

Sunstone Hotel Investors, Inc.
Form DEF 14A
March 23, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. _____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

Sunstone Hotel Investors, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

120 Vantis, Suite 350

Aliso Viejo, California 92656

NOTICE OF 2017 ANNUAL MEETING

Hilton San Diego Bayfront Hotel

April 28, 2017 at 8:30 a.m. local time

It is a pleasure to invite you to the 2017 annual meeting of stockholders of Sunstone Hotel Investors, Inc., or Sunstone, a Maryland corporation, to be held at the Hilton San Diego Bayfront hotel, located at One Park Boulevard, San Diego, California 92101, on Friday, April 28, 2017 at 8:30 a.m. local time, for the following purposes:

1. Election of eight directors to serve until the next annual meeting and until their successors are elected and qualified;
2. Ratification of the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2017;
3. Advisory vote to approve the compensation of Sunstone's Named Executive Officers, as set forth in the proxy statement for Sunstone's 2017 annual meeting of stockholders;
4. Advisory vote to approve the frequency of holding an advisory vote on the compensation of Sunstone's Named Executive Officers; and
5. Transaction of other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

Only stockholders of record of shares of Sunstone common stock, par value \$0.01 per share, at the close of business on March 23, 2017 are entitled to notice of and to vote at the 2017 annual meeting or any adjournment or postponement of the meeting.

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

We would like to take this opportunity to thank you for your continued support of Sunstone. We believe that our continued refinement of our compensation and corporate governance practices, coupled with our commitment to building long term value make Sunstone well positioned for a promising future. Ongoing improvements to Sunstone's corporate governance and compensation practices include the following: Director Holdover Resignation Guidelines; Limitations on Stockholder Rights Plans; Right of Stockholders to Amend Company Bylaws; and Restrictions on Classifying Directors.

Again, we thank you for your continued support and look forward to a promising future.

By Order of the Board of Directors

Bryan A. Giglia

Executive Vice President—Chief Financial Officer,

Treasurer and Secretary

March 23, 2017

Proxy Statement

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
STOCKHOLDER MEETING TO BE HELD ON APRIL 28, 2017

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

PROXY SUMMARY

Your vote is very important. For this reason, our Board of Directors is soliciting the enclosed proxy to allow your shares of common stock, par value \$0.01 per share, to be represented and voted, as you direct, by the proxy holders named in the enclosed proxy card at the 2017 annual meeting of stockholders of Sunstone Hotel Investors, Inc. “We,” “our,” “the Company” and “Sunstone” refer to Sunstone Hotel Investors, Inc.

This summary highlights information contained elsewhere in this proxy statement. It does not contain all of the information that you should consider, so please read the entire proxy statement before voting. In addition, for more complete information about our 2016 financial performance, please see our annual report on Form 10-K for the fiscal year ended December 31, 2016 (“Annual Report”).

Sunstone Hotel Investors, Inc. Annual Meeting of Stockholders

Time and Date:	8:30 a.m. local time, April 28, 2017
Place:	Hilton San Diego Bayfront One Park Boulevard San Diego, California 92101
Record Date:	March 23, 2017
Number of Common Shares Eligible to Vote at the Meeting as of the Record Date:	220,417,417
Company Principal Executive Offices:	120 Vantis, Suite 350 Aliso Viejo, California 92656
Date of First Mailing of Proxy Statement and Accompanying Materials to Stockholders:	March 30, 2017

Voting Matters

	Matter	Board Recommendation	Page Reference
Proposal 1:	Election of Eight Directors Identified in this Proxy Statement	FOR each director nominee	9
Proposal 2:	Ratification of Independent Registered Public Accounting Firm for 2017	FOR	14
Proposal 3:	Advisory Vote on Executive Compensation	FOR	15
Proposal 4:	Advisory Vote on the Frequency of Holding an Advisory Vote on Executive Compensation	Every Year	16

Director Nominees

Name	Age	Director Since	Primary Occupation	Committee Membership and Other Roles	Other Public Company Boards
John V. Arabia	47	2014	President and Chief Executive Officer, Sunstone Hotel Investors, Inc.	—	Education Realty Trust, Inc.
W. Blake Baird	56	2015	Co-Founder, Chairman of the Board and Chief Executive Officer, Terreno Realty Corporation	Nominating and Corporate Governance	Matson, Inc.
Andrew Batinovich	58	2011	President and Chief Executive Officer, Glenborough, LLC; Chief Executive Officer and Director, Strategic Realty Trust	Audit, Compensation (Chair)	RAIT Financial Trust
Z. Jamie Behar	59	2004	Former Managing Director, Real Estate & Alternative Investments, GM Investment Management Corporation	Audit, Nominating and Corporate Governance (Chair)	Gramercy Property Trust
Thomas A. Lewis, Jr.	64	2006	Former CEO & Vice Chairman, Realty Income Corporation	Compensation	—
Murray J. McCabe	49	2015	Managing Partner, Blum Capital Partners, L.P.	Compensation	RREEF Property Trust, Inc.; Columbia Property Trust
Douglas M. Pasquale	62	2011	Founder and Chief Executive Officer, Capstone Enterprises Corporation	Non-Executive Chairman, Compensation, Nominating and Corporate Governance	Ventas, Inc.; Alexander and Baldwin, Inc.; Terreno Realty Corporation; DineEquity, Inc.
Keith P. Russell	71	2004	President, Russell Financial, Inc.	Audit (Chair), Nominating and Corporate Governance	Hawaiian Electric Industries; KBS Growth & Income REIT, Inc.

Corporate Governance Highlights

Our Board of Directors has adopted governance policies that we believe are in the best interests of our stockholders, including:

- Annual election of all Directors.
- Majority vote standard in uncontested elections.
- Independent, involved and informed Board of Directors.
 - o All directors currently serving as directors, other than our CEO, are independent.
 - o All of our directors who served on the Board during 2016 attended at least 75% of the aggregate of the meetings of the Board of Directors and all committees of the Board of Directors on which they served during the periods in which they served.
 - o All new directors attended a Board orientation.

- o All directors participate in ongoing director education.
 - Independent Chairman.
 - Independent Board committees.
- o Our three active standing Board committees are comprised solely of independent directors.
 - Executive sessions of independent directors are held at each regularly scheduled Board meeting.
 - Annual Board and committee self-evaluations.
 - Board oversight of risk management.
 - Common stock is the only class of voting securities outstanding.

In addition, the members of the Nominating and Corporate Governance Committee continue to improve corporate governance. Examples of ongoing improvements to the Company's compensation and governance programs include the following:

- Director Holdover Resignation Guidelines: Effective February 17, 2017, the Company amended its Corporate Governance Guidelines (the "Guidelines") to establish a policy whereby the Board of Directors will be required to accept a resignation tendered by a nominee who is already serving as a Director if such nominee shall have received more votes "withheld" with respect to that nominee than "for" his or her election at each of two consecutive annual meetings of stockholders.
- Limitations on Stockholder Rights Plans: Effective February 18, 2016, the Company amended its Guidelines to establish a policy prohibiting the Board of Directors from adopting a stockholder rights plan, also known as a "poison pill," without prior stockholder approval, unless the plan provides that it will expire within 12 months of adoption absent ratification by the Company's stockholders prior to expiration. The complete text of the Guidelines is set forth on the Company's investor relations website.
- Right of Stockholders to Amend Company Bylaws: Effective February 13, 2015, the Company amended its bylaws to provide that the bylaws may be amended, altered, repealed or rescinded (a) by the Board of Directors or (b) by the stockholders, by the affirmative vote of a majority of all the votes entitled to be cast generally in the election of directors, except with respect to amendments to the provisions of our bylaws regarding our opt out of the Maryland Business Combination and Control Share Acquisition Acts, which must be approved by the affirmative vote of a majority of votes cast by stockholders entitled to vote generally in the election of directors. The Board of Directors believes this change to the Company's bylaws further demonstrates the Company's commitment to accountability of corporate directors and officers.
- Restrictions on Classifying Directors: Effective April 2013, the Company filed articles supplementary to its charter to prohibit the directors of the Company from being divided into classes pursuant to Title 3, Subtitle 8 of the Maryland General Corporation Law (the "MGCL"). The prohibition on classification may not be repealed unless the repeal of such prohibition, or the classification of the directors pursuant to Section 3-803 of the MGCL, is approved by the affirmative vote of at least a majority of the votes cast on the matter by stockholders of the Company entitled to vote generally in the election of directors.

Our Compensation Practices

Objectives. We seek to attract, motivate and retain our Named Executive Officers ("NEO" or "NEOs") through competitive compensation arrangements that we believe, within appropriate risk parameters, provide strong financial incentives for the executive officers to maximize stockholder value. In order to achieve our objectives and mitigate compensation risks to our stockholders, we utilize the following practices:

What we do:

- We pay for performance. Our executive compensation program is weighed towards variable, rather than fixed, compensation. Specifically, the variable portion of our executive compensation program is designed to reward performance relative to financial, stockholder return, and other metrics that we believe best align management with stockholder interests.
- We hold an annual say-on-pay vote. We conduct an annual "say-on-pay" advisory vote to solicit our stockholders' view on our compensation programs.
- We solicit independent compensation advice. Our Compensation Committee retains FPL Associates L.P., or FPL, an independent compensation consultant, for purposes of advising and consulting with respect to the compensation of

our NEOs.

- We require our CEO to have a meaningful ownership interest in the Company. Our stock ownership policy requires that within four years of joining the Company or being promoted to the CEO position, the CEO will own and retain shares of the Company's common stock having a value equal to at least six times his or her annual base salary. Our Compensation Committee believes that requiring the CEO to maintain a meaningful ownership interest in the Company aligns the interests of the CEO with those of our stockholders.

What we do not do:

- We do not provide excessive levels of guaranteed compensation. There are no minimum payout levels on either our annual incentive bonus plan or our equity incentive award plan.
- We do not allow hedging or significant pledging of Company stock by officers and directors without prior approval. Our officers and directors are prohibited from engaging in hedging transactions designed to offset decreases in the market value of our stock or pledging a significant amount of our stock without prior approval from our Chief Financial Officer at least one month prior to the proposed transaction.

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- We do not pay “gross ups” for change in control or severance payments. We do not provide excise or other tax “gross up” payments in connection with any change in control or severance payment made to an NEO.
- We do not make “single trigger” cash payments upon a change in control. The employment and severance agreements with our NEOs require a “double trigger” (requiring both a change in control and termination of employment) for cash and severance payments following a change in control.

Compensation Program Summary. The following is a summary of the key provisions of our NEO compensation program:

Compensation Element	Key Characteristics	2016 Compensation	Percentage of 2016 Target Compensation
Base Salary	Fixed compensation that reflects each executive’s position and individual performance. Payable in cash. Reviewed annually and adjusted when appropriate.	Our CEO received a 7.1% increase in base salary. Our other NEOs received base salary increases ranging from 2% to 2.6%.	17% of our CEO’s total compensation. 24% of our other NEOs total compensation (on average).
Cash Incentive Bonuses	Variable compensation based on performance and responsibility level to compensate each executive officer for achieving our annual stockholder return and other corporate goals, and implementing our long-term plans and strategies. Payable in cash.	Each of our NEOs received a cash incentive bonus due to our achievement of various financial goals and strategic objectives. Our CEO was eligible to receive a cash incentive bonus paid at various thresholds between 100% and 275% of his base salary based on achieving threshold to superior goals. Our other NEOs each were eligible to receive cash incentive bonuses paid at various thresholds between 50% and 175% of their base salaries based on achieving threshold to superior goals.	26% of our CEO’s total compensation. 23% of our other NEOs total compensation (on average).
Equity Incentive Awards	Variable compensation designed to award a significant portion of our NEOs annual incentive compensation in equity to further the objectives of fostering executive ownership and the alignment of each executive’s interests with those of our stockholders. Restricted Stock issued under our LTIP. Time-based, vesting ratable over three years.	Each of our NEOs received an equity incentive award, the size of which was based on our achievement of various financial goals and strategic objectives. Our CEO was eligible to receive an equity incentive award valued at various thresholds between 150% and 425% of his base salary.	48% of our CEO’s total compensation. 45% of our other NEOs total compensation (on average).

Our other NEOs each were eligible to receive equity incentive awards valued at various thresholds between 100% and 300% of their base salaries.

Benefits	Fixed compensation.	Our NEOs were eligible to participate in Company-wide health, dental and vision insurance plans, term life insurance, disability coverage, 401(k) safe harbor and profit-sharing contributions.	9% of our CEO's total compensation.
and	Participation in broad-based benefit plans at same cost as other employees.		
Perquisites			8% of our other NEOs total compensation (on average).

QUESTIONS AND ANSWERS ABOUT HOW TO VOTE YOUR SHARES

What matters will be voted on at the annual meeting?

The annual meeting of stockholders will be held for the following purposes:

1. Election of eight directors to serve until the next annual meeting and until their successors are elected and qualified;
2. Ratification of the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2017;
3. Advisory vote to approve the compensation of Sunstone's NEOs, as set forth in this proxy statement;
4. Advisory vote to approve the frequency of holding an advisory vote on the compensation of Sunstone's NEOs; and
5. Transaction of other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

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

Who is entitled to vote?

Stockholders of record of our common stock as of the close of business on March 23, 2017, or the record date, are entitled to vote on matters that properly come before the meeting. Shares of common stock can be voted only if the stockholder is present in person or is represented by proxy. At the close of business on the record date, there were 220,417,417 shares of common stock outstanding and entitled to vote. The holders of common stock will vote together as a single class on all matters that properly come before the meeting.

How many votes do I have?

Each share of common stock has one vote.

How do I vote?

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

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

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

Does Sunstone have a policy for confidential voting?

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

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

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

What are the Board of Directors' recommendations?

The Board of Directors recommends that you vote FOR each of the nominees for director in Proposal 1; FOR Proposal 2 to ratify the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2017; FOR Proposal 3 to approve, on a non-binding, advisory basis, the compensation of our NEOs as set forth in this proxy statement; and FOR Proposal 4 to approve the submission by the Company of a non-binding, advisory say-on-pay vote every year, rather than every two or three years.

What vote is required to approve each proposal?

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

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

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

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

What constitutes a quorum?

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

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

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

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

Can I change my vote?

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

- Notify Sunstone's Secretary (Bryan A. Giglia, c/o Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656) in writing before the annual meeting that you are revoking your proxy;
- Submit another proxy with a later date;
- If you own shares through a bank or broker that provides for voting by telephone or the internet, submit your voting instructions again by telephone or the internet; or
- Vote in person at the annual meeting.

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

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

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

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

If you and other residents at your mailing address own shares in "street name" (that is, through a broker or other nominee), your broker or bank may have sent you a notice that your household will receive only one Annual Report and proxy statement for each company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as "householding." If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our Annual Report and proxy statement to your address. You may revoke your consent to householding at any time by contacting your broker or bank. The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this proxy statement or our Annual Report, we will send a copy to you without charge if you address your written request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

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

Stockholder proposals may be submitted for inclusion in our 2018 annual meeting proxy statement after the 2017 annual meeting, but must be received no later than November 28, 2017. Proposals should be sent via registered, certified, or express mail to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary. See also "Stockholder Proposals for the 2018 Annual Meeting" later in this proxy statement.

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

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

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

- Stockholders of record as of the close of business on March 23, 2017 or their duly authorized proxies;
- Beneficial stockholders whose shares are held by a bank, broker or other nominee, and who present proof of beneficial ownership as of the close of business on March 23, 2017;
- Representatives of the press or other news media with proper credentials;

- Financial analysts with proper credentials; and
- Employees and representatives of Sunstone whose job responsibilities require their presence at the meeting.

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

You may obtain directions to the Hilton San Diego Bayfront hotel in the Investor Relations section of our website at www.sunstonehotels.com or by calling us at 949 382 3036.

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

PROPOSALS

Proposal 1: Election of Directors

Board of Directors. The business and affairs of Sunstone are managed under the direction of our Board of Directors. Our Board of Directors has responsibility for establishing broad corporate policies and for the overall performance of Sunstone, rather than for day to day operating details. Our Board of Directors currently consists of nine directors. Assuming each of the nominees listed below are elected at the 2017 annual meeting of stockholders, our Board of Directors will consist of eight directors and the size of the board will be reduced to eight members immediately following the election to eliminate any vacancy.

The proxy holders named on the proxy card intend to vote for the election of the eight nominees listed below. The Nominating and Corporate Governance Committee selected these nominees, which selection was ratified by the Board of Directors. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the designated space provided on the proxy card or, if your shares are held through a bank or broker and you are authorizing a proxy to vote by telephone or the internet, follow the instructions provided when you access the telephone or internet proxy facilities.

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

Directors elected at the annual meeting will hold office until the next annual meeting and until their successors have been elected and qualified. For each nominee, there follows a brief listing of principal occupation for at least the past five years, other major affiliations, and age as of February 17, 2017. Each of the nominees is currently a director of the Company.

Nominees for Election as Directors.

