has (i) received all monies and other benefits due to Executive as a result of his employment with and separation from the Company, and (ii) no right, title, or interest in or entitlement to any other payments or benefits other than as set forth in this Agreement. Executive further represents that he has not sustained a work-related injury or illness which he has not previously reported to the Company.

6. Restrictive Covenants. Notwithstanding anything to the contrary contained herein, the parties acknowledge and agree that (i) Executive previously made certain representations, including with respect to confidential information, non-solicitation and non-disparagement obligations, as set forth in the Employment Agreement and the Confidentiality Policy (as defined in the Employment Agreement) and (ii) such provisions and the Confidentiality Policy shall remain in full force and effect in accordance with their terms and Executive shall be bound by their terms.

7. Exceptions. Notwithstanding anything in this Agreement to the contrary, nothing contained in this Agreement shall prohibit either party to this Agreement (or either party’s attorney(s)) from (i) filing a charge with, reporting possible violations of federal law or regulation to, participating in any investigation by, or cooperating with the U.S. Securities and Exchange Commission (“**SEC**”), the Financial Industry Regulatory Authority (“**FINRA**”), the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the U.S. Commodity Futures Trading Commission, the U.S. Department of Justice or any other securities regulatory agency, self-regulatory authority or federal, state or local regulatory authority (collectively, “**Government Agencies**”), or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation, (ii) communicating directly with, cooperating with, or providing information (including trade secrets) in confidence to any Government Agencies for the purpose of reporting or investigating a suspected

violation of law, or from providing such information to such party's attorney(s) or in a sealed complaint or other document filed in a lawsuit or other governmental proceeding, and/or (iii) receiving an award for information provided to any Government Agency. Pursuant to 18 USC Section 1833(b), (1) Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal, and (2) Executive acknowledges that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. Further, nothing in this Agreement is intended to or shall preclude either party from providing truthful testimony in response to a valid subpoena, court order, regulatory request or other judicial, administrative or legal process or otherwise as required by law. If Executive is required to provide testimony, then unless otherwise directed or requested by a Governmental Agency or law enforcement, Executive shall notify the Company in writing as promptly as practicable after receiving any such request of the anticipated testimony and at least ten days prior to providing such testimony (or, if such notice is not possible under the circumstances, with as much prior notice as is possible) to afford the Company a reasonable opportunity to challenge the subpoena, court order or similar legal process.

8. Ongoing Cooperation. Subject to Section 7, following the Separation Date, Executive agrees that Executive will assist and cooperate with the Company and its affiliates (i) concerning reasonable requests for information about the business of the Company or its affiliates or Executive's involvement and participation therein, (ii) in connection with the defense, prosecution or investigation of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company or its subsidiaries or affiliates, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, actions, investigations or proceedings relate to services performed or required to be performed by Executive, pertinent knowledge possessed by Executive, or any act or omission by Executive, and (iii) and in connection with any investigation or review by any federal, state or local regulatory, quasi- or self-regulatory or self-governing authority or organization (including, without limitation, the SEC and FINRA) as any such investigation or review relates to services performed or required to be performed by Executive, pertinent knowledge possessed by Executive, or any act or omission by Executive. Executive's full cooperation shall include, but not be limited to, being available to meet and speak with officers or employees of the Company, its affiliates and/or their counsel at reasonable times and locations, executing accurate and truthful documents, appearing at the Company's request as a witness at depositions, trials or other proceedings without the necessity of a subpoena, and taking such other actions as may reasonably be requested by the Company and/or its counsel to effectuate the foregoing. In requesting such services, the Company will consider other commitments that Executive may have at the time of the request. Executive further acknowledges that the amounts payable to Executive pursuant to this Agreement provides sufficient consideration for all such services and that no other consideration or payment of any type will be due to Executive.

9. Code Section 409A. The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder ("**Section 409A**") or an exemption from Section 409A. Notwithstanding anything to the contrary in this Agreement, no compensation or benefits shall be paid to Executive during the six-month period following Executive's "separation from service" with the Company (within the meaning of Section 409A) if the Company determines that paying such amounts at the time or times indicated in this Agreement would be a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of Executive's death), the Company shall pay Executive a lump-sum amount equal to the cumulative amount that would have otherwise been payable to Executive during such period (without interest).

10. Breach. In the event Executive breaches Section 6, any outstanding obligations of the Company hereunder shall immediately terminate, and the Company's covenants hereunder shall be deemed null and void in their entirety.

11. Governing Law. This Agreement shall be construed under the laws of the State of California, both procedural and substantive.

12. Waiver. The failure to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or to affect the validity of this Agreement or the right of any party to enforce this Agreement.

13. Headings. The headings in this Agreement are provided solely for convenience, and are not intended to be part of, nor to affect or alter the interpretation or meaning of, this Agreement.

14. Severability. If any sentence, phrase, section, subsection or portion of this Agreement is found to be illegal or unenforceable, such action shall not affect the validity or enforceability of the remaining sentences, phrases, sections, subsections or portions of this Agreement, which shall remain fully valid and enforceable.

15. Assignment. This Agreement is personal to Executive and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and their respective successors and assigns.

16. Ambiguities. Both parties have participated in the negotiation of this Agreement and, thus, it is understood and agreed that the general rule that ambiguities are to be construed against the drafter shall not apply to this Agreement. In the event that any language of this Agreement is found to be ambiguous, each party shall have an opportunity to present evidence as to the actual intent of the parties with respect to any such ambiguous language.

17. Entire Agreement / Amendments. This Agreement (including any exhibits hereto), along with the Employment Agreement (as modified herein) and the Indemnification Agreement attached thereto, Confidentiality Policy and the award agreements evidencing the Equity Awards (as modified herein), constitute the entire agreement between Executive and the Company concerning the subject matter hereof. All prior discussions and negotiations have been and are merged and integrated into, and are superseded by, this Agreement. No amendments to this Agreement will be valid unless written and signed by Executive and an authorized representative of the Company.

18. Arbitration. Notwithstanding anything in this Agreement to the contrary, the parties hereto acknowledge and agree that Section 12(b) of the Employment Agreement (*Arbitration*) shall remain in full force and effect in accordance with its terms, that such terms are incorporated herein and shall apply *mutatis mutandis*.

19. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

20. Consultation with Counsel. Executive acknowledges (i) that Executive has thoroughly read and considered all aspects of this Agreement, that Executive understands all its provisions and that Executive is voluntarily entering into this Agreement, (ii) that he has been represented by, or had the opportunity to be represented by independent counsel of his own choice in connection with the negotiation and execution of this Agreement and has been advised to do so by the Company, and (iii) that he has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment. Without limiting the generality of the foregoing, Executive acknowledges that he has had the opportunity to consult with his own independent tax advisors with respect to the tax consequences to his of this Agreement, and that he is relying solely on the advice of his independent advisors for such purposes. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

21. Notices. All notices, requests and other communications hereunder shall be in writing and shall be delivered by courier or other means of personal service (including by means of a nationally recognized courier

service or professional messenger service), or sent by email or facsimile and also mailed first class, postage prepaid, by certified mail, return receipt requested, in all cases addressed to:

If to Executive:

At Executive's last known address evidenced on the Company's payroll records or email address evidenced on the Company's records.

If to the Company:

Sunstone Hotel Investors, Inc.
200 Spectrum Center Drive, 21st Floor
Irvine, CA 92618
Attention: Corporate Secretary

All notices, requests and other communications shall be deemed given on the date of actual receipt or delivery as evidenced by written receipt, acknowledgement or other evidence of actual receipt or delivery to the address. In case of service by telecopy, a copy of such notice shall be personally delivered or sent by registered or certified mail, in the manner set forth above, within three business days thereafter. Any party hereto may from time to time by notice in writing served as set forth above designate a different address or a different or additional person to which all such notices or communications thereafter are to be given.

If the above accurately reflects Executive's understanding, please date and sign the enclosed copy of this Agreement in the places indicated below and return that copy to David Klein at dklein@sunstonehotels.com, with original at the Company address.