John V. Arabia Age: 47 Director

Mr. Arabia is our President and Chief Executive Officer, or CEO, and a director. On February 14, 2011, we announced that we hired Mr. Arabia as Executive Vice President of Corporate Strategy and Chief Financial Officer, and on April 4, 2011 his employment began. On February 15, 2013, he was promoted to President, on February 19, 2014, he was appointed to serve as a member of our Board of Directors, and on January 17, 2015 he was promoted to President and Chief Executive Officer. Prior to joining Sunstone, Mr. Arabia served as Managing Director of Green Street Advisors' ("Green Street") real estate research team. Mr. Arabia joined Green Street in 1997 and created and managed the firm's lodging research platform. Prior to joining Green Street, Mr. Arabia was a Consulting Manager at EY Kenneth Leventhal in the firm's west coast lodging consulting practice. Mr. Arabia also serves on the Board of Directors of Education Realty Trust, Inc. (NYSE:EDR), a publicly traded real estate investment trust, or REIT, and one of America's largest owners, developers and managers of collegiate housing. Mr. Arabia serves as chair of the nominating and corporate governance committee and as a member of the investment and oversight committee of the Board of Directors of EDR. He also serves as a director of the American Hotel & Lodging Association. Mr. Arabia, who earned a CPA certificate from the state of Illinois, holds an M.B.A. degree in Real Estate/Accounting from The University of Southern California and a B.S. degree in Hotel Administration from Cornell University.

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

W. Blake Baird Age: 56 Director

Mr. Baird has served as a director since April 28, 2016. Mr. Baird co founded Terreno Realty Corporation (NYSE: TRNO), and has served as chairman of its board of directors and its Chief Executive Officer since February 2010.
Terreno

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Realty Corporation acquires, owns and operates industrial real estate in six major coastal U.S. markets. Mr. Baird was managing partner and co-founder of Terreno Capital Partners LLC, a private real estate investment firm, from September 2007 to February 2010. Mr. Baird served as President of AMB Property Corporation (NYSE:AMB) from January 2000 to December 2006. AMB, now Prologis, Inc. (NYSE:PLD), is a leading global developer, owner and operator of industrial real estate. Mr. Baird also served as a director of AMB from 2001 to 2006 and chairman of its investment committee. Mr. Baird joined AMB as its Chief Investment Officer in 1999. Prior to that, Mr. Baird was a managing director of Morgan Stanley & Co., most recently as head of Real Estate Investment Banking for the Western United States. Mr. Baird spent 15 years at Morgan Stanley and Dean Witter, the last 11 focusing on real estate. Mr. Baird currently serves as a director of Matson, Inc. (NYSE:MATX), a Honolulu headquartered ocean transportation and logistics company.

Mr. Baird is a former member of the Young Presidents' Organization and a former member of the Board of Governors of the National Association of Real Estate Investment Trusts. Mr. Baird holds a B.S. degree in Economics from the Wharton School (magna cum laude) and a B.A. degree in History from the College of Arts and Sciences (magna cum laude) at the University of Pennsylvania. He also holds an M.B.A. degree from New York University.

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

Andrew Batinovich Age: 58 Director

Mr. Batinovich has served as a director since November 7, 2011. Mr. Batinovich currently serves as President and Chief Executive Officer of Glenborough, LLC, a privately held full service real estate investment and management company focused on the acquisition, management and leasing of institutional quality commercial properties. In 2010, Mr. Batinovich led a private investor group in acquiring Glenborough, LLC and related real estate assets that were originally part of Glenborough Realty Trust, a NYSE listed REIT, which was sold to affiliates of Morgan Stanley in 2006. From December 2006 to October 2010, Mr. Batinovich served as President and Chief Executive Officer of Glenborough, LLC, a company formed by an affiliate of Morgan Stanley to acquire Glenborough Realty Trust. In 1996, Mr. Batinovich co-founded Glenborough Realty Trust and was President and Chief Executive Officer and a director at the time of the sale in 2006. Mr. Batinovich was appointed President of Glenborough Realty Trust in 1997 and Chief Executive Officer in 2003. He also served as Chief Operating Officer and Chief Financial Officer during his tenure at Glenborough Realty Trust.

Prior to founding Glenborough Realty Trust, Mr. Batinovich served as Chief Operating Officer and Chief Financial Officer of Glenborough Corporation until 1996 when it was merged into Glenborough Realty Trust. Glenborough Corporation was a private real estate investment and management company that completed a number of private placements of office, industrial, residential and hotel properties. Prior to joining Glenborough Corporation in 1983, Mr. Batinovich was an officer of Security Pacific National Bank. In August 2013, an affiliate of Glenborough, LLC became the advisor to Strategic Realty Trust, a non-traded Securities and Exchange Commission registered REIT that owns a portfolio of shopping centers, and Mr. Batinovich was appointed Chief Executive Officer and a director. He also serves as a director of RAIT Financial Trust (NYSE:RAS) and as a trustee of the American University of Paris. Mr. Batinovich has a B.A. degree in International Business Administration from the American University of Paris.

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

Z. Jamie Behar Age: 59 Director

Ms. Behar has served as a director since October 26, 2004. Ms. Behar also serves on the Board of Directors of Gramercy Property Trust (“GPT”), a publicly traded real estate company that specializes in acquiring and managing single tenant, net leased industrial and office properties located in the U.S. and Europe, where she also serves as a member of the Board’s Audit and Investment Committees. From October 2005 through December 31, 2015, Ms. Behar was Managing Director, Real Estate & Alternative Investments, for GM Investment Management Corporation, or GMIMCo. She managed GMIMCo’s clients’ real estate investment portfolios, including both private market and publicly traded security investments, as well as their alternative investment portfolios, totaling approximately \$12 billion at peak portfolio value. She was a member of GMIMCo’s Board of Directors, the Investment Management Committee, the Private Equity Investment Approval Committee and the Risk Management Committee. Until September 12, 2013, Ms. Behar served as a member of the Board of Directors of Desarrolladora Homex S.A. de C.V., a publicly listed home development company

located in Mexico, and also served on the Board's Audit Committee. Ms. Behar was on the Board of Directors of the Pension Real Estate Association (PREA) from March 2008 through March 2014, having held the position of Board Chair from March 2010 to March 2011, and was a member of the Real Estate Investment Advisory Council of the National Association of Real Estate Investment Trusts (NAREIT) from its inception through 2015. Ms. Behar holds a Bachelor's of Science in Economics (B.S.E) from The Wharton School, University of Pennsylvania, a Master's in Business Administration (M.B.A) from Columbia University Graduate School of Business, and the Chartered Financial Analyst (CFA) designation.

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

Thomas A. Lewis, Jr. Age: 64 Director

Mr. Lewis has served as a director since May 2, 2006. Until May 2014, Mr. Lewis served as the Vice Chairman of the Board of Directors of Realty Income Corporation, a NYSE listed REIT, and had served as a member of the Board of Directors of Realty Income Corporation since September 1993. Mr. Lewis joined Realty Income Corporation in 1987 and served as Chief Executive Officer from 1997 until September 3, 2013. In 2000 and 2001, he also held the position of President. Prior to joining Realty Income Corporation, he was an executive with Johnstown Capital, a real estate investment company (1982 to 1987), an investment specialist with Sutro & Co., Inc. (1979 to 1982), and in marketing with Procter & Gamble (1974 to 1979). Mr. Lewis has more than 20 years of experience directing public and private capital market transactions. Mr. Lewis holds a B.A. degree in Business Administration from Chaminade University of Hawaii.

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

Murray J. McCabe Age: 49 Director

Mr. McCabe has served as a director since April 28, 2016. Mr. McCabe is currently a Managing Partner at Blum Capital Partners, L.P. and its affiliate Montgomery Street Partners, L.P., both investment firms, where he serves as a member of the Management Committees. His responsibilities include overseeing and managing real estate-related investment initiatives for Montgomery Street Partners, L.P., focusing on opportunistic equity investments. Prior to joining Blum Capital, Mr. McCabe worked at JPMorgan Chase & Co. from 1992 through August 2012. During his 20-year tenure at JPMorgan, Mr. McCabe held several positions in the Investment Banking Division, including Managing Director and Global Head of Real Estate and Lodging Investment Banking. In addition, Mr. McCabe served as a member of JPMorgan's Mergers and Acquisitions Fairness Opinion Committee from 2001 to 2002, the Investment Banking Coverage Management Committee from 2010 through his departure in August 2012, and on the board of JPMorgan Real Estate Advisors during the same period.

Mr. McCabe is a member of the advisory board for the Fisher Center for Real Estate and Urban Economics at the University of California at Berkeley, and is also an executive council member of the Real Estate Finance and Investment Center and serves on the REIT Investment Funds advisory board for the McCombs School of Business at the University of Texas, Austin. He serves as a director of RREEF Property Trust, Inc., Columbia Property Trust (NYSE:CXP), and RREEF America REIT II Inc. Mr. McCabe holds a B.A. in Finance from the University of Texas at Austin.

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

Douglas M. Pasquale Age: 62 Non Executive Chairman

Mr. Pasquale has served as our Non Executive Chairman since May 1, 2015, and as a director since November 7, 2011. Mr. Pasquale is Founder & CEO of Capstone Enterprises Corporation, an investment and consulting firm, since January 1, 2012. With the acquisition of Nationwide Health Properties, Inc. (NYSE: NHP) by Ventas, Inc. (NYSE: VTR) on July 1, 2011, Mr. Pasquale served as Senior Advisor to Ventas's Chairman and CEO from July 1, 2011 to December 31, 2011. He was also appointed to the Ventas Board of Directors on July 1, 2011 and continues to serve on that Board. Prior to Nationwide Health Properties' acquisition, Mr. Pasquale served as Chairman of the Board of NHP from May 2009 to July

2011, as President and Chief Executive Officer of NHP from April 2004 to July 2011, and as Executive Vice President and Chief Operating Officer of NHP from November 2003 to April 2004. Mr. Pasquale was a director of NHP from November 2003 to July 2011. Mr. Pasquale previously served in various roles (most recently Chairman and Chief Executive Officer) at ARV Assisted Living, Inc., an owner and operator of assisted living facilities, from June 1998 to September 2003 and concurrently served as President and Chief Executive Officer of Atria Senior Living Group, Inc. from April 2003 to September 2003. Mr. Pasquale also served as President and Chief Executive Officer of Richfield Hospitality Services, Inc. and Regal Hotels International—North America, a hotel ownership and management company, from 1996 to 1998, and as its Chief Financial Officer from 1994 to 1996. In addition to serving on the Ventas Board of Directors, Mr. Pasquale serves as a director of: Alexander and Baldwin, Inc. (NYSE:ALEX), a Honolulu headquartered real estate, materials & road paving and agribusiness company, for which he serves as chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee; Terreno Realty Corporation (NYSE: TRNO), an industrial REIT with a focus in six coastal U.S. markets, for which he serves as lead independent director and a member of the Audit, Compensation and Nominating and Corporate Governance committees; and DineEquity, Inc. (NYSE: DIN), which franchises Applebee's and IHOP restaurants, for which he serves as a member of the Audit Committee. He is also Chairman of the Board of Trustees of ExplorOcean and a Director of Discovery Science Center/Discovery Cube/Ocean Quest. Mr. Pasquale is a successful leader in the real estate industry with extensive experience and strong skills in management, mergers and acquisitions and strategic planning. Mr. Pasquale received his B.S. degree in Accounting and his M.B.A. degree with highest honors from the University of Colorado.

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

Keith P. Russell Age: 71 Director

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

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

Voting recommendation. Directors will be elected by a majority of the votes cast. Any shares not voted, whether by abstention, "broker non vote" or otherwise, will have no impact on the vote.

Our Corporate Governance Guidelines and Bylaws provide a majority voting standard in uncontested director elections. A director nominee will be elected to the Board only if the number of votes cast “for” such nominee’s election exceeds the number of votes cast “withheld” with respect to such nominee’s election (with abstentions and broker non-votes not counted as votes cast either for or withheld in such election). If an incumbent nominee for director fails to receive the required majority vote in a director election, he or she will tender his or her resignation as a director for consideration by the Nominating and Corporate Governance Committee, and, ultimately, the Board.

In the event any incumbent nominee for director does not receive the requisite majority vote, our Corporate Governance Guidelines and Bylaws provide that our Nominating and Corporate Governance Committee will evaluate the circumstances of the failed election, and will make a recommendation regarding how to act upon the tendered resignation to

the full Board, taking into consideration the best interests of the Company and its stockholders. After considering the recommendation of the Nominating and Corporate Governance Committee, the full Board will then act upon the resignation, and will publicly disclose its decision regarding the tendered resignation and its rationale within 90 days of the certification of the election results. If the Board accepts the resignation, the nominee will no longer serve on the Board. If the Board rejects the resignation, the nominee will continue to serve until his or her successor has been duly elected and qualified or until his or her earlier disqualification, death, resignation or removal. Notwithstanding the foregoing, the Board shall be required to accept any resignation tendered by a nominee who is already serving as a director if such nominee shall have received more votes “against” or “withheld” than “for” his or her election at each of two consecutive annual meetings of stockholders for the election of directors at which a quorum was present and the number of director nominees equaled the number of directors to be elected at each such annual meeting of stockholders.

The Board of Directors recommends that our stockholders vote FOR each of the nominees.

Proposal 2: Ratification of the Audit Committee's Appointment of Independent Registered Public Accounting Firm

The Audit Committee has selected and appointed the firm of Ernst & Young LLP to act as our independent registered public accounting firm for the year ending December 31, 2017. Ernst & Young LLP has audited the financial statements for us since our initial public offering on October 26, 2004.

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

In selecting Ernst & Young LLP as the Company's independent registered accounting firm, the Audit Committee considered many factors, including the quality of its ongoing discussions with Ernst & Young LLP's representatives, the experience and professional qualifications of Ernst & Young LLP, and Ernst & Young LLP's programs and processes for maintaining its independence. Furthermore, in accordance with SEC rules and Ernst & Young LLP's policies, lead engagement partners are subject to rotation requirements to limit the number of consecutive years the lead partner may provide services. For lead audit partners, the maximum number of consecutive years of service in that capacity is five years. We select the Company's lead audit partner pursuant to this rotation policy following meetings between the Chairman of the Audit Committee and candidates for that role, as well as discussions by the full Audit Committee, members of the Board of Directors and management.

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

You can find more information about our relationship with Ernst & Young LLP on page 56 of this proxy statement.

Voting recommendation. Ratification of the appointment of Ernst & Young LLP requires a majority of the votes cast. Any shares not voted, whether by abstention, "broker non vote" or otherwise, have no impact on the vote.

The Board of Directors recommends that our stockholders vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2017.

Proposal 3: Advisory Vote (Non Binding) on Executive Compensation

Section 14A of the Securities Exchange Act of 1934, as enacted as part of the Dodd Frank Wall Street Reform and Consumer Protection Act in July 2010, or the Dodd Frank Act, requires us to submit to our stockholders a non binding advisory vote to approve the compensation of the NEOs listed in the Summary Compensation Table of this proxy statement, commonly referred to as a “say on pay” vote.

The Board of Directors has approved the submission of the following resolution to the Company’s stockholders for approval at the 2017 annual meeting:

“Resolved, that the stockholders hereby approve, on an advisory basis, the compensation of the Company’s Named Executive Officers as disclosed in the Company’s 2017 proxy statement pursuant to the disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the Summary Compensation Table and the other executive compensation tables and related discussion).”

As described more fully in the “Compensation Discussion and Analysis” beginning on page 26 of this proxy statement, the Company’s executive compensation program is designed to attract, motivate and retain talented executives through competitive compensation arrangements that, within appropriate risk parameters, provide strong financial incentives for the executive officers, including the NEOs, to maximize stockholder value. The compensation program is designed to achieve these objectives through a combination of the following types of compensation: base salary, annual cash incentive bonus awards and equity incentive awards. Base salary is intended to provide a baseline level of compensation for our NEOs. The remaining types of compensation, which in the aggregate represent the majority of our NEOs’ target total compensation opportunities, tie compensation directly to the achievement of corporate and individual objectives. Highlights of the Company’s executive compensation program include the following:

- We pay for performance. Our executive compensation program is weighed towards variable, rather than fixed, compensation. Specifically, the variable portion of our executive compensation program is designed to reward performance relative to financial and other metrics that we believe will result in favorable total stockholder returns.
- Executives are aligned with stockholders. A substantial portion of the NEOs’ compensation is linked to the Company’s absolute and relative total stockholder return measured over one, three and five-year periods.
- We require our CEO to have a meaningful ownership interest in the Company. Our stock ownership policy requires that within four years of joining the Company or being promoted to the CEO position, the CEO will own and retain shares of the Company’s common stock having a value equal to at least six times his or her annual base salary. Our Compensation Committee believes that requiring the CEO to maintain a meaningful ownership interest in the Company aligns the interests of the CEO with those of our stockholders.
- We solicit independent compensation advice. Our Compensation Committee retains an independent compensation consultant, for purposes of advising and consulting with respect to the compensation of our NEOs.

The Compensation Committee and the Board believe that these policies are effective at incentivizing the achievement of the Company’s strong financial performance.