(Signature page follows)

/s/ Marc A. Hoffman

Dated: March 2, 2021

Marc A. Hoffman

/s/ John V. Arabia

Dated: March 2, 2021

Sunstone Hotel Partnership, LLC

Name: John V. Arabia

Title: President and CEO

EXHIBIT A

GENERAL RELEASE

1. Release. For valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned does hereby release and forever discharge the “**Releasees**” hereunder, consisting of Sunstone Hotel Investors, Inc., a Maryland corporation (“**Sunstone**”) and Sunstone Hotel Partnership, LLC, a Delaware limited liability company (together with Sunstone, the “**Company**”), and the Company’s partners, subsidiaries, associates, affiliates, successors, heirs, assigns, agents, directors, officers, employees, representatives, lawyers, insurers, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, damages, losses, costs, attorneys’ fees or expenses, of any nature whatsoever, known or unknown, fixed or contingent (hereinafter called “**Claims**”), which the undersigned now has or may hereafter have against the Releasees, or any of them, by reason of any matter, cause, or thing whatsoever from the beginning of time to the date hereof. The Claims released herein include, without limiting the generality of the foregoing, any Claims in any way arising out of, based upon, or related to the employment or termination of employment of the undersigned by the Releasees, or any of them; any alleged breach of any express or implied contract of employment; any alleged torts or other alleged legal restrictions on Releasees’ right to terminate the employment of the undersigned; and any alleged violation of any federal, state or local statute or ordinance including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination In Employment Act, and the Americans With Disabilities Act.

2. Claims Not Released. Notwithstanding the foregoing, this general release (the “**Release**”) shall not operate to release any rights or claims of the undersigned (i) to payments or benefits under Section 2 or 3 of that certain Transition and Separation Agreement, dated as of [____], 2021, between the Company and the undersigned (the “**Separation Agreement**”), with respect to the payments and benefits provided in exchange for this Release, (ii) to payments or benefits under any equity award agreement between the undersigned and Sunstone, (iii) to accrued or vested benefits the undersigned may have, if any, as of the date hereof under any applicable plan, policy, practice, program, contract or agreement with the Company, (v) to any Claims, including claims for indemnification and/or advancement of expenses arising under any indemnification agreement between the undersigned and the Company or under the bylaws, certificate of incorporation or other similar governing document of the Company, (vi) to any Claims which cannot be waived by an employee under applicable law or (vii) with respect to the undersigned’s right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

3. Unknown Claims.

THE UNDERSIGNED ACKNOWLEDGES THAT THE UNDERSIGNED HAS BEEN ADVISED BY LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ANY RIGHTS THE UNDERSIGNED MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

4. Exceptions. Notwithstanding anything in this Release to the contrary, nothing contained in this Release shall prohibit the undersigned from (i) filing a charge with, reporting possible violations of federal law or regulation to, participating in any investigation by, or cooperating with any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of applicable law or regulation and/or (ii) communicating directly with, cooperating with, or providing information (including trade secrets) in confidence to, any federal, state or local government regulator (including, but not limited to, the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, or the U.S. Department of Justice) for the purpose of reporting or investigating a suspected violation of law, or from providing such information to the undersigned's attorney or in a sealed complaint or other document filed in a lawsuit or other governmental proceeding. Pursuant to 18 USC Section 1833(b), (i) the undersigned will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (x) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (y) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (ii) the undersigned acknowledges that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

5. Representations. The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any Claim which he may have against Releasees, or any of them, and the undersigned agrees to indemnify and hold Releasees, and each of them, harmless from any liability, Claims, demands, damages, costs, expenses and attorneys' fees incurred by Releasees, or any of them, as the result of any such assignment or transfer or any rights or Claims under any such assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

6. No Action. The undersigned agrees that if he hereafter commences any suit arising out of, based upon, or relating to any of the Claims released hereunder or in any manner asserts against Releasees, or any of them, any of the Claims released hereunder, then the undersigned agrees to pay to Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit or Claim.