At the 2017 annual meeting, stockholders are being asked to indicate how frequently they believe we should seek an advisory vote on the compensation of our NEOs (the “Frequency Proposal”). As our Board of Directors has recommended that our stockholders vote for a frequency of one year, we currently expect our next vote on a say-on-pay proposal (after the vote on this Proposal 3) will be held at our annual meeting in 2018, although our Board of Directors may decide to modify this practice, particularly in light of the results of the Frequency Proposal.

Voting recommendation. The affirmative vote of a majority of the votes cast will be required to approve, on a non binding, advisory basis, the compensation of our NEOs as disclosed in this proxy statement.

The stockholder vote on executive compensation is an advisory vote only, and it is not binding on the Company, the Board of Directors or the Compensation Committee. Although the vote is non binding, the Compensation Committee

and the Board of Directors value the opinions of the stockholders and will consider the outcome of the vote when making future compensation decisions.

The Board of Directors recommends that our stockholders vote FOR the approval (on a non-binding, advisory basis) of the compensation of the NEOs as disclosed in this proxy statement.

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Proposal 4: Advisory Vote (Non Binding) on the Frequency of Holding an Advisory Vote on Executive Compensation

The Dodd-Frank Act enables our stockholders to indicate how frequently they believe we should seek an advisory vote on the compensation of our NEOs. We are seeking an advisory, non-binding determination from our stockholders as to the frequency with which stockholders would like to have an opportunity to provide an advisory approval of our executive compensation program. We are providing stockholders the option of selecting a frequency of every one, two or three years, or abstaining. The Board recommends that future say-on-pay votes occur every one year until the next frequency vote. Stockholders are not being asked to approve or disapprove the Board of Director's recommendation, but rather to indicate their choice among those say-on-pay frequency options.

Voting recommendation. In order for any of the three alternative frequencies to be approved, it must receive a majority of the votes cast on this proposal. Because there are four choices, it is possible that none of the alternative frequencies will receive a majority of the votes cast. However, stockholders will still be able to communicate their preference with respect to frequency of say-on-pay proposals by choosing from these alternatives. Abstentions and broker non-votes will not be treated as votes cast and, accordingly, will have no effect on the outcome of the vote on this proposal.

This proposal is a non-binding, advisory vote, and therefore will not have any binding legal effect on the Company or our Board of Directors. However, our Board of Directors will consider the results of the vote on this proposal in its decision regarding the frequency with which the Company submits say-on-pay proposals in the future.

The Board of Directors recommends that our stockholders vote to hold a say-on-pay vote every ONE year.

COMPANY INFORMATION

Corporate Governance

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

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

Conflict of Interest Policy

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

Code of Business Conduct and Ethics

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

Pledging and Hedging Policies

We have established pledging and hedging policies applicable to our directors, officers and other employees (collectively referred to in this section only as “insiders” and individually as an “insider”).

Margin Accounts and Pledges. Securities held in a margin account or pledged as collateral for a loan may be sold without the insider’s consent by the broker if the insider fails to meet a margin call or by the lender in foreclosure if the insider defaults on the loan. Because a margin or foreclosure sale may occur at a time when the insider is aware of material nonpublic information or otherwise is not permitted to trade in Company securities, insiders are prohibited from holding Company securities in a margin account or pledging Company securities as collateral for a loan. An exception to this prohibition may be granted where the insider wishes to pledge Company securities as collateral for a loan (not including margin debt) and clearly demonstrates the financial capacity to repay the loan without resort to the pledged securities. If the insider wishes to pledge Company securities as collateral for a loan, the insider must submit a request for approval to the Chief Financial Officer at least one month prior to the proposed execution of documents evidencing the proposed pledge.

Hedging Transactions. Certain forms of hedging or monetization transactions, such as zero cost collars and forward sale contracts, involve the establishment of a short position in the Company's securities and limit or eliminate an insider's ability to profit from an increase in the value of the Company's securities. Such transactions are complex and involve many aspects of the federal securities laws, including filing and disclosure requirements. Therefore, the Company requires insiders that wish to enter into such an arrangement to first pre clear the proposed transaction. Any request for pre clearance must be submitted to the Chief Financial Officer at least one month prior to the proposed execution of documents evidencing the proposed transaction.

Sustainability Practices

All of our hotels currently participate in some form of a sustainability program, and we are committed to expand these programs over the next several years. Currently, our sustainability programs cover such areas as energy conservation, water conservation, waste reduction and recycling. Sunstone's comprehensive energy efficiency program is aimed not only at making our hotels more energy efficient and environmentally friendly, but also at enhancing the profitability of our hotels. Our energy efficiency program includes, but is not limited to, retrofitting incandescent lighting systems with new LED fixtures, guestroom "smart" thermostats that adjust room conditions based on whether the room is occupied or not, central plant efficiency upgrades, laundry outsourcing, low flow toilet systems and energy cogeneration facilities.

We continue to seek new sustainability innovations to implement across our portfolio. While the lodging industry's sustainability efforts are at an early stage, the various hotel brands are aligned with us in their desire to advance sustainability programs. Together we are committed to improving energy efficiency, and the environmental impact of our hotels.

Independence of Directors and Committees

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

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

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

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

The Board of Directors Leadership Structure

From May 1, 2015 to present, Mr. Pasquale has served as our Non Executive Chairman. From January 17, 2015 to present, Mr. Arabia has served as President, Chief Executive Officer and a director. Assuming that the nominees listed in Proposal 1 are elected as directors at the 2017 annual meeting, we expect Mr. Pasquale will continue to serve as our Non Executive Chairman and Mr. Arabia as our President and Chief Executive Officer and a director.

Since October 26, 2004, the roles of chairman and chief executive officer have been held separately. Though the Board of Directors does not have a formal policy as to whether the chairman should be an independent director, an affiliated director or a member of management, in the event the chairman is or becomes an affiliated director or a member of Company management, or if the independent directors were to determine that it is in the best interests of

the Company, the independent directors will appoint from among themselves an independent co-chairman or lead independent director (consistent with our bylaws and our corporate governance guidelines).

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

Furthermore, our Board of Directors currently has eight independent members and one non-independent member, Mr. Arabia. Assuming that the nominees listed in Proposal 1 are elected as directors at the 2017 annual meeting, our Board of Directors will have seven independent members and one non-independent member. A number of the members of our Board of Directors are currently serving or have served as members of senior management of other public companies and have served as directors of other public companies. We currently have three board committees comprised solely of independent directors.

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

Risk Oversight

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

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

Director Attendance at Meetings

Each of our directors is expected to attend each annual meeting of stockholders and all meetings of the Board of Directors. The Board of Directors held five meetings and acted by written consent on five occasions in 2016. During that period, all directors attended at least 75% of the aggregate of the meetings of the Board of Directors and all committees of the Board of Directors on which they served during the periods in which they served. In addition, all of our directors attended our annual meeting of stockholders in 2016.

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

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

In addition, any interested party who wishes to communicate directly with our non-employee directors may contact our Non-Executive Chairman at the mailing address of the Company's executive offices at 120 Vantis, Suite 350, Aliso

Viejo, California 92656. All communications will be received and processed on a confidential basis by the Secretary and then directed to the appropriate non-employee director(s).

Committees of the Board of Directors

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

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

The current members of our Compensation Committee are:

- Andrew Batinovich, who serves as the chair;
- Thomas A. Lewis, Jr.;
 - Murray J. McCabe; and
- Douglas M. Pasquale.

The Compensation Committee held four meetings during 2016.

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

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

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

The current members of our Audit Committee are:

- Andrew Batinovich;
- Z. Jamie Behar;
- Keith M. Locker; and
- Keith P. Russell, who serves as the chair.

The Audit Committee held four meetings during 2016.

The Board of Directors has determined that each of Andrew Batinovich, Z. Jamie Behar, Keith M. Locker and Keith P. Russell is qualified as an audit committee financial expert within the meaning of SEC regulations. In making this determination, the Board of Directors considered the following qualifications: (a) understanding of generally accepted

accounting principles, or GAAP; (b) ability to apply GAAP to accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues likely to be raised by our financial statements, or experience actively supervising persons engaged in these activities; (d) understanding of internal control over financial reporting; and (e) understanding of audit committee functions.

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

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

- maintain the highest personal and professional ethics, integrity and values;
- represent the long term interests of stockholders;
- exercise independence of thought, objective perspective and mature judgment;
- constructively challenge ideas and assumptions;
- understand our business operations and objectives and provide thoughtful and creative strategic guidance;
- contribute to the ongoing development and effective functioning of the Board of Directors;
- dedicate sufficient time, energy and attention to ensure the diligent and thoughtful performance of his or her duties; and
- demonstrate sincere commitment to our long term success and the achievement of its objectives.

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

The Nominating and Corporate Governance Committee will consider as potential director nominees candidates recommended by various sources, including any member of the Board of Directors or senior management. The Nominating and Corporate Governance Committee may also retain a third party search firm to identify candidates. The Nominating and Corporate Governance Committee also considers recommendations for nominees that are timely submitted by stockholders and only if such recommendations are delivered in the same manner prescribed by the advance notice provisions contained in Article II, Section 2.11 of our bylaws for stockholder proposals. See “Stockholder Proposals for the 2018 Annual Meeting.” In addition to satisfying the timing, ownership and other requirements specified in Article II, Section 2.11 of the bylaws, a stockholder’s notice must set forth as to each person whom the stockholder proposes to recommend that the committee nominate for election to the Board of Directors all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, pursuant to Regulation 14A under the Exchange Act and our bylaws (including such person’s written consent to being named in the proxy statement as a nominee and to serve as a director if elected). Properly communicated stockholder recommendations will be considered in the same manner as recommendations received from other sources.

The current members of our Nominating and Corporate Governance Committee are:

- W. Blake Baird;
- Z. Jamie Behar, who serves as the chair;
- Douglas M. Pasquale; and
- Keith P. Russell.

The Nominating and Corporate Governance Committee held four meetings during 2016.

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Current Committee Membership. The table below summarizes the current membership information for the committees of the Board of Directors:

	Compensation	Audit	Nominating and Corporate Governance
Mr. Baird			X
Mr. Batinovich	X*	X	
Ms. Behar		X	X*
Mr. Lewis	X		
Mr. Locker		X	
Mr. McCabe	X		
Mr. Pasquale	X		X
Mr. Russell		X*	X

*Chair

The Board of Directors, at the recommendation of the Nominating and Corporate Governance Committee, periodically reviews and modifies committee appointments.

Executive Sessions of Independent Directors. Ms. Behar and Messrs. Baird, Batinovich, Lewis, Locker, McCabe, Pasquale and Russell are currently our independent, non employee directors. The independent, non employee directors held executive sessions at least once each quarter in 2016 and held other meetings relating to corporate governance during the year. Following the 2017 annual meeting, we expect that our non employee directors will consist of Ms. Behar and Messrs. Baird, Batinovich, Lewis, McCabe, Pasquale and Russell and that Mr. Pasquale will preside over executive sessions of the non employee directors.

STOCK OWNERSHIP

Stock Ownership Requirements

Stock Ownership of our Chief Executive Officer. The Compensation Committee has established a stock ownership policy for our CEO. The Compensation Committee believes that requiring the CEO to maintain a meaningful ownership interest in the Company aligns the interests of the CEO with those of our stockholders (i.e., the CEO will experience the same downside risk and upside potential as our stockholders experience). The policy provides that, within four years of joining the Company or being promoted to the CEO position, the CEO will own and retain shares of the Company's common stock having a value equal to at least six times his or her annual base salary rate in effect on the December 31 immediately preceding the applicable January 1 determination date (described below).

Restricted shares of common stock that remain subject to time vesting issued pursuant to the Company's 2004 Long-Term Incentive Plan, as amended and restated effective May 1, 2014 ("LTIP"), count toward the stock ownership policy. Once the stock ownership requirement is met, periodic market declines in the value of the Company's common stock will not adversely affect any previous determination by the Board of Directors that the stock ownership requirement had been met. The value of the CEO's stock holdings on the calculation date (which will be January 1 of each year) will be based on the average closing price on the NYSE of the Company's common stock for the year ended immediately prior to the applicable January 1 determination date. Mr. Arabia, our CEO, was in compliance with the policy as of January 1, 2017.

Stock Ownership of our Directors. The Nominating and Corporate Governance Committee has implemented stock ownership requirements for Company directors. Under these guidelines, each existing director is required to hold stock valued at no less than three times the amount of the annual cash retainer paid to such director; and, for any new director, compliance with the guidelines is required within three years after being elected to the Board of Directors. To determine compliance with the "stock ownership" guidelines, (a) we include, in addition to shares the individual director owns outright, awarded but unvested restricted shares of Company stock and (b) we calculate the value of each director's stock holdings based on the average closing price on the NYSE of the Company's common stock for the year ended immediately prior to the applicable January 1 determination date. As of January 1, 2017, each applicable member of the Company's Board of Directors met or exceeded the stock ownership requirements. Due to rules implemented by her former employer, all director fees for Ms. Behar (including the value of the annual stock grant and attendance fees) were paid in cash to her employer for her service on the Board of Directors through August 31, 2015. All director fees for her service on the Board of Directors from and after September 1, 2015 have been and will continue to be paid directly to Ms. Behar. Accordingly, Ms. Behar is now subject to the above described stock ownership requirements and must achieve compliance by January 1, 2020. Messrs. Baird and McCabe, both of whom joined the Board of Directors in 2016, must achieve compliance by January 1, 2020.

Security Ownership by Directors, Executive Officers and Five Percent Stockholders

The following table sets forth information regarding the beneficial ownership of our common stock as of March 15, 2017 with respect to (a) each director and director nominee, (b) each NEO, (c) all of our directors and executive officers as a group and (d) each person known by us to be the beneficial owner of greater than a 5% interest in our common stock. Unless otherwise indicated, all shares of common stock are owned directly and the indicated person has sole voting and investment power. Percentage ownership is based on 220,417,417 shares of common stock outstanding as of March 15, 2017.

Unless otherwise indicated, the address of each person is 120 Vantis, Suite 350, Aliso Viejo, California 92656.

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage of Common Stock (1)
John V. Arabia, NEO and Director (2)	759,970	*
Marc A. Hoffman, NEO (2)	274,252	*
Bryan A. Giglia, NEO (2)	248,259	*
Robert C. Springer, NEO (2)	220,943	*
David M. Klein, NEO (2)	32,365	*
Keith P. Russell, Director	69,491	*
Douglas M. Pasquale, Director	66,853	*
Thomas A. Lewis, Jr., Director	57,963	*
Andrew Batinovich, Director	56,016	*
Keith M. Locker, Director	50,703	*
Z. Jamie Behar, Director	7,488	*
W. Blake Baird, Director	7,468	*
Murray J. McCabe, Director	7,468	*
All directors and executive officers as a group	1,859,239	*
The Vanguard Group (3)	34,753,751	15.77%
Cohen & Steers, Inc. (4)	21,220,349	9.62%
BlackRock, Inc. (5)	18,796,664	8.53%
Vanguard Specialized Funds—Vanguard REIT Index Fund (6)	16,437,910	7.46%
Daiwa Asset Management Co. Ltd. (7)	15,528,875	7.05%
Principal Real Estate Investors, LLC (8)	11,289,126	5.12%

*Represents less than 1% of the number of shares of our common stock and membership units in Sunstone Hotel Partnership, LLC.

(1)Based on total outstanding shares of common stock of 220,417,417.

(2)The number of shares of our common stock listed here includes the unvested shares of restricted stock granted under the 2004 Long-Term Incentive Plan which are subject to forfeiture if the vesting criteria are not satisfied.

(3)Derived solely from information contained in the Schedule 13G/A filed with the SEC on February 10, 2017 by The Vanguard Group. The address for The Vanguard Group is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(4)Derived solely from information contained in the Schedule 13G/A filed with the SEC on February 14, 2017 by Cohen & Steers, Inc. and certain affiliates. The address for Cohen & Steers, Inc. and Cohen & Steers Capital Management, Inc. is 280 Park Avenue, 10th Floor, New York, New York 10017. The address for Cohen & Steers UK Limited is 50 Pall Mall, 7th Floor, London, United Kingdom SW1Y 5JH.

(5)Derived solely from information contained in the Schedule 13G/A filed with the SEC on January 27, 2017 by BlackRock, Inc. The address for BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.

(6)Derived solely from information contained in the Schedule 13G/A filed with the SEC on February 14, 2017 by Vanguard Specialized Funds—Vanguard REIT Index Fund. The address for Vanguard Specialized Funds—Vanguard REIT Index Fund is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(7)Derived solely from information contained in the Schedule 13G/A filed with the SEC on February 7, 2017 by Daiwa Asset Management Co. Ltd. The address for Daiwa Asset Management Co. Ltd. is GranTokyo North Tower, 9 1 Marunouchi 1 chome, Chiyoda ku, Tokyo, Japan 100 6753.

(8)Derived solely from information contained in the Schedule 13G filed with the SEC on February 15, 2017 by Principal Real Estate Investors, LLC. The address for Principal Real Estate Investors, LLC is 801 Grand Avenue, Des Moines, Iowa 50392.

OUR EXECUTIVE OFFICERS

The following sets forth biographical information regarding our Executive Officers for the year ended December 31, 2016, other than Mr. Arabia, whose biographical information is set forth above under "Proposal 1: Election of Directors."

Bryan A. Giglia, 40, is our Executive Vice President—Chief Financial Officer. Prior to his appointment to Chief Financial Officer in February 2013, Mr. Giglia served as Senior Vice President—Corporate Finance since March 1, 2010 and oversaw capital market transactions, corporate financial planning and analysis, and investor relations. Mr. Giglia joined the Company in March 2004 as a financial analyst, serving in the capacity of Director of Finance from October 2005 through February 2007. From March 2007 to February 2010, he served as Vice President—Corporate Finance. From August 1998 to August 2002, he served in a variety of accounting positions for Hilton Hotel Corporation. From August 2002 until joining the Company in March 2004, Mr. Giglia attended the Marshall School of Business at the University of Southern California, where he earned an M.B.A. degree. Mr. Giglia earned his B.S. degree in Business Administration from the University of Arizona.

Marc A. Hoffman, 59, is our Executive Vice President—Chief Operating Officer. Mr. Hoffman joined us in June 2006 as Vice President—Asset Management, and was appointed Senior Vice President—Asset Management in January 2007 and Executive Vice President and Chief Operating Officer on February 18, 2010. For the twenty-seven years prior to joining Sunstone, Mr. Hoffman served in various positions at Marriott International, Inc., including General Manager of The Vail Marriott, General Manager of Marriott's Harbor Beach Resort and Spa, Marriott Market Manager for Fort Lauderdale, General Manager of The Ritz-Carlton Palm Beach (where under Mr. Hoffman's leadership, the hotel obtained the Mobil 5 Star Award), and most recently as Vice President and Managing Director of Grande Lakes Orlando, which included the 1,000-room JW Marriott, the 584-room Ritz-Carlton Resort and Spa and The Ritz-Carlton Golf Club. Mr. Hoffman holds an A.O.S. degree from The Culinary Institute of America and a B.A. degree from Florida International University.

Robert C. Springer, 39, is our Executive Vice President—Chief Investment Officer. Mr. Springer joined us in May 2011 as Senior Vice President—Acquisitions. On February 15, 2013, he was promoted to Senior Vice President—Chief Investment Officer. Prior to joining Sunstone, Mr. Springer served as a Vice President in the Merchant Banking Division of Goldman, Sachs & Co. ("Goldman") and in the firm's principal lodging investing activity, which investments were primarily placed through the Whitehall Street Real Estate series of private equity funds, as well as the Goldman Sachs Real Estate Mezzanine Partners fund. Mr. Springer's involvement with these funds included all aspects of hotel equity and debt investing, as well as asset management of numerous lodging portfolios. Mr. Springer joined Goldman in February 2006. Prior to joining Goldman, Mr. Springer worked in both the feasibility and acquisitions groups at Host Hotels & Resorts from 2004 to 2006 and was integral to the closing of several large lodging deals. Mr. Springer started his career with PricewaterhouseCoopers, LLP in the Hospitality Consulting Group from 1999 to 2004. Mr. Springer holds a B.S. degree in Hotel Administration from Cornell University.

David M. Klein, 48, is our Senior Vice President and General Counsel. In April 2016, we announced that we hired Mr. Klein in this capacity and his employment began on July 1, 2016. Prior to joining Sunstone, Mr. Klein was a Partner in the Hospitality & Leisure group of Dentons, LLP, the world's largest law firm, where his practice focused solely on the hospitality and leisure industry. Prior to joining Dentons, Mr. Klein held the position of co-founding Principal, Chief Administrative Officer and General Counsel of NYLO Hotels and Advaya Hospitality. At NYLO, Mr. Klein spearheaded the company's joint venture capitalization with Lehman Brothers, as well as multiple debt facilities for all company-owned hotel properties. He also led the structuring of the joint venture capitalization of Advaya with Auromatrix, a large private Indian conglomerate based in Chennai, India. Additionally, he oversaw all corporate and legal matters related to both companies' ongoing franchise, management, development, financing and corporate affairs. Prior to his roles with NYLO and Advaya, Mr. Klein was a partner in the Hospitality & Leisure

group of Squire Sanders (Squire Patton Boggs). Mr. Klein received his J.D. degree from the Sandra Day O'Connor College of Law at Arizona State University and his B.A. degree from the University of California at Los Angeles.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Overview. This Compensation Discussion and Analysis explains our compensation philosophy and policies that applied in 2016 to our executive officers, specifically our NEOs listed in the Summary Compensation Table below. It explains the structure and rationale associated with each material element of the compensation program for the NEOs, describes the actual compensation paid to our NEOs for 2016, and provides important context for the more detailed disclosure relating to our NEOs in the compensation tables following this Compensation Discussion and Analysis.

Mr. Arabia currently serves as our President and Chief Executive Officer and is a member of our Board of Directors. In accordance with the rules of the SEC, each of Messrs. Arabia, Giglia, Hoffman, Springer and Klein are NEOs for 2016. On July 1, 2016, Mr. Klein's employment commenced with the Company and he was appointed Senior Vice President and General Counsel.

This Compensation Discussion and Analysis contains statements regarding Company performance targets and goals. These targets and goals are disclosed in the limited context of our executive compensation programs and should not be understood to be statements of management's future expectations or estimates of future results or other guidance. We specifically caution investors not to apply these statements to other contexts.

The Board of Directors and our management team considers it our responsibility to structure our compensation program in a way that is highly aligned with the interests of our stockholders. Although the advisory stockholder vote on executive compensation is non-binding, the Compensation Committee has considered and will continue to consider the outcome of the vote when making future compensation decisions for NEOs. At our 2016 annual meeting, approximately 99.4% of votes cast were in favor of our "say-on-pay" proposal. Though the members of the Compensation Committee believe that the stockholder vote on our 2016 "say on pay" proposal endorses the Company's compensation program, the Compensation Committee endeavors to continuously improve the Company's compensation program to more closely align compensation with the interests of our stockholders.

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

Our executive compensation program is weighted towards variable, rather than fixed, compensation. Specifically, the variable portion of our executive compensation program is designed to reward performance relative to financial and other metrics that we believe will result in favorable total stockholder returns, both in terms of absolute appreciation in the value of our shares, and in terms of relative performance as compared to our peers, taking into consideration our competitive position within the real estate industry and each executive's contributions to the Company. The Compensation Committee has also designed the compensation program to reward our executive officers at levels that the Compensation Committee believes to be competitive for companies in its industry, including in part as a result of the review of executive officer compensation levels at certain companies in a peer group, as identified below. We have not adopted any formal policies or guidelines for allocating compensation between long term and short term compensation, between cash and noncash compensation or among different forms of cash and noncash compensation. We believe the metrics for both the annual cash incentive bonuses and equity incentive awards for our NEOs demonstrate stockholder favorable compensation practices, particularly because our focus with respect to compensation of our NEOs is generally aligned with performance relative to key metrics.

Company Highlights – 2016 Financial and Operating Highlights. In 2016, our 28-hotel portfolio performed well despite a challenging operating environment. Our 2016 comparable hotel revenue increased approximately 2.0%

benefiting from a 10 basis point increase in occupancy and 1.2% increase in average daily rate. Additionally, comparable hotel revenue benefited as other incomes continued to grow, specifically, food and beverage increases at our Boston Park Plaza hotel which is benefiting from its complete repositioning which was completed during the year.

We completed our two major repositionings:

- Boston Park Plaza. In 2016, we completed the comprehensive repositioning of all 1,060 guestrooms and all public space. Following the completion of the repositioning, the hotel received the prestigious AAA four diamond award. Guest response continues to be positive and the hotel continues to expand its group

business and is booking group business with corporations and associations that previously would not have even considered the property.

- Wailea Beach Resort. At the end of 2016, we completed the comprehensive repositioning of all 543 guestrooms and all public space, including a new Nalu adventure pool complex complete with the two largest waterslides in Wailea and the resort's signature restaurant, Roy Yamaguchi's Humble Market Kitchen.

We improved an already strong balance sheet and liquidity:

- Preferred Stock. In 2016, we capitalized on market opportunities and issued \$190 million of perpetual preferred stock at a blended interest rate of 6.75%. We used a portion of these proceeds to redeem \$115 million of a prior preferred stock issuance at an interest rate of 8%.
- Extended our Debt Maturities. We repaid approximately \$429 million in debt (including the \$176 million loan secured by the Marriott Long Wharf in January 2017) using proceeds from our \$100 million unsecured term loan, perpetual preferred offerings and the private placement of \$240 million in senior unsecured notes in January 2017. These transactions lowered our average interest rate and extended our average term to maturity from four years to six years.

We returned capital to our stockholders:

- Dividends. In 2016, we declared cash dividends of \$0.68 per share of common stock payable to our stockholders. The 2016 declared cash dividends equates to a 4.5% dividend yield (based on the Company's closing stock price on December 31, 2016).

Total Stockholder Return. The following graph compares the total stockholder return of our common stock against the cumulative total returns of the Standard & Poor's Corporation Composite 500 Index and the Morgan Stanley Capital International United States REIT Index ("MSCI US REIT Index" or "RMS") for the period from December 31, 2011 to December 31, 2016. This graph assumes an initial investment of \$100 in our common stock and in each of the indices, and also assumes the reinvestment of dividends. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.

The actual returns on the graph above are as follows (rounded to the nearest whole dollar):

	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$
Sunstone Hotel Investors, Inc.	100	131	166	211	177	226
MSCI US REIT Index Total Return	100	118	121	157	161	175
S&P 500 Total Return	100	116	154	175	177	198

Compensation Highlights

The charts below illustrate the balance of the elements of target total compensation(1) during 2016 for Mr. Arabia, our CEO, and the average of the other NEOs, excluding Mr. Klein whose employment commenced on July 1, 2016.

As the charts above indicate, total target compensation for our CEO and other NEOs included performance-based cash and equity incentives of 74% and 68%, respectively, which aligns their performance with the interests of our stockholders. Target total compensation for our CEO is weighted more toward long-term incentives than the other NEOs, as the Compensation Committee wants to encourage our CEO, in particular, to focus on our long-term growth.

(1) Percentage of total compensation is calculated as follows: the 2016 base salary and the value of actual executive-level perquisites paid to the NEOs; the target 2016 cash incentive award; and the target 2016 equity incentive award. Each compensation element is outlined in more detail in both Our Compensation Program and the Summary Compensation Table set forth on pages 29 and 41, respectively.

Our Compensation Program

Compensation Element	Key Characteristics	Why We Pay This Element	Considerations in Determining the Amount of Pay	2016 Compensation Decisions
Base Salary	<p>Fixed compensation that reflects each executive's position and individual performance.</p> <p>Payable in cash.</p> <p>Reviewed annually and adjusted when appropriate.</p>	<p>To provide a reasonable standard of living and a base wage that is competitive.</p>	<p>An assessment of the scope of the executive officer's responsibilities and leadership.</p> <p>The executive officer's expertise and experience within the industry.</p> <p>The Company's overall financial and business performance.</p>	<p>Our CEO received a 7.1% increase in base salary.</p> <p>Our other NEOs received base salary increases ranging from 2% to 2.6%.</p>
Cash Incentive Bonuses	<p>Variable compensation based on performance and responsibility level to compensate each executive officer for achieving our annual stockholder return and other corporate goals, and implementing our long-term plans and strategies.</p> <p>Payable in cash.</p>	<p>To compensate our executive officers for achieving our annual goals at both the corporate and hotel levels.</p>	<p>The executive officer's contribution to the Company.</p> <p>The Company's performance against the Ten Goals (defined below).</p> <p>The NEOs achievement of individual goals (detailed below).</p>	<p>Each of our NEOs received a cash incentive bonus due to our achievement of various financial goals and strategic objectives.</p> <p>Our CEO received a cash incentive bonus paid at various thresholds between 100% and 275% of his base salary.</p> <p>Our other NEOs each received cash incentive bonuses paid at various thresholds between 50% and 175% of their base salaries.</p>
Equity Incentive Awards	<p>Variable compensation designed to award a significant portion of our NEOs' annual incentive compensation in</p>	<p>To encourage ownership, foster retention through post-grant vesting</p>	<p>The Company's performance against the Ten Goals (defined below).</p>	<p>Each of our NEOs received an equity incentive award due to our achievement of</p>

<p>equity to further the objectives of fostering executive ownership and the alignment of each executive's interests with those of our stockholders.</p>	<p>schedules and align the executive officers' interests with the long-term interests of our stockholders.</p>	<p>The NEOs achievement of individual goals (detailed below).</p>	<p>various financial goals and strategic objectives.</p>
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Restricted Stock issued under our LTIP.

Time-based, vesting ratable over three years.

Our CEO received an equity incentive award valued at various thresholds between 150% and 425% of his base salary.

Our other NEOs each received equity incentive awards valued at various thresholds between 100% and 300% of their base salaries.

<p>Benefits and Perquisites</p>	<p>Fixed compensation. Participation in broad-based benefit plans at same cost as other employees.</p>	<p>To allow our executive officers to participate in our broad-based employee benefits.</p>	<p>Level of benefits provided to all employees. Benefits consistent with industry peers.</p>	<p>Our NEOs received Company-wide benefits and perquisites as detailed on page 41.</p>
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2016 Compensation Decisions

The Compensation Committee assists the Board of Directors in determining the compensation of our executive officers. It evaluates and recommends to the Board of Directors appropriate policies and decisions relative to executive officer salary, benefits, bonus, incentive compensation, severance, equity based and other compensation plans.

As described in more detail below, compensation for fiscal year 2016 for each of our NEOs was determined by the Compensation Committee based upon a review of the Company's performance, the individual performance of each NEO, total compensation paid by the Company to each NEO in prior years, and, in certain instances, taking into account certain peer group information.

Peer Group Information. The Compensation Committee uses comparison data from various companies in certain peer groups as a guide in its review and determination of base salaries, annual cash bonuses and restricted stock awards for its executive officers, including the NEOs. During 2015 and 2016, the Compensation Committee reviewed peer group data provided by its independent compensation consultant, FPL, to assist in its determination regarding compensation for our NEOs for 2016. The Compensation Committee evaluates our performance and determines whether the compensation elements and levels that we provide to our executive officers, including our NEOs, are generally appropriate relative to the compensation elements and levels provided to their counterparts at our peer companies, in light of our performance relative to our peers and in light of each executive officer's contribution to our performance.

In 2016, the Compensation Committee, based on the information provided by FPL, determined the composition of our peer groups and the criteria and data used in compiling our peer group lists. The peer groups selected and used by the Compensation Committee are all public real estate companies and are divided into two groups: hotel REIT peers and size/geographic peers. Each peer group is discussed and identified below:

- **Hotel REIT Peer Group.** This peer group consisted of ten public hospitality REITs that the Company and FPL consider to be the most relevant peer group against which to review compensation for NEOs. This peer group had total capitalization ranging from approximately \$2.6 billion to \$22.2 billion (as of December 31, 2014), compared to the Company's total capitalization of \$5.0 billion (as of December 31, 2014).
- **Size/Geographic Based Peer Group.** This peer group consisted of 12 public real estate companies, four of which have corporate headquarters located within the State of California. This peer group focuses on a variety of asset classes and had total capitalization ranging from approximately \$3.2 billion to \$9.3 billion (as of December 31, 2014) compared to the Company's total capitalization of \$5.0 billion (as of December 31, 2014).

Hotel REIT Peer Group	Size/Geographic Based Peer Group
Ashford Hospitality Trust, Inc.	Acadia Realty Trust
Chesapeake Lodging Trust	BioMed Realty Trust, Inc.
DiamondRock Hospitality Company	Camden Property Trust
FelCor Lodging Trust Incorporated	Choice Hotels International, Inc.
Hersha Hospitality Trust	Cousins Properties Incorporated
Host Hotels & Resorts, Inc.	DCT Industrial Trust, Inc.
LaSalle Hotel Properties	Douglas Emmett, Inc.
Pebblebrook Hotel Trust	FelCor Lodging Trust Incorporated
RLJ Lodging Trust	Hudson Pacific Properties, Inc.
Strategic Hotels & Resorts, Inc.	PS Business Parks, Inc.
	Regency Centers Corporation
	Strategic Hotels & Resorts, Inc.

The peer group compensation analyses prepared by FPL in 2015 were utilized by our Compensation Committee to review and make informed decisions regarding our NEO compensation for 2016. In October 2016, FPL provided the Compensation Committee updated peer group data, which was used to further evaluate executive compensation.

The 2015 FPL report noted the following: (a) based on the Company's top five paid executives for 2014 (currently employed as of the analysis date), Sunstone's pay on an absolute dollars basis across both a one and three year period ranked below the lower quartile compared to the Hotel Peer Group, and ranked in line with the 30th percentile compared to the Size/Geography Peer Group; and (b) when comparing the target total remuneration by total capitalization, Sunstone ranked at the 33rd and 42nd percentiles, respectively, of the Hotel and Size/Geography Peer Groups.

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

recommendations to the full Board of Directors regarding changes in executive compensation.