7. No Admission. The undersigned further understands and agrees that neither the payment of any sum of money nor the execution of this Release shall constitute or be construed as an admission of any liability whatsoever by the Releasees, or any of them, who have consistently taken the position that they have no liability whatsoever to the undersigned.

8. OWBPA. The undersigned agrees and acknowledges that this Release constitutes a knowing and voluntary waiver and release of all Claims the undersigned has or may have against the Company and/or any of the Releasees as set forth herein, including, but not limited to, all Claims arising under the Older Worker's Benefit Protection Act and the Age Discrimination in Employment Act. In accordance with the Older Worker's Benefit Protection Act, the undersigned is hereby advised as follows:

- (i) the undersigned has read the terms of this Release, and understands its terms and effects, including the fact that the undersigned agreed to release and forever discharge the Company and each of the Releasees, from any Claims released in this Release;
 - (ii) the undersigned understands that, by entering into this Release, the undersigned does not waive any Claims that may arise after the date of the undersigned's execution of this Release, including without limitation any rights or claims that the undersigned may have to secure enforcement of the terms and conditions of this Release;
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- (iii) the undersigned has signed this Release voluntarily and knowingly in exchange for the consideration described in this Release, which the undersigned acknowledges is adequate and satisfactory to the undersigned and which the undersigned acknowledges is in addition to any other benefits to which the undersigned is otherwise entitled;
- (iv) the Company advises the undersigned to consult with an attorney prior to executing this Release;
- (v) the undersigned has been given at least 21 days in which to review and consider this Release. To the extent that the undersigned chooses to sign this Release prior to the expiration of such period, the undersigned acknowledges that the undersigned has done so voluntarily, had sufficient time to consider the Release, to consult with counsel and that the undersigned does not desire additional time and hereby waives the remainder of the 21-day period; and
- (vi) the undersigned may revoke this Release within seven days from the date the undersigned signs this Release and this Release will become effective upon the expiration of that revocation period. If the undersigned revokes this Release during such seven-day period, this Release will be null and void and of no force or effect on either the Company or the undersigned and the undersigned will not be entitled to any of the payments or benefits which are expressly conditioned upon the execution and non-revocation of this Release. Any revocation must be in writing and sent to David Klein, General Counsel at dklein@sunstonehotels.com, on or before 5:00 p.m. Pacific time on the seventh day after this Release is executed by the undersigned.

9. Governing Law. This Release is deemed made and entered into in the State of California, and in all respects shall be interpreted, enforced and governed under the internal laws of the State of California, to the extent not preempted by federal law.

IN WITNESS WHEREOF, the undersigned has executed this Release this ____ day of _____,
_____.

Marc A. Hoffman

EXHIBIT B
COMPANY EQUITY AWARDS

Award Type	Award Date	Shares	Scheduled Release Date
Restricted Stock Award	02/08/2019	28,902	02/08/2022
Restricted Stock Award	02/13/2020	33,030	02/13/2023
Restricted Stock Award	02/13/2020	33,030	02/13/2022
Restricted Stock Award	02/10/2021	37,294	02/15/2022
Restricted Stock Award	02/10/2021	37,293	02/15/2023
Restricted Stock Award	02/10/2021	37,293	02/15/2024
Hoffman, Marc Total		206,842	

**Certification of Principal Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, John V. Arabia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunstone Hotel Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2021

/s/ John V. Arabia
John V. Arabia
President and Chief Executive Officer

**Certification of Principal Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bryan A. Giglia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunstone Hotel Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2021

/s/ Bryan A. Giglia
Bryan A. Giglia
Chief Financial Officer

**Certification of Principal Executive Officer and Principal Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Sunstone Hotel Investors, Inc. (the "Company"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each hereby certifies that to his knowledge on the date hereof:

(a) The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2021, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2021

/s/ John V. Arabia
John V. Arabia
President and Chief Executive Officer

Date: May 5, 2021

/s/ Bryan A. Giglia
Bryan A. Giglia
Chief Financial Officer