Annual Base Salary. The annual base salary component of an executive officer's compensation is intended to provide a reasonable standard of living and a base wage at levels believed by the Compensation Committee to be competitive. The Compensation Committee reviews base salaries annually, but base salaries are not automatically increased pursuant to pre-determined formulas or otherwise and may not be increased if, among other things, the Compensation Committee believes that other elements of compensation are more appropriate in light of the Company's stated objectives or that increases are not appropriate for other reasons. This strategy is consistent with the Company's primary goal of offering compensation that is intended to incentivize an executive officer to seek to maximize stockholder returns and that

is contingent on the achievement of performance objectives. Each executive officer's base salary serves as the base amount for determining annual cash and equity incentive award opportunities, which are calculated as percentages of such executive's base salary.

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

- an assessment of the scope of the executive officer's responsibilities and leadership;
- the executive officer's expertise and experience within the industry;
- the Company's overall financial and business performance; and
- the executive officer's contributions to the Company.

This determination is not formulaic and is not based on specific Company or individual performance targets objectives, but rather is subjective and made in light of our compensation philosophy and objectives described above. The following table includes the base salary determinations for each of our NEOs, all of which were increased in February 2016 based, in part, upon the analyses prepared by FPL in 2015.

	2016 Base Salary	% Change from 2015 Base Salary
John V. Arabia	\$ 750,000	7.1 %
Bryan A. Giglia	\$ 430,000	2.4 %
Marc A. Hoffman	\$ 520,000	2.0 %
Robert C. Springer	\$ 395,000	2.6 %
David M. Klein (1)	\$ 315,000	— %

(1) Mr. Klein's employment commenced on July 1, 2016.

Annual Cash Incentive Bonuses and Annual Equity Incentive Awards. We use annual cash incentive bonus and annual equity incentive awards to further motivate executive officers by establishing relationships between the bonuses and awards, on the one hand, and the performance of the Company and the executive officer on the other. We believe that tying our executive officers' cash bonus and long term equity compensation to the quantitative metrics discussed below provides a strong financial incentive to maximize stockholder value.

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

The annual equity incentive awards are also intended to encourage ownership, foster retention through post grant vesting schedules and align the executive officers' interests with the long term interests of our stockholders. Historically, we have used restricted stock awards the size of which is determined based on achievement of pre established performance goals and generally vest over a three year period following grant. We use restricted stock

for these awards in order to confer the full value of the equity because these awards are granted in respect of prior attainment of performance objectives, but we subject these awards to three year vesting to provide retention and integrity incentives (subject to accelerated vesting in certain circumstances, as discussed below in the table “—Potential Payments Upon Termination or Change in Control”). Because the awards are only granted if certain performance criteria are met, we generally do not utilize additional performance based criteria in connection with the vesting of these awards.

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

Criteria and Metrics for 2016 Incentive Compensation. In the first quarter of 2016, the Compensation Committee established quantitative and qualitative performance measures for both the annual cash incentive bonuses and the annual equity incentive awards for our NEOs. Each NEO's potential for the annual cash incentive bonus and the annual equity incentive award opportunity was based on the achievement of both the Ten Goals (discussed below) and each NEO's individual goal weighted as follows:

	Achievement of the Ten Goals		Achievement of NEO's Individual Goal	
John V. Arabia	85	%	15	%
Bryan A. Giglia	80	%	20	%
Marc A. Hoffman	80	%	20	%
Robert C. Springer	80	%	20	%
David M. Klein (1)	75	%	25	%

(1) Mr. Klein's employment commenced on July 1, 2016.

The relative weighting of the Ten Goals and individual goals established by the Compensation Committee for each of our NEOs reflects its analysis of the appropriate amount of emphasis to place on both objective corporate and subjective individual goals, and not any pre-determined formula or methodology. The Compensation Committee may, at its discretion, adjust criteria to account for significant intra-year transactions and circumstances.

The Compensation Committee determined that the amounts of the bonuses and awards to each NEO would, either in part or in whole, be based on the achievement of the following ten goals (collectively, the "Ten Goals"), each weighted as described (with the ranges representing variation in weighting among our NEOs as opposed to a range for each NEO), as well as individual performance:

Goal	Goal Description	Goal Weighting
Goal #1: One Year Relative Total Stockholder Return	Relative total stockholder return from the last trading day in 2015 through the last trading day in 2016	6.25% - 7.08%
Goal #2: Three Year Relative Total Stockholder Return	Relative total stockholder return from the last trading day in 2013 through the last trading day in 2016	6.25% - 7.08%
Goal #3: Five Year Relative Total Stockholder Return	Relative total stockholder return from the last trading day in 2011 through the last trading day in 2016	6.25% - 7.08%
Goal #4: One Year Absolute Total Stockholder Return	Absolute total stockholder return from the last trading day in 2015 through the last trading day in 2016	6.25% - 7.08%
Goal #5: Three Year Absolute Total Stockholder Return	Absolute total stockholder return from the last trading day in 2013 through the last trading day in 2016	6.25% - 7.08%

Total Stockholder Return		
Goal #6: Five Year Absolute	Absolute total stockholder return from the last trading day in 2011 through the last trading day in 2016	6.25% - 7.08%
Total Stockholder Return		
Goal #7: AFFO	Adjusted funds from operations attributable to common stockholders per share	15.00% - 17.00%
Goal #8: Debt to	Maintain the Company's leverage profile	15.00% - 17.00%
Undepreciated Book Value		
Goal #9: Return on Assets	Return on assets	3.75% - 4.25%
Goal #10: RevPAR Growth	Growth to revenue per available room, or RevPAR	3.75% - 4.25%

For each of the Company's Ten Goals, the Compensation Committee established four achievement levels—"Threshold," "Target," "High" and "Superior," and for each achievement level, a corresponding multiple of base salary for each NEO. For any of the components, the amount granted to the applicable NEO was the product of (a) his base salary, (b) the weighting for that component, (c) the multiple corresponding to the level of achievement

599,061

President & Chief

Financial Officer

Seth Myones

2014

\$
371,000

\$
492,973

\$
—

\$
406,798

\$
91,006

\$
19,571

\$
1,381,348

Executive Vice

2013

\$
371,000

\$
502,617

(6)

\$
—

\$
125,000

\$
—

\$
40,967

\$
1,039,584

President & Chief

2012

\$
350,000

\$
500,011

(7)

\$
—

\$
244,103

\$
205,158

\$
91,178

\$
1,390,450

Operating Officer

Timothy J. Simpson

2014

\$
364,000

\$
483,653

\$
—

\$
435,589

\$
74,699

\$
55,723

\$
1,413,664

Executive Vice

2013

\$
364,000

\$
493,130

(6)

\$
—

\$
105,000

\$
—

\$
59,815

\$
1,021,945

President, General

2012

\$
350,000

\$
375,020

(7)

\$
—

\$
200,152

\$
—

\$
89,323

\$
1,014,495

Counsel & Secretary

Derek W. Veenhof ⁽⁹⁾

2014

\$
315,000

\$
418,560

\$
—

\$
290,812

\$
—

\$
19,364

\$
1,043,736

Executive Vice

President Sustainable

Solutions

Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The grant date fair value for time-based restricted stock is computed using the closing price of the shares on the grant date. The grant date fair value for the performance TSR-based restricted stock units was calculated by using a Monte Carlo (1) simulation, which produced a probable value for the awards at \$16.60 per share for the 2013 grant and \$14.13 for the 2014 grant. TSR Equity Awards will vest at the end of the three-year vesting term, however, the number of shares delivered will vary based upon the attained level of performance and may range from 0 to 2.0 times the number of target units awarded.

Amounts included for 2014 represent the value of the annual incentive cash awards plus the special cash incentive (2) awards received by each named executive officer in March 2015 in respect of service performed in 2014. See the “Grants of Plan-Based Awards — 2014” table for more information.

The amounts shown for each named executive officer in this column are attributable to the change in actuarial present value of the accumulated benefit under defined benefit and actuarial plans at December 31, of the applicable year, as compared to December 31, of the immediately preceding year. No named executive officer (3) received preferential or above-market earnings on deferred compensation in 2012. For Messrs. Orlando, Myones and Simpson, the actual change in pension value in 2013 was negative as follows: Orlando \$215,587, Myones \$130,034, Simpson \$38,437. Pursuant to SEC guidance, these amounts have been omitted from the table.

(4) The amounts shown in this column for 2014 consist of the following components:

Name	Company 401(k) Match ^(a)	Company Contribution to Defined Contribution Plan ^(b)	Life Insurance Premiums Paid by Company	Severance Payments and Outplacement Service	Perquisites	Dividends Accrued on Performance Based Equity Incentive Awards	Total
Anthony J. Orlando	\$10,400	\$7,800	\$1,848	\$—	\$—	\$77,524	\$97,572
Bradford J. Helgeson	\$10,400	\$7,800	\$1,294	\$—	\$—	\$2,582	\$22,076
Seth Myones	\$10,400	\$7,800	\$1,371	\$—	\$—	\$—	\$19,571
Timothy J. Simpson	\$10,400	\$7,800	\$1,345	\$—	\$—	\$36,178	\$55,723
Derek W. Veenhof	\$10,400	\$7,800	\$1,164	\$—	\$—	\$—	\$19,364

(a) Represents matching contributions to the 401(k) account under the Covanta Energy Savings Plan of each named executive officer. See the description of the plan in “Retirement Plans” for more information.

(b) Represents contributions to the defined contribution retirement plan account under the Covanta Energy Savings Plan of each named executive officer. See the description of the plan in “Retirement Plans” for more information.

(5) Represents the sum of the amounts in all of the columns of the Summary Compensation Table for each named executive officer.

(6) Includes \$16.60 of grant date fair value for TSR awards and \$19.42 of grant date fair value for restricted stock awards.

(7) Includes \$16.18 of grant date fair value for growth equity awards and \$16.18 of grant date fair value for restricted stock awards.

(8) Mr. Helgeson was not a named executive officer of the Company in 2012.

(9) Mr. Veenhof was not a named executive officer of the Company in 2012 or 2013.

Equity Award Plans

All equity awards made to the named executive officers in 2014 were made pursuant to our 2004 equity award plan for employees and officers, which we refer to as the “2004 Employee Plan.” The 2014 Equity Award Plan, which was approved by our stockholders at the 2014 Annual Meeting, consolidates into a new single plan two existing equity plans: the 2004 Employee Plan and the Covanta Holding Corporation 2004 Equity Award Plan for Directors (the “2004 Director Plan” and together with the 2004 Employee Plan, the “Former Plans”). The Former Plans were both originally effective October 5, 2004 and expired by their terms on October 4, 2014. Upon approval of the 2014 Equity Award Plan by our stockholders at our 2014 Annual Meeting, the Former Plans were terminated with respect to any awards under such plans which have not yet been granted and the 2004 Employee Plan now remains in effect only until all awards granted under it have been satisfied or expired. The Former Plans were originally approved by our stockholders in October 2004 and subsequent amendments to the 2004 Employee Plan were approved by stockholders on September 19, 2005, May 1, 2008 and May 7, 2009 and an amendment to the 2004 Director Plan was approved by stockholders on May 1, 2008.

The 2004 Employee Plan and the 2014 Equity Award Plan are both administered by the Compensation Committee of our Board. Awards under the 2004 Employee Plan were granted to employees (including officers) of the Company, its subsidiaries and affiliates. The 2004 Employee Plan provided, and the 2014 Equity Award Plan provides, for awards to be made in the form of (a) shares of restricted stock, (b) incentive stock options, (c) non-qualified stock options, (d) stock appreciation rights, (e) performance awards, (f) restricted stock units or (g) other stock-based awards which relate to or serve a similar function to the awards described above. Awards could be made on a stand-alone, combination or tandem basis.

As of March 17, 2015, there were 5,724,298 shares of common stock available for issuance under the 2014 Equity Award Plan, and no recipient under the Plan may be granted awards in any calendar year with respect to more than 250,000 shares of restricted stock; or restricted stock units and options to purchase 650,000 shares, 250,000 performance shares or \$5.0 million of performance units.

The following table provides information on both equity incentive awards that were made under our 2004 Employee Plan and incentive cash awards made during the year ended December 31, 2014.

Grants of Plan-Based Awards — 2014

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units ⁽³⁾	All Other Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards ⁽⁴⁾
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Anthony J. Orlando	February 26, 2014	\$339,750	\$679,500	\$1,359,000	—	—	—	—	—	—	\$—
	February 26, 2014	\$—	\$—	\$—	14,761	59,042	118,084	—	—	—	\$834,263
	February 26, 2014	\$—	\$—	\$—	—	—	—	29,521	—	—	\$503,333
Bradford J. Helgeson	February 26, 2014	\$122,500	\$245,000	\$490,000	—	—	—	—	—	—	\$—
	February 26, 2014	\$—	\$—	\$—	5,132	20,528	41,056	—	—	—	\$290,061
	February 26, 2014	\$—	\$—	\$—	—	—	—	10,264	—	—	\$175,001
Seth Myones	February 26, 2014	\$129,850	\$259,700	\$519,400	—	—	—	—	—	—	\$—
	February 26, 2014	\$—	\$—	\$—	5,440	21,760	43,520	—	—	—	\$307,469
	February 26, 2014	\$—	\$—	\$—	—	—	—	10,880	—	—	\$185,504
Timothy J. Simpson	February 26, 2014	\$118,300	\$236,600	\$473,200	—	—	—	—	—	—	\$—
	February 26, 2014	\$—	\$—	\$—	5,338	21,349	42,698	—	—	—	\$301,661
	February 26, 2014	\$—	\$—	\$—	—	—	—	10,674	—	—	\$181,992
Derek W. Veenhof	February 26, 2014	\$102,375	\$204,750	\$409,500	—	—	—	—	—	—	\$—
	February 26, 2014	\$—	\$—	\$—	4,619	18,475	36,950	—	—	—	\$261,052
	February 26, 2014	\$—	\$—	\$—	—	—	—	9,238	—	—	\$157,508

(1)

In February 2014, our Compensation Committee established various levels of performance. The amounts shown in these columns reflect the range of potential payouts for 2014 performance under our annual incentive cash award plan between the "threshold" and "maximum" levels. The amounts shown in the "threshold" column represent the amount of cash award payable at the 50% of "target" level of performance. In addition, there is a "minimum" level of Company performance below the "threshold" which if not attained will result in no cash awards being payable. Please see the "Compensation Discussion and Analysis" in this proxy statement for more information regarding these awards and performance measures.

The number of shares of Company common stock actually delivered to executive officers at the end of the three year TSR cycle can range from 0% to 200% of the number of target shares awarded. If the relative TSR is below the 40th percentile of any of the peer group participants will not receive any shares at the end of the performance period with respect to that peer group and will not receive any cash dividend equivalents. If the relative TSR is at least at the 40th percentile of the designated peer group a threshold payout of 25% of the number of target shares (2) will be allocated to each participant with respect to that peer group plus cash dividend equivalents relative to the number of shares awarded. To receive 100% of target the Company's TSR must perform at the 70th percentile compared to the designated peer group. Participants can earn up to 200% of target if the Company performs at the 90th percentile. Awards are interpolated on a straight-line basis for performance results between levels. Please see the "Compensation Discussion and Analysis" in this proxy statement for more information regarding these awards and growth goals.

The number of shares shown in this column reflects the 2014 restricted stock awards under our 2004 Employee (3) Plan. The restricted stock awards made in 2014 vest ratably over three years, on the basis of continued employment.

Represents the grant date fair value of the awards computed in accordance with FASB ASC Topic 718. The grant date fair value for time-based restricted stock is computed using the closing price of the shares at the grant date. (4) The grant date fair value for the performance TSR-based restricted stock units was calculated by using a Monte Carlo simulation, which produced a probable value for the awards at \$14.13 per share for 2014 and \$16.60 per share for 2013. For our named executive officers, we have assumed for calculating the grant date fair value under FASB ASC Topic 718 that the forfeiture rate was zero.

The following table sets forth the outstanding equity awards held by each of our named executive officers as of December 31, 2014:

Outstanding Equity Awards at Fiscal Year-End 2014

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ⁽¹⁾ (\$)
	Number of Securities Underlying Unexercisable Options (#)	Number of Securities Underlying Unexercisable Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ⁽¹⁾ (\$)			
Anthony J. Orlando	270,000	—	\$ 20.52	3/19/2017	7,211	(2)	\$ 1,188,408	90,144	(5) \$ 4,697,154
	200,000	—	\$ 24.76	2/21/2018	17,262	(3)		12,361	(5)
					29,521	(4)		51,863	(6)
								59,042	(6)
Bradford J. Helgeson	30,000	—	\$ 23.30	5/7/2017	3,709	(2)	\$ 375,491	3,002	(5) \$ 721,994
					3,087	(3)		9,273	(6)
					10,264	(4)		20,528	(6)
Seth Myones	—	—	\$ 20.52	3/19/2017	6,181	(2)	\$ 515,540	12,361	(5) \$ 1,171,702
					6,362	(3)		19,114	(6)
					10,880	(4)		21,760	(6)
Timothy J. Simpson	120,000	—	\$ 20.52	3/19/2017	4,636	(2)	\$ 474,360	42,067	(5) \$ 2,012,594
					6,242	(3)		9,271	(5)
					10,674	(4)		18,753	(6)
Derek W. Veenhof	25,000	—	\$ 20.52	3/19/2017	2,679	(2)	\$ 322,689	—	(5) \$ 588,063
					2,744	(3)		8,243	(5)
					9,238	(4)		18,475	(6)

(1) Based on the closing price of our common stock of \$22.01 on December 31, 2014, as reported on the New York Stock Exchange.

(2) Restricted stock vests on March 17, 2015.

(3) Restricted stock vests in two equal installments on March 17, 2015 and March 17, 2016.

(4)

Restricted stock vests in three equal installments on March 17, 2015, March 17, 2016, and March 17, 2017.

(5) Growth equity awards vest after a period of at least three years based on successful achievement of specified criteria and confirmation of a bring down calculation by the Compensation Committee.

TSR Equity Awards are reflected at target. Actual vesting ranging from 0 to 200% of target will be determined (6) three years after grant based upon the Company's relative TSR performance against designated peer groups. See "Compensation Discussion and Analysis" for further detail regarding the vesting of the TSR Equity Awards.

The following table sets forth the option exercises and stock vesting for each of our named executive officers during the year ended December 31, 2014:

Option Exercises and Stock Vested During 2014

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ⁽¹⁾ (\$)
Anthony J. Orlando	—	\$—	26,854	\$463,500
Bradford J. Helgeson	—	\$—	9,256	\$159,759
Seth Myones	120,000	\$483,728	(2) 15,268	\$263,526
Timothy J. Simpson	—	\$—	12,963	\$223,714
Derek W. Veenhof	—	\$—	6,552	\$113,088

(1) Amounts reported in this column represent the value of restricted stock awards that vested on March 17, 2014.

(2) Represents the difference between the exercise price of the options and the fair market value of our common stock on the dates of exercise.

Retirement Plans

Pension Benefits

Supplemental Benefit Plan

We continue to provide to eligible employees, including Messrs. Orlando, Myones, and Simpson, a non-qualified supplemental defined benefit plan, relative to the Covanta Energy Pension Plan, a qualified defined benefit pension plan, prior to its termination in 2012. Historically, this non-qualified supplemental benefit provided a benefit equivalent to the Covanta Energy Pension Plan benefit for earnings above the IRS earnings cap. This non-qualified supplemental plan represents an unfunded obligation to pay a calculated benefit to retiring employees as and when they would otherwise have been eligible to receive a benefit under the now-terminated Covanta Energy Pension Plan. Effective January 1, 2010, we amended our non-qualified supplemental benefit plan to exclude future compensation increases received by eligible participants after December 31, 2009.

The following table shows pension benefit information as of December 31, 2014 for the named executive officers under the Covanta Energy Pension Plan and the Covanta Energy Supplemental Benefit Plan. No amounts were paid out in 2014.

Pension Benefits 2014

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ⁽¹⁾ (\$)
Anthony J. Orlando	Supplemental Benefit Plan	18.7	\$2,093,561
Bradford J. Helgeson	Supplemental Benefit Plan	—	\$—
Seth Myones	Supplemental Benefit Plan	15.7	\$493,040
Timothy J. Simpson	Supplemental Benefit Plan	12.3	\$403,386
Derek W. Veenhof	Supplemental Benefit Plan	—	\$—

Our actuarial assumptions used to determine the present value of the accumulated benefit at December 31, 2014 (1) were as follows: a measurement date of December 31, a discount rate of 4.95%, a retirement age of 65 years and the mortality required under the Internal Revenue Code for purposes of calculating lump sums.

Covanta Energy Savings Plan

The Covanta Energy Savings Plan is comprised of two components: The first component, which we provide to eligible employees, including named executive officers, is a qualified 401(k) retirement plan. All full-time and part-time employees not subject to a collective bargaining agreement are eligible to participate in this plan upon employment. Named executive officers may elect to contribute a fixed percentage of their earnings into this plan, up

to the limit prescribed for 2014 by the IRS of \$260,000 in annual earnings. We provide a matching contribution of 100% of the first 3% of an individual's earnings, and 50% of the next 2% of such individual's earnings up to the IRS limit. Our matching contributions are immediately vested.

The second component, which we provide eligible employees, including named executive officers, is a qualified defined contribution retirement plan. This plan became effective as of January 1, 2006 and was designed as an ongoing substitute for the pre-existing defined benefit plan which was frozen as of December 31, 2005 and terminated in 2012. We contribute to this

defined contribution plan an amount equal to 3% of an individual's annual eligible compensation as defined in the plan document up to the IRS annual compensation limit, which was \$260,000 in 2014. Contributions to the defined contribution plan vest in equal amounts over a five year period based on continued employment. The definition of eligible compensation under the plan was amended, effective January 1, 2011, to exclude all bonus payments.

Severance Plan and Potential Payments upon Termination or Change in Control

Severance Agreements

In February 2010, we adopted the Severance Plan for Covanta Energy Corporation Senior Officers, referred to in this proxy statement as the "Severance Plan." This plan covers our Chief Executive Officer, Executive Vice Presidents, Regional Presidents, Senior Vice Presidents, Chief Accounting Officer and Treasurer.

Change in control arrangements are also covered in the Covanta Holding Corporation Restricted Stock Award Agreement, referred to in this proxy statement as the "Restricted Stock Award Agreement," the Growth Equity Award Agreement, and the TSR Equity Award Agreement.

Defined Terms in the Severance Plan, Restricted Stock Award Agreement and TSR Equity Award Agreement

For purposes of the Severance Plan, the Restricted Stock Award Agreement, the Growth Equity Award Agreement, and the TSR Equity Award Agreement executed in connection with the award of restricted stock and restricted stock units under our 2004 Employee Plan, the terms "cause," "change in control," and "eligible termination of employment" are defined as follows:

"Cause" shall mean, with respect to the termination of an Employee's employment with Covanta and our subsidiaries, referred to as the "Company Group", such Employee's (i) failure or refusal to perform the duties of his or her employment with the Company Group in a reasonably satisfactory manner, (ii) fraud or other act of dishonesty, (iii) serious misconduct in connection with the performance of his or her duties for the Company Group, (iv) material violation of any policy or procedure of the Company Group, (v) conviction of, or plea of nolo contendere to, a felony or other crime or (vi) other conduct that has or reasonably is expected to result in material injury to the business or reputation of any member of the Company Group, in any such case, as determined by the Administrator in his/her sole discretion.

"Change in Control" shall mean the occurrence of any of the following events, each of which shall be determined independently of the others:

(a) any "Person", other than a holder of at least 10% of our outstanding voting power as of the date of this agreement or plan, becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of a majority of our stock entitled to vote in the election of our directors or the directors or the directors of our subsidiaries;

(b) individuals who are our "Continuing Directors" of Covanta cease to constitute a majority of the members of the Board. For purposes of this definition, "Continuing Directors" shall mean the members of the Board on the date of the agreement or plan, as applicable, provided that any person becoming a member of the Board subsequent to such date whose election or nomination for election was supported by at least a majority of the directors who then comprised the Continuing Directors shall be considered to be a Continuing Director;

(c) our stockholders adopt and consummate a plan of complete or substantial liquidation or an agreement providing for the distribution of all or substantially all of our assets or the assets of our subsidiaries;

(d) Covanta is a party to a merger, consolidation, other form of business combination or a sale of all or substantially all of its assets, with an unaffiliated third party, unless our business following consummation of such merger, consolidation or other business combination is continued following any such transaction by a resulting entity (which may be, but need not be, Covanta) and our stockholders immediately prior to such transaction hold, directly or indirectly, at least a majority of the voting power of the resulting entity; provided, however, that a merger or consolidation effected to implement a recapitalization of Covanta (or similar transaction) shall not constitute a Change in Control;

(e) there is a Change in Control of Covanta Holding of a nature that is reported in response to item 5.01 of Current Report on Form 8-K or any similar item, schedule or form under the Exchange Act, as in effect at the time of the change, whether or not we are then subject to such reporting requirements; provided, however, that for purposes of the agreement or plan, as applicable, a Change in Control shall not be deemed to occur if the Person or Persons

deemed to have acquired control is a holder of at least 10% of the outstanding voting power as of the date of the agreement or plan, as applicable; or

(f) Covanta consummates a transaction which constitutes a “Rule 13e-3 transaction” (as such term is defined in Rule 13e-3 of the Exchange Act) prior to the termination of the agreement or plan, as applicable.

“Eligible Termination of Employment” shall mean the involuntary termination other than for Cause of an Employee's employment with the Company Group after the Effective Date.

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Anthony J. Orlando's Succession as President and Chief Executive Officer

On January 5, 2015, the Company announced that pursuant to a leadership succession plan, Mr. Orlando would be succeeded as president and chief executive officer of the Company on March 5, 2015 by Stephen J. Jones. Mr. Orlando, who remained on our Board and is nominee for re-election to the Board, entered into a succession agreement dated January 5, 2015 (the "Succession Agreement"). Under the terms of the Succession Agreement, Mr. Orlando was succeeded as President and Chief Executive Officer of Covanta Holding Corporation and its subsidiaries and was no longer an employee effective upon Mr. Jones' appointment as President and Chief Executive Officer on March 5, 2015 (the "Effective Date"). The Succession Agreement provides that Mr. Orlando will be entitled to following compensation: (i) aggregate salary continuation payments in the amount of \$1,510,000 payable on a pro rata basis over a period of 24 months in accordance ; (ii) payment of a discretionary cash incentive award for 2014 performance in the aggregate amount equal to \$1,359,000, subject to pro rata reduction in the event, and in such amount, that the financial performance of the Covanta and its subsidiaries as measured by the Financial Performance Measures, as determined by the Compensation Committee, are on average less than 100% of target levels, which bonus was payable in a lump sum cash payment on or before March 15, 2015 in accordance with the Company's regular practice of paying bonuses; (iii) a discretionary special equity bonus granted upon the Effective Date, in the form of \$1,000,000 in restricted stock units, vesting pro rata over a period of three (3) years following the grant date with the number of shares to be determined by the closing price of the Company's common stock on the New York Stock Exchange on the date of the grant (reflecting the fair market value of the common stock of the Company on the date of grant) and subject to the terms and conditions of the applicable equity award agreement; (iv) amendment of outstanding equity awards to provide vesting or acceleration of vesting of outstanding restricted stock awards on March 17, 2015 and continued vesting or exercisability of all other outstanding equity awards as if Mr. Orlando continued to be employed by the Company for the term of such equity award agreements; (v) continued medical, dental, life and other standard employee benefit plans currently received by Mr. Orlando for a period of 24 months; (vi) continuation of the non-competition and confidentiality provisions of Mr. Orlando's agreements under the Equity Award Plan for the longer of the salary continuation period or the expiration date, if any, of any such agreement; and (vii) mutual releases between Mr. Orlando and the Company and their related parties from any claims.

Executive Officer Termination Compensation

Anthony J. Orlando served as our President and Chief Executive Officer as of December 31, 2014. The following table shows the potential payments to Mr. Orlando upon his termination of employment or a change in control of the Company under the Severance Plan and the Restricted Stock Award Agreement or other plans or agreements of the Company assuming a termination or change of control occurred on December 31, 2014. The table (1) excludes vested account balances under the Covanta Energy Savings Plan and (2) the benefits set forth in the "Pension Benefits 2014 Table."

Executive Officer

Benefits and Payment upon Termination or Change in Control Compensation:	Voluntary Termination	Retirement	Not for Cause Termination	For Cause Termination	Change in Control	Death	Disability
Cash	\$29,038 ⁽¹⁾	\$29,038 ⁽¹⁾	\$1,510,000 ⁽²⁾	\$29,038 ⁽¹⁾	\$2,381,480 ⁽²⁾	\$29,038 ⁽¹⁾	\$29,038 ⁽¹⁾
Stock Option	\$—	\$—	\$—	\$—	\$— ⁽³⁾⁽⁴⁾	\$—	\$—
Restricted Stock	\$—	\$—	\$—	\$—	\$1,188,408 ⁽³⁾⁽⁵⁾	\$—	\$—
Growth Equity Awards	\$—	\$—	\$—	\$—	\$2,610,610 ⁽³⁾⁽⁶⁾	\$—	\$—
TSR Awards	\$—	\$—	\$—	\$—	\$2,294,583 ⁽⁷⁾	\$—	\$—
Benefits and Perquisites:							
Health Care	\$—	\$—	\$36,925 ⁽⁸⁾	\$—	\$39,949 ⁽⁸⁾	\$—	\$44,387 ⁽⁹⁾
Life Insurance Benefits	\$—	\$—	\$—	\$—	\$—	\$1,000,000 ⁽¹⁰⁾	\$—
Total:	\$29,038	\$29,038	\$1,546,925	\$29,038	\$8,515,030	\$1,029,038	\$73,425

- (1) Assumes that two weeks of annual base salary have not been paid in accordance with our standard payment practices.

In the event that Mr. Orlando's employment is terminated without cause or as a result of a change in control, he shall be entitled to a severance payment equal to 24 months of his then current annual base pay and continuation of medical and dental insurance coverages (plus life insurance if termination is a result of a change in control) for 24 months. If the termination is a result of a change in control, Mr. Orlando is also entitled to two times his average

- (2) annual cash bonus for the two prior full employment years. The severance payment is payable in accordance with the normal payroll cycle with payment in full no later than December 31st of the second calendar year, following the calendar year in which the eligible termination occurred. In the event of a termination because of a change in control, 50% of the payment will be paid on the 90th day following the date of termination and 50% will be paid on a monthly basis over two years.

If Mr. Orlando's termination is a result of a change in control as defined in the respective award agreements, all (3) unvested options, shares of restricted stock or other equity awards then held by the named executive officer shall immediately vest under the terms of the respective agreements under which such equity awards were granted.

Represents the value of unvested stock options held by Mr. Orlando. However, because the exercise price of (4) \$24.76 per share with respect to 40,000 shares is greater than the \$22.01 per share closing price of our common stock on the New York Stock Exchange on December 31, 2014, the unvested stock options have no value for purposes of this table.

Represents the value of accelerated unvested restricted stock calculated by multiplying the number of shares of (5) unvested restricted stock held by Mr. Orlando by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Represents the value of accelerated unvested growth equity awards and corresponding unvested cash dividends (6) calculated by multiplying the number of shares of unvested growth equity awards held by Mr. Orlando by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Pursuant to the TSR Equity Award Agreement, upon a Change in Control (as defined therein), awards through the date of the Change in Control will vest based upon the TSR performance from the beginning of the performance (7) period through the date of the Change in Control and at the target award level for the pro rata portion of the performance period commencing on the date immediately following the Change in Control through the end of the performance period.

Pursuant to the Severance Plan, provided Mr. Orlando's employment terminated without cause or as a result of a (8) change in control, he would be entitled to continuation of medical and dental coverage (plus life insurance if termination is a result of a change in control) for 24 months.

Under Covanta's long-term disability policy, Covanta provides medical and dental coverage for up to 24 months (9) provided Mr. Orlando meets the definition of "disabled" pursuant to that policy.

(10) Reflects the estimated present value of the proceeds payable to Mr. Orlando's beneficiaries upon his death.

Seth Myones has served as Executive Vice President and Chief Operating Officer since March 2012. The following table shows the potential payments to Mr. Myones upon his termination of employment or a change in control of the Company under the Severance Plan and the Restricted Stock Award Agreement or other plans or agreements of the Company assuming a termination or change of control occurred on December 31, 2014. The table (1) excludes vested account balances under the Covanta Energy Savings Plan and (2) the benefits set forth in the "Pension Benefits 2014 Table."

Executive Officer

Benefits and Payment upon Termination or Change in Control	Voluntary Termination	Retirement	Not for Cause Termination	For Cause Termination	Change in Control	Death	Disability
Compensation:							
Cash	\$ 14,269 ⁽¹⁾	\$ 14,269 ⁽¹⁾	\$ 556,500 ⁽²⁾	\$ 14,269 ⁽¹⁾	\$ 833,328 ⁽²⁾	\$ 14,269 ⁽¹⁾	\$ 14,269 ⁽¹⁾
Stock Option	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Restricted Stock	\$—	\$—	\$—	\$—	\$ 515,540 ⁽³⁾⁽⁴⁾	\$—	\$—
Growth Equity Awards	\$—	\$—	\$—	\$—	\$ 295,196 ⁽³⁾⁽⁵⁾	\$—	\$—
TSR Awards	\$—	\$—	\$—	\$—	\$ 845,669 ⁽⁶⁾	\$—	\$—
Benefits and Perquisites:							
Health Care	\$—	\$—	\$ 27,694 ⁽⁷⁾	\$—	\$ 29,377 ⁽⁷⁾	\$—	\$ 44,387 ⁽⁸⁾
Life Insurance Benefits	\$—	\$—	\$—	\$—	\$—	\$ 742,000 ⁽⁹⁾	\$—
Total:	\$ 14,269	\$ 14,269	\$ 584,194	\$ 14,269	\$ 2,519,110	\$ 756,269	\$ 58,656

(1) Assumes that two weeks of annual base salary have not been paid in accordance with our standard payment practices.

(2)

In the event that Mr. Myones' employment is terminated without cause or good reason or as a result of a change in control, he shall be entitled to a severance payment equal to 18 months of his then current annual base pay and continuation of medical and dental insurance coverages (plus life insurance if termination is a result of a change in control) for 18 months. If the termination is a result of a change in control, he is entitled to one and a half times his average cash bonus received during the two prior full employment years. The severance payment is payable in accordance with the normal payroll cycle with payment in full no later than December 31st of the second calendar year, following the calendar year in which the eligible termination occurred. In the event of a termination because of a change in control, 50% of the payment will be paid on the 90th day following the date of termination and 50% will be paid on a monthly basis over two years.

If Mr. Myones' termination is a result of a change in control as defined in the respective award agreements, all (3) unvested options, shares of restricted stock or other equity awards then held by Mr. Myones shall immediately vest under the terms of the respective agreements under which such equity awards were granted.

Represents the value of accelerated unvested restricted stock calculated by multiplying the number of shares of (4) unvested restricted stock held by Mr. Myones by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Represents the value of accelerated unvested growth equity awards and corresponding unvested cash dividends (5) calculated by multiplying the number of shares of unvested growth equity awards held by Mr. Myones by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Pursuant to the TSR Equity Award Agreement, upon a Change in Control (as defined therein), awards through the date of the Change in Control will vest based upon the TSR performance from the beginning of the performance (6) period through the date of the Change in Control and at the target award level for the pro rata portion of the performance period commencing on the date immediately following the Change in Control through the end of the performance period.

Pursuant to the Severance Plan, provided Mr. Myones' employment terminated without cause or good reason or as a (7) result of a change in control, he would be entitled to continuation of medical and dental coverage (plus life insurance if termination is a result of a change in control) for 18 months.

Under Covanta's long-term disability policy, Covanta provides medical and dental coverage for up to 24 months (8) provided Mr. Myones meets the definition of "disabled" pursuant to that policy.

(9) Reflects the estimated present value of the proceeds payable to Mr. Myones' beneficiaries upon his death.

Bradford J. Helgeson has served as our Executive Vice President and Chief Financial Officer since November 2013. The following table shows the potential payments to Mr. Helgeson upon his termination of employment or a change in control of the Company under the Severance Plan and the Restricted Stock Award Agreement or other plans or agreements of the Company assuming a termination or change of control occurred on December 31, 2014. The table excludes vested account balances under the Covanta Energy Savings Plan.

Executive Officer

Benefits and Payment upon Termination or Change in Control Compensation:	Voluntary Termination	Retirement	Not for Cause Termination	For Cause Termination	Change in Control	Death	Disability
Cash	\$ 13,462 ⁽¹⁾	\$ 13,462 ⁽¹⁾	\$ 525,000 ⁽²⁾	\$ 13,462 ⁽¹⁾	\$ 677,076 ⁽²⁾	\$ 13,462 ⁽¹⁾	\$ 13,462 ⁽¹⁾
Stock Option	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Restricted Stock	\$—	\$—	\$—	\$—	\$ 375,491 ⁽³⁾⁽⁴⁾	\$—	\$—
Growth Equity Awards	\$—	\$—	\$—	\$—	\$ 77,109 ⁽³⁾⁽⁵⁾	\$—	\$—
TSR Awards	\$—	\$—	\$—	\$—	\$ 697,563 ⁽⁶⁾	\$—	\$—
Benefits and Perquisites:							
Health Care	\$—	\$—	\$ 27,694 ⁽⁷⁾	\$—	\$ 29,282 ⁽⁷⁾	\$—	\$ 44,387 ⁽⁸⁾
Life Insurance Benefits	\$—	\$—	\$—	\$—	\$—	\$ 700,000 ⁽⁹⁾	\$—
Total:	\$ 13,462	\$ 13,462	\$ 552,694	\$ 13,462	\$ 1,856,521	\$ 713,462	\$ 57,849

(1) Assumes that two weeks of annual base salary have not been paid in accordance with our standard payment practices.

In the event that Mr. Helgeson's employment is terminated without cause or good reason or as a result of a change in control, he shall be entitled to a severance payment equal to 18 months of his then current annual base pay and continuation of medical and dental insurance coverages (plus life insurance if termination is a result of a change in control) for 18 months. If the termination is a result of a change in control, he is entitled to one and a half times his (2) average cash bonus received during the two prior full employment years. The severance payment is payable in accordance with the normal payroll cycle with payment in full no later than December 31st of the second calendar year, following the calendar year in which the eligible termination occurred. In the event of a termination because of a change in control, 50% of the payment will be paid on the 90th day following the date of termination and 50% will be paid on a monthly basis over two years.

- (3) If Mr. Helgeson's termination is a result of a change in control as defined in the respective award agreements, all unvested shares of restricted stock or other equity awards then held by Mr. Helgeson shall immediately vest under the terms of the respective agreements under which such equity awards were granted.

(4) Represents the value of accelerated unvested restricted stock calculated by multiplying the number of shares of unvested restricted stock held by Mr. Helgeson by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

(5) Represents the value of accelerated unvested growth equity awards and corresponding unvested cash dividends calculated by multiplying the number of shares of unvested growth equity awards held by Mr. Helgeson by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

(6) Pursuant to the TSR Equity Award Agreement, upon a Change in Control (as defined therein), awards through the date of the Change in Control will vest based upon the TSR performance from the beginning of the performance period through the

date of the Change in Control and at the target award level for the pro rata portion of the performance period commencing on the date immediately following the Change in Control through the end of the performance period.

Pursuant to the Severance Plan, provided Mr. Helgeson's employment terminated without cause or good reason or (7) as a result of a change in control, he would be entitled to continuation of medical and dental coverage (plus life insurance if termination is a result of a change in control) for 18 months.

(8) Under Covanta's long-term disability policy, Covanta provides medical and dental coverage for up to 24 months provided Mr. Helgeson meets the definition of "disabled" pursuant to that policy.

(9) Reflects the estimated present value of the proceeds payable to Mr. Helgeson's beneficiaries upon his death.

Timothy J. Simpson has served as our Executive Vice President, General Counsel and Secretary since November 2007. The following table shows the potential payments to Mr. Simpson upon his termination of employment or a change in control of the Company under the Severance Plan and the Restricted Stock Award Agreement or other plans or agreements of the Company assuming a termination or change of control occurred on December 31, 2014. The table (1) excludes vested account balances under the Covanta Energy Savings Plan and (2) the benefits set forth in the "Pension Benefits 2014 Table."

Executive Officer

Benefits and Payment upon Termination or Change in Control	Voluntary Termination	Retirement	Not for Cause Termination	For Cause Termination	Change in Control	Death	Disability
Compensation:							
Cash	\$ 14,000 ⁽¹⁾	\$ 14,000 ⁽¹⁾	\$ 546,000 ⁽²⁾	\$ 14,000 ⁽¹⁾	\$ 774,864 ⁽²⁾	\$ 14,000 ⁽¹⁾	\$ 14,000 ⁽¹⁾
Stock Option	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Restricted Stock	\$ —	\$ —	\$ —	\$ —	\$ 474,360 ⁽³⁾⁽⁴⁾	\$ —	\$ —
Growth Equity Awards	\$ —	\$ —	\$ —	\$ —	\$ 1,304,924 ⁽³⁾⁽⁵⁾	\$ —	\$ —
TSR Awards	\$ —	\$ —	\$ —	\$ —	\$ 829,697 ⁽⁶⁾	\$ —	\$ —
Benefits and Perquisites:							
Health Care	\$ —	\$ —	\$ 27,694 ⁽⁷⁾	\$ —	\$ 29,345 ⁽⁷⁾	\$ —	\$ 44,387 ⁽⁸⁾
Life Insurance Benefits	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 728,000 ⁽⁹⁾	\$ —
Total:	\$ 14,000	\$ 14,000	\$ 573,694	\$ 14,000	\$ 3,413,190	\$ 742,000	\$ 58,387

(1) Assumes that two weeks of annual base salary have not been paid in accordance with our standard payment practices.

In the event that Mr. Simpson's employment is terminated without cause or good reason or as a result of a change in control, he shall be entitled to a severance payment equal to 18 months of his then current annual base pay and continuation of medical and dental insurance coverages (plus life insurance if termination is a result of a change in control) for 18 months. If the termination is a result of a change in control, he is entitled to one and a half times his

(2) average cash bonus received during the two prior full employment years. The severance payment is payable in accordance with the normal payroll cycle with payment in full no later than December 31st of the second calendar year, following the calendar year in which the eligible termination occurred. In the event of a termination because of a change in control, 50% of the payment will be paid on the 90th day following the date of termination and 50% will be paid on a monthly basis over two years.

If Mr. Simpson's termination is a result of a change in control as defined in the respective award agreements, all (3) unvested options, shares of restricted stock or other equity awards then held by Mr. Simpson shall immediately vest under the terms of the respective agreements under which such equity awards were granted.

Represents the value of accelerated unvested restricted stock calculated by multiplying the number of shares of (4) unvested restricted stock held by Mr. Simpson by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

(5) Represents the value of accelerated unvested growth equity awards and corresponding unvested cash dividends calculated by multiplying the number of shares of unvested growth equity awards held by Mr. Simpson by \$22.01,

the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Pursuant to the TSR Equity Award Agreement, upon a Change in Control (as defined therein), awards through the date of the Change in Control will vest based upon the TSR performance from the beginning of the performance (6) period through the date of the Change in Control and at the target award level for the pro rata portion of the performance period commencing on the date immediately following the Change in Control through the end of the performance period.

Pursuant to the Severance Plan, provided Mr. Simpson's employment terminated without cause or good reason or as (7) a result of a change in control, he would be entitled to continuation of medical and dental coverage (plus life insurance if termination is a result of a change in control) for 18 months.

Under Covanta's long-term disability policy, Covanta provides medical and dental coverage for up to 24 months (8) provided Mr. Simpson meets the definition of "disabled" pursuant to that policy.

(9) Reflects the estimated present value of the proceeds payable to Mr. Simpson's beneficiaries upon his death.

Derek W. Veenhof has served as our Executive Vice President, Sustainable Solutions since November 2013. The following table shows the potential payments to Mr. Veenhof upon his termination of employment or a change in control of the Company under the Severance Plan and the Restricted Stock Award Agreement or other plans or agreements of the Company assuming a termination or change of control occurred on December 31, 2014. The table (1) excludes vested account balances under the Covanta Energy Savings Plan and (2) the benefits set forth in the “Pension Benefits 2014 Table.”

Executive Officer

Benefits and Payment upon Termination or Change in Control	Voluntary Termination	Retirement	Not for Cause Termination	For Cause Termination	Change in Control	Death	Disability
Compensation:							
Cash	\$ 12,115 ⁽¹⁾	\$ 12,115 ⁽¹⁾	\$ 472,500 ⁽²⁾	\$ 12,115 ⁽¹⁾	\$ 592,500 ⁽²⁾	\$ 12,115 ⁽¹⁾	\$ 12,115 ⁽¹⁾
Stock Option	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Restricted Stock	\$—	\$—	\$—	\$—	\$ 322,689 ⁽³⁾⁽⁴⁾	\$—	\$—
Growth Equity Awards	\$—	\$—	\$—	\$—	\$— ⁽³⁾⁽⁵⁾	\$—	\$—
TSR Awards	\$—	\$—	\$—	\$—	\$ 626,626 ⁽⁶⁾	\$—	\$—
Benefits and Perquisites:							
Health Care	\$—	\$—	\$ 27,694 ⁽⁷⁾	\$—	\$ 29,123 ⁽⁷⁾	\$—	\$ 44,387 ⁽⁸⁾
Life Insurance Benefits	\$—	\$—	\$—	\$—	\$—	\$ 630,000 ⁽⁹⁾	\$—
Total:	\$ 12,115	\$ 12,115	\$ 500,194	\$ 12,115	\$ 1,570,938	\$ 642,115	\$ 56,502

(1) Assumes that two weeks of annual base salary have not been paid in accordance with our standard payment practices.

In the event that Mr. Veenhof’s employment is terminated without cause or good reason or as a result of a change in control, he shall be entitled to a severance payment equal to 18 months of his then current annual base pay and continuation of medical and dental insurance coverages (plus life insurance if termination is a result of a change in control) for 18 months. If the termination is a result of a change in control, he is entitled to one and a half times his (2) average cash bonus received during the two prior full employment years. The severance payment is payable in accordance with the normal payroll cycle with payment in full no later than December 31st of the second calendar year, following the calendar year in which the eligible termination occurred. In the event of a termination because of a change in control, 50% of the payment will be paid on the 90th day following the date of termination and 50% will be paid on a monthly basis over two years.

If Mr. Veenhof’s termination is a result of a change in control as defined in the respective award agreements, all (3) unvested options, shares of restricted stock or other equity awards then held by Mr. Veenhof shall immediately vest under the terms of the respective agreements under which such equity awards were granted.

Represents the value of accelerated unvested restricted stock calculated by multiplying the number of shares of (4) unvested restricted stock held by Mr. Veenhof by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Represents the value of accelerated unvested growth equity awards and corresponding unvested cash dividends (5) calculated by multiplying the number of shares of unvested growth equity awards held by Mr. Veenhof by \$22.01, the closing price of our common stock on the New York Stock Exchange on December 31, 2014.

Pursuant to the TSR Equity Award Agreement, upon a Change in Control (as defined therein), awards through the date of the Change in Control will vest based upon the TSR performance from the beginning of the performance (6) period through the date of the Change in Control and at the target award level for the pro rata portion of the performance period commencing on the date immediately following the Change in Control through the end of the performance period.

(7) Pursuant to the Severance Plan, provided Mr. Veenhof’s employment terminated without cause or good reason or as a result of a change in control, he would be entitled to continuation of medical and dental coverage (plus life

insurance if termination is a result of a change in control) for 18 months.

(8) Under Covanta's long-term disability policy, Covanta provides medical and dental coverage for up to 24 months provided Mr. Veenhof meets the definition of "disabled" pursuant to that policy.

(9) Reflects the estimated present value of the proceeds payable to Mr. Veenhof's beneficiaries upon his death.

Restrictive Covenants

Our obligation to vest restricted stock grants under the Restricted Stock Award Agreement is conditioned upon each applicable officer complying with his continuing obligations under the restrictive covenants relating to confidentiality, non-competition and non-solicitation of customers and employees and the execution of a standard form of general release.

The Restricted Stock Award Agreement contains non-compete, non-solicitation and confidentiality provisions. As set forth in each such agreement, the restrictive covenants survive termination of employment for the periods stated in the Severance Plan as set forth below:

Named Executive Officer	Restrictive Covenant	Survival Period
Anthony J. Orlando	Non-Compete	24 months
	Non-Solicit Customers	24 months
	Non-Solicit Employees	24 months
	Confidentiality	60 months
Bradford J. Helgeson, Seth Myones, Timothy J. Simpson, Derek W. Veenhof	Non-Compete	18 months
	Non-Solicit Customers	18 months
	Non-Solicit Employees	18 months
	Confidentiality	60 months

Compensation Committee Interlocks and Insider Participation

None of Mr. Bynoe (Chair), Mr. Silberman or Ms. Smith, the persons who served as members of the Compensation Committee in 2014, were, during that year or previously, an officer or employee of ours or any of our subsidiaries or had any other relationship requiring disclosure herein.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth information, as of March 16, 2015 unless otherwise specified, concerning:

beneficial ownership of our common stock by (1) SZ Investments together with its affiliate EGI-Fund (05-07), (2) Neuberger Berman together with its affiliate Neuberger Berman Group LLP, and (3) Levin Capital Strategies, L.P., (4) The Vanguard Group Inc. and (5) Findlay Park Partners LLP, which are the only beneficial owners known to us of 5% or more of our common stock; and

beneficial ownership of our common stock by (1) all of our current directors, (2) those executive officers named in the Summary Compensation Table included in this proxy statement, referred to as the “named executive officers” in this proxy statement, and (3) all of our current directors and executive officers together as a group.

The number of shares beneficially owned by each entity, person, current director or named executive officer is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares which the individual has the right to acquire within 60 days after the date of this table, through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole investment and voting power, or shares such powers with his or her spouse or dependent children within his or her household, with respect to the shares set forth in the following table. Unless otherwise indicated, the address for all current executive officers and directors is c/o Covanta Holding Corporation, 445 South Street, Morristown, New Jersey 07960.

Equity Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Approximate Percent of Class
SZ Investments L.L.C. ⁽¹⁾ Two North Riverside Plaza, Suite 600, Chicago, Illinois 60606	12,949,182	9.9 %
Neuberger Berman ⁽²⁾ 605 Third Avenue, New York, New York 10158	10,486,576	8.0 %
Levin Capital Strategies, L.P. ⁽³⁾ 595 Madison Avenue, 17th Floor, New York, New York 10022	9,391,379	7.1 %
The Vanguard Fund Inc. ⁽⁴⁾ 100 Vanguard Blvd. Malvern, PA 19355	7,599,561	5.8 %
Findlay Park Partners LLP ⁽⁵⁾ Almack House, 4th Floor, 28 King Street, London, SW1Y 6QW United Kingdom	6,850,000	5.2 %

(1) Based on a Schedule 13D/A filed with the SEC on July 25, 2014, this includes the shares owned as follows:

(a) 10,921,682 shares that SZ Investments beneficially owns with shared voting and dispositive power; (b) 2,027,500 shares that EGI-Fund (05-07) beneficially owns with shared voting and dispositive power; and (c) all 12,949,182 shares listed in the preceding (a) and (b) as beneficially owned by SZ Investments and EGI-Fund (05-07), are also beneficially owned by Chai Trust Company, LLC referred to as “Chai Trust,” with shared voting and dispositive power. Chai Trust is the managing member of EGI-Fund (05-07). SZ Investments is each indirectly controlled by various trusts established for the benefit of Samuel Zell and members of his family, the trustee of each of which is Chai Trust. Mr. Zell is not a director of Chai Trust and thus disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest therein.

Both Mr. Zell and William C. Pate are officers of EGI Division. Mr. Zell is an executive officer of EGI-Fund (05-07) and SZ Investments. Mr. Zell was elected as our Chairman of the Board in September 2005 and he also previously served as a director from 1999 to 2004 and as our Chairman of the Board from July 2002 to October 2004, when he did not stand for re-election. In addition, Mr. Zell was our President and Chief Executive Officer from July 2002 until his resignation in April 2004. Mr. Pate served as our Chairman of the Board from October 2004 through September 2005 and has been a director since 1999. The addresses of each of EGI-Fund (05-07) and EGI are as set forth in the table above for SZ Investments.

Based on a Schedule 13G/A filed with the SEC on February 12, 2015. These shares are owned as follows: (a) 9,766,963 shares that Neuberger Berman LLC and Neuberger Berman Group LLC own with shared voting power; and (b) 10,486,576 shares that Neuberger Berman LLC and Neuberger Berman Group LLC own with shared dispositive power. Neither Neuberger Berman LLC nor Neuberger Berman Group LLC has sole voting or dispositive power with respect to these shares.

Based on a Schedule 13G/A filed with the SEC on January 30, 2015, Levin Capital Strategies L.P. (“Levin Capital”) beneficially owns 9,198,324 shares of our common stock with sole voting and dispositive power with respect to 284,089 shares of our common stock; sole voting power with respect to 4,631,450 shares of our common stock and (3) shared voting power with respect to 8,914,235 shares of our common stock. In addition, Levin Capital’s affiliate, John A. Levin, beneficially owns 193,055 shares of our common stock with sole voting and dispositive power with respect to 505 shares of our common stock; shared voting power with respect to 180,975 shares of our common stock and shared dispositive power with respect to 192,550 shares of our common stock.

Based on a Schedule 13G filed with the SEC on February 11, 2015, The Vanguard Group, Inc. beneficially owns (4) these shares with sole voting power with respect to 82,713 shares of our common stock; sole dispositive power with respect to 7,526,448 shares of our common stock and shared dispositive power with respect to 73,113 shares of our common stock.

(5) Based on a Schedule 13G/A filed with the SEC on February 12, 2015, Findlay Park Partners LLP (“Partners”) as the investment manager for Findlay Park Funds PLC - Findlay Park American Fund (the “American Fund”), the legal

owner of these shares of our common stock. As the investment manager, Partners has discretionary authority, and shares voting and dispositive power with respect to, these shares of our common stock with the American Fund. The address of American Fund is Styne House, Upper Hatch Street, Dublin 2, Ireland.

Equity Ownership of Directors and Management

Name	Number of Shares Beneficially Owned		Approximate Percent of Class	
David M. Barse ⁽¹⁾	4,782,367	(2)	3.6	%
Ronald J. Broglio ⁽³⁾	4,729		*	
Peter C.B. Bynoe ⁽⁴⁾	70,622		*	
Linda J. Fisher ⁽⁵⁾	35,657		*	
Bradford J. Helgeson	61,218	(6)	*	
Joseph M. Holsten ⁽⁷⁾	55,538		*	
Stephen J. Jones	70,444		*	
Seth Myones	68,646		*	
Anthony J. Orlando	737,087	(6)	*	
William C. Pate ⁽⁸⁾	402,677	(9)	*	
Robert S. Silberman ⁽¹⁰⁾	57,923		*	
Timothy J. Simpson	209,486	(6)	*	
Jean Smith ⁽¹¹⁾	85,641		*	
Derek W. Veenhof	83,449	(12)	*	
Samuel Zell ⁽¹³⁾	13,090,803	(14)	9.8	%
All Executive Officers and Directors as a group (16 persons)	19,829,941	(15)	14.8	%

* Percentage of shares beneficially owned does not exceed 1% of the outstanding common stock.

(1) Mr. Barse's address is 622 Third Avenue, 32nd Floor, New York, New York 10017.

(2) Includes 4,299,290 shares beneficially owned by Third Avenue, which is affiliated with Mr. Barse. Mr. Barse disclaims beneficial ownership of these shares.

(3) Mr. Broglio's address is 1417 High Road, Vandiver, Alabama 35176.

(4) Mr. Bynoe's address is 203 North LaSalle Street, Suite 1900, Chicago, Illinois 60601.

(5) Ms. Fisher's address is 1007 Market Street, DuPont Building, Room 6074, Wilmington, Delaware 19898.

(6) Includes shares underlying currently exercisable options held by Mr. Helgeson to purchase 30,000 shares of common stock at an exercise price of \$23.30 per share and Mr. Simpson to purchase 120,000 shares of common stock at an exercise price of \$20.52 per share. Also includes shares underlying currently exercisable options held by Mr. Orlando to purchase 270,000 shares of common stock at an exercise price of \$20.52 per share and 200,000 shares of common stock at an exercise price of \$24.76 per share.

(7) Mr. Holsten's address is 120 North LaSalle Street, Suite 3300, Chicago, Illinois 60602.

(8) Mr. Pate's address is Two North Riverside Plaza, Suite 600, Chicago, Illinois 60606.

(9) Includes 398,177 shares pledged as security in a margin account.

(10) Mr. Silberman's address is c/o Strayer Education Inc., 1100 Wilson Boulevard, Suite 2500, Arlington, Virginia 22209.

(11) Ms. Smith's address is 950 Third Avenue, New York, New York 10022.

(12) Includes options to purchase 25,000 shares of common stock at an exercise price of \$20.52 per share.

(13) Mr. Zell's address is Two North Riverside Plaza, Suite 600, Chicago, Illinois 60606.

(14) Mr. Zell disclaims beneficial ownership as to (a) 10,921,682 shares beneficially owned by SZ Investments, 8,275,682 of which shares are pledged as security to loans and (b) 2,027,500 shares beneficially owned by Fund 05-07, 883,739 of which shares are pledged as security to loans. SZ Investments and Fund 05-07 are each indirectly controlled by various trusts established for the benefit of Mr. Zell and members of his family, the trustee of each of which is Chai Trust. Mr. Zell is not a director or officer of Chai Trust and thus disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest therein. Also, Mr. Zell disclaims beneficial ownership as to 25,418 shares beneficially owned by the Helen Zell Revocable Trust, the trustee of which is Helen Zell, Mr. Zell's spouse.

(15) Includes shares underlying currently exercisable options to purchase 657,500 shares of common stock that our directors and executive officers have the right to acquire within 60 days of the date of this table.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other of our equity securities. Executive officers, directors and greater than ten percent stockholders are required by Federal securities regulations to furnish us with copies of all Section 16(a) forms they file.

Based upon a review of filings with the SEC and/or written representations from certain reporting persons, we believe that all of our directors, executive officers and other Section 16 reporting persons complied during 2014 with the reporting requirements of Section 16(a).

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

The Audit Committee or a special committee of the Board composed solely of disinterested directors formed for such purpose are responsible for review of “related person transactions” between us and related persons and making determinations regarding and/or approving and authorizing such transactions, or at their discretion, making a recommendation with respect to such related person transactions to the Board. Under SEC rules, a related person is a director, officer, nominee for director, or 5% stockholder of the Company since the beginning of the last fiscal year and their immediate family members. These related person transactions apply to any transaction or series of transactions in which we or one of our subsidiaries is a participant, the amount involved exceeds \$120,000 and a related person has a direct or indirect material interest.

Our Policy of Business Conduct, which contains certain provisions setting out conflicts of interest and related party standards, applies to all of our employees, including each of our executive officers, and directors. Our Policy of Business Conduct provides that it is the responsibility of each of our executive officers and directors to advise us, through our general counsel, of any affiliation with public or privately held businesses or enterprises that may create a potential conflict of interest, potential embarrassment to us or possible inconsistency with our policies or values. We annually solicit information from our directors and executive officers in order to monitor potential conflicts of interest. Any nominee for director is also requested to provide us the forgoing information. It is the policy of the Board and of the Audit Committee to apply the standards set forth in our Policy of Business Conduct and under applicable Delaware corporate law and applicable SEC and New York Stock Exchange rules and regulations in reviewing related person transactions and determining whether or not such transactions are reasonable and fair to us.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee is composed of four directors. Each of the current directors is independent as defined by the New York Stock Exchange listing standards. The Audit Committee operates under a written charter and key practices approved by the Board. A copy of the charter and key practices is available on the Company's website at www.covanta.com.

Management is responsible for the Company's internal controls and financial reporting process. Ernst & Young LLP, a registered independent public accounting firm and the Company's independent auditors for 2014, are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In connection with these responsibilities, the Audit Committee met with management and Ernst & Young LLP to review and discuss the December 31, 2014 audited consolidated financial statements. The Audit Committee also discussed with Ernst & Young LLP the matters required to be discussed by PCAOB Auditing Standard No. 16, Communications with Audit Committees. The Audit Committee also received written disclosures and the letter from Ernst & Young LLP required by Rule 3526 of the PCAOB (Communications with Audit Committees Concerning Independence), and the Audit Committee discussed with Ernst & Young LLP the firm's independence.

Based upon the Audit Committee's discussions with management and Ernst & Young LLP, and the Audit Committee's review of the representations of management and Ernst & Young LLP, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

JEAN SMITH (Chair)

DAVID M. BARSE

JOSEPH M. HOLSTEN

WILLIAM C. PATE

INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FEES

The following table shows the aggregate fees that we incurred for audit, audit-related, tax and other services rendered by Ernst & Young LLP for the years ended December 31, 2014 and 2013 (in thousands of dollars):

	2014	2013
Audit Fees	\$3,966	\$3,100
Audit-Related Fees	—	165
Tax Fees	313	37
All Other Fees	2	2
Total	\$4,281	\$3,304

Audit Fees. This category includes the fees for professional services performed by Ernst & Young LLP for the audit of our annual consolidated financial statements, review of condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q or services that are normally provided by Ernst & Young LLP in connection with regulatory filings or engagements for both 2014 and 2013, and statutory filings in 2013. Fees also include audits of effectiveness of internal controls, statutory and financial audits for our subsidiaries and reviews of registration statements we have filed.

Audit-Related Fees. This category consists of fees for assurance and related services provided by Ernst & Young LLP that are reasonably related to the performance of an audit or review of our financial statements and are not reported above under "Audit Fees." In 2013, these services principally related to financial statement audits of employee benefit plans.

Tax Fees. This category consists of fees for professional services rendered by Ernst & Young LLP for tax compliance, tax advice and tax planning.

All Other Fees. This category consists of fees for any other products or services provided by Ernst & Young LLP not described above. The services for fees in 2014 and 2013 under this category are related to licensed accounting research software.

Audit Committee's Pre-Approval Policies and Procedures

Our Audit Committee Charter and Audit Committee Key Practices require the Audit Committee to pre-approve all permitted non-audit services. It is the Audit Committee's practice to restrict the non-audit services that may be provided to us by our independent registered public accountants primarily to tax services and merger and acquisition due diligence and integration services, and then only when the services offered by the auditor's firm are more effective or economical than services available from other providers, and, to the extent possible, only after competitive bidding for such services.

The Audit Committee has established an Audit and Non-Audit Service Pre-Approval Policy, referred to as the "Pre-Approval Policy," for all permitted work our independent registered public accountants may perform for us. The Pre-Approval Policy provides for the general approval of specific types of services and gives detailed guidance as to the specific types of services eligible for general pre-approval within each of the specifically designated categories of services and provides for maximum dollar amounts for such pre-approved services. Any additional services not described in the Pre-Approval Policy or otherwise exceeding the maximum dollar amounts prescribed by the Pre-Approval Policy for that specified year will require the further advance review and approval of the Audit Committee. Pre-approval of services is generally provided for up to one year. The Audit Committee has delegated the authority to grant any such additional required approval to its Chair between meetings of the Audit Committee, provided that the Chair reports the details of the exercise of any such delegated authority at the next meeting of the Audit Committee. The Pre-Approval Policy prohibits the Audit Committee from delegating to our management the Audit Committee's responsibilities to pre-approve services performed by the independent registered public accountants.

One hundred percent of the services generating fees in 2014 and 2013 were pre-approved in accordance with the Pre-Approval Policy. In pre-approving these services, the Audit Committee did not rely on the de minimis exception to the SEC pre-approval requirements applicable to audit-related, tax and all other permitted non-audit services.

PROPOSALS BY STOCKHOLDERS

In order for a proposal of a stockholder to be included in the proxy statement and form(s) of proxy relating to our 2016 annual meeting, the proposal must be received by us at our principal executive offices no later than November 23, 2015. Stockholders wishing to submit proposals or director nominations at our 2016 annual meeting that are not to be included in our proxy statement materials must deliver proposals to our principal executive offices no earlier than January 7, 2016 and no later than February 8, 2016. All stockholder proposals should be directed to the attention of our Secretary at our principal offices as set forth on the first page of this proxy statement.

Timely receipt of a stockholder's proposal will satisfy only one of various conditions established by the SEC for inclusion in our proxy materials and for compliance with our Bylaws.

INCORPORATION BY REFERENCE

The Audit Committee Report (including reference to the independence of the members of the Audit Committee) is not deemed to be filed with the SEC and shall not be deemed incorporated by reference into any prior or future filings made by us under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate such information by reference.

By Order of the Board of Directors
COVANTA HOLDING CORPORATION

TIMOTHY J. SIMPSON
Secretary
Dated: March 25, 2015

ANNUAL MEETING OF STOCKHOLDERS OF
Covanta Holding Corporation
May 7, 2015

PROXY VOTING INSTRUCTIONS

INTERNET - Access "www.voteproxy.com" and follow the on-screen instructions or scan the QR code with your smartphone. Have your proxy card available when you access the web page.

TELEPHONE - Call toll-free 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

COMPANY
NUMBER

Vote online/phone until 11:59 PM EDT the day before the meeting.

MAIL - Sign, date and mail your proxy card in the envelope provided as soon as possible.

ACCOUNT
NUMBER

IN PERSON - You may vote your shares in person by attending the Annual Meeting.

GO GREEN - e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via www.amstock.com to enjoy online access.

The Notice of Annual Meeting of Stockholders, Proxy Statement and Annual Report on Form 10-K are available at <http://www.astproxyportal.com/ast/01602/>

i Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. i

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PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. The Board of Directors recommend a vote "FOR" the election of the listed nominees as Directors for a term of one year.

The Board of Directors recommend you vote "FOR" the following proposals:

FOR AGAINST ABSTAIN

.. FOR ALL NOMINEES

NOMINEES:
O David M. Barse

2. To ratify the appointment of Ernst &

..

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|---|---|---|
| <p>.. WITHHOLD AUTHORITY FOR ALL NOMINEES</p> | <p><input type="radio"/> Ronald J. Broglio
 <input type="radio"/> Peter C.B. Bynoe
 <input type="radio"/> Linda J. Fisher
 <input type="radio"/> Joseph M. Holsten
 <input type="radio"/> Stephen J. Jones
 <input type="radio"/> Anthony J. Orlando
 <input type="radio"/> William C. Pate
 <input type="radio"/> Robert S. Silberman
 <input type="radio"/> Jean Smith
 <input type="radio"/> Samuel Zell</p> | <p>Young LLP as Covanta Holding Corporation's independent registered public accountants for the 2015 fiscal year.</p> |
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NOTE: Consider such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

YOUR VOTE IS IMPORTANT!

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: 1

PLEASE VOTE, SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder	Date:	Signature of Stockholder	Date:
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Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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COVANTA HOLDING CORPORATION

Proxy for Annual Meeting of Stockholders Solicited on Behalf of the Board of Directors

The undersigned stockholder of Covanta Holding Corporation, a Delaware corporation (the "Company"), hereby appoints STEPHEN J. JONES and TIMOTHY J. SIMPSON, or either of them, with full power of substitution in each of them, to attend the Annual Meeting of Stockholders of the Company (the "Meeting") to be held on May 7, 2015, at 11:00 A.M., Eastern Daylight Time, and any adjournment or postponement thereof, to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Meeting and otherwise to represent the undersigned at the Meeting with all powers possessed by the undersigned if personally present at the Meeting. The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and of the accompanying Proxy Statement and revokes any proxy heretofore given with respect to the Meeting.

The votes entitled to be cast by the undersigned will be cast as instructed on the reverse side hereof. If this proxy is executed but no instruction is given, the votes entitled to be cast by the undersigned will be cast "FOR" each of the nominees for director as described in the Proxy Statement and "FOR" Proposal 2 listed in this proxy and as described in the Proxy Statement. The proxy holders are authorized to vote in their discretion on any other matter that may properly come before the Meeting or any adjournment or postponement thereof.

(Continued and to be signed on the reverse side)

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