Sunstone Hotel Investors, Inc.
Form DEF 14A
March 23, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

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

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Sunstone Hotel Investors, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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

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

2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Sunstone Hotel Investors, Inc.

903 Calle Amanecer, Suite 100

San Clemente, California 92673

Notice of 2010 Annual Meeting

Renaissance Los Angeles Airport Hotel

May 5, 2010 at 4:00 p.m. local time

It is a pleasure to invite you to the 2010 annual meeting of stockholders of Sunstone Hotel Investors, Inc., or Sunstone, a Maryland corporation, to be held at the Renaissance Los Angeles Airport Hotel, 9620 Airport Boulevard, Los Angeles, California 90045 on Wednesday, May 5, 2010 at 4:00 p.m. local time, for the following purposes:

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

2. To consider and vote upon ratification of the Audit Committee s appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2010;

3. To consider and vote upon the approval of amendments to our 2004 Long-Term Incentive Plan (a) to provide for an increase in the number of authorized shares to be issued under the 2004 Long-Term Incentive Plan by 2,200,000 shares and (b) to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders; and

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

Only stockholders of record of shares of Sunstone common stock, par value $0.01 per share, and Series C Cumulative Convertible Redeemable Preferred Stock, par value $0.01 per share, at the close of business on March 12, 2010 are entitled to notice of and to vote at the 2010 annual meeting or any adjournment or postponement of the meeting.

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

By Order of the Board of Directors

Kenneth E. Cruse

Executive Vice President and Chief Financial Officer

March 23, 2010

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IMPORTANT INFORMATION REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 5, 2010

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

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Sunstone Hotel Investors, Inc.

903 Calle Amanecer, Suite 100

San Clemente, California 92673

Proxy Statement

Your vote is very important. For this reason, our Board of Directors is soliciting the enclosed proxy to allow your shares of common stock, par value $0.01 per share, and Series C Cumulative Convertible Redeemable Preferred Stock, par value $0.01 per share, or Series C preferred stock, to be represented and voted, as you direct, by the proxy holders named in the enclosed proxy card at the 2010 annual meeting of stockholders of Sunstone Hotel Investors, Inc., a Maryland corporation, to be held on Wednesday, May 5, 2010, at 4:00 p.m. local time. We, our, the Company and Sunstone refer to Sunstone Hotel Investors, Inc. This proxy statement, the enclosed proxy card and our Annual Report to stockholders for the year ended December 31, 2009, or our Annual Report, are being mailed to stockholders entitled to vote beginning on or about March 23, 2010.

Information About the Meeting and Voting

What am I voting on?

The Board of Directors is soliciting your vote:

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

2. To consider and vote upon ratification of the Audit Committee s appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2010; and

3. To consider and vote upon the approval of amendments to our 2004 Long-Term Incentive Plan (a) to provide for an increase in the number of authorized shares to be issued under the 2004 Long-Term Incentive Plan by 2,200,000 shares and (b) to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders.

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

Who is entitled to vote?

Stockholders of record of our common stock and Series C preferred stock as of the close of business on March 12, 2010, or the record date, are entitled to vote on matters that properly come before the meeting. Shares of common stock or Series C preferred stock can be voted only if the stockholder is present in person or is represented by proxy. At the close of business on the record date, there were 98,521,121 shares of common stock and 4,102,564 shares of Series C preferred stock outstanding and entitled to vote. The holders of common stock and Series C preferred stock will vote together as a single class on all matters that properly come before the meeting.

How many votes do I have?

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

How do I vote?

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

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

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

Does Sunstone have a policy for confidential voting?

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

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

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

What are the Board of Directors recommendations?

The Board of Directors recommends that you vote FOR each of the nominees for director; and 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, 2010; and FOR Proposal 3 to approve amendments to our 2004 Long-Term Incentive Plan (a) to provide for an increase in the number of authorized shares to be issued under the 2004 Long-Term Incentive Plan by 2,200,000 shares and (b) to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders.

What vote is required to approve each proposal?

Election of Directors: There is no cumulative voting in the election of directors. The seven directors are elected by a plurality of votes cast at a meeting duly called and at which a quorum is present. 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), withholding 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.

Approval of Amendments to the 2004 Long-Term Incentive Plan: 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; provided that the total votes cast represent over 50% in interest of all shares entitled to vote on the proposal at the annual meeting. For purposes of this proposal, abstentions and broker non-votes will have the same effect as votes cast against the proposal, unless holders of more than 50% in interest of all shares entitled to vote on the proposal cast votes.

What constitutes a quorum?

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

Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is non-routine and the owner does not provide instructions. Rules of the New York Stock Exchange, or NYSE, determine whether proposals presented at stockholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street or beneficial name may vote on the proposal without voting instructions from the owner. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. Proposal 2 is a routine proposal under the rules of the NYSE. As a result, brokers or other entities holding shares for an owner in street name may vote on Proposal 2 even if no voting instructions are provided by the owner. Proposals 1 and 3 are non-routine proposals under the rules of the NYSE. As a result, brokers or other entities holding shares for an owner in street name may vote on Proposals 1 and 3 only if voting instructions are provided by the owner. If you do not provide your broker with voting instructions for Proposals 1 and 3, your shares will not be counted as shares voted with respect to the vote required for these proposals.

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

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

Can I change my vote?

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

* Notify Sunstone s Secretary (Lindsay N. Monge, c/o Sunstone Hotel Investors, Inc., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212) in writing or by facsimile (at 949-369-3157) before the annual meeting that you are revoking your proxy;

* Submit another proxy with a later date;

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

* Vote in person at the annual meeting.

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

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

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

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

If you and other residents at your mailing address own shares in street name, your broker or bank may have sent you a notice that your household will receive only one Annual Report and proxy statement for each company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as householding. If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our Annual Report and proxy statement to your address. You may revoke your consent to householding at any time by contacting your broker or bank. The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this proxy statement or our Annual Report, we will send a copy to you if you address your written request to Sunstone Hotel Investors, Inc., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, 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 2011 annual meeting proxy statement after the 2010 annual meeting, but must be received no later than November 19, 2010. Proposals should be sent via registered, certified, or express mail to: Lindsay N. Monge, Treasurer and Secretary, Sunstone Hotel Investors, Inc., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212. See also Stockholder Proposals for the 2011 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 12, 2010 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 12, 2010;

* Representatives of the press or other news media with proper credentials;

* Financial analysts with proper credentials; and

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* Employees and representatives of Sunstone whose job responsibilities require their presence at the meeting.

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

You may obtain directions to the Renaissance Los Angeles Airport Hotel in the Investor Relations section of our website at www.sunstonehotels.com or by calling us at 949-369-4204.

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

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Proposal 1:

Election of Directors

Board of Directors

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

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

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

Directors elected at the annual meeting will hold office until the next annual meeting and until their successors have been elected and qualified. For each nominee, there follows a brief listing of principal occupation for at least the past five years, other major affiliations, and age as of February 18, 2010. Each of the nominees is currently a director of the Company.

Nominees for Election as Directors

Robert A. Alter Age: 59 Executive Chairman

Mr. Alter served as our Chief Executive Officer, or CEO, from our formation through March 19, 2007, when he became our Executive Chairman. On March 4, 2008, the Board of Directors appointed Mr. Alter our interim CEO, effective March 21, 2008, and Mr. Alter s position as interim CEO concluded on January 22, 2009. Mr. Alter continues to serve as our Executive Chairman. Prior to our formation, Mr. Alter served from November 1999 through our initial public offering in 2004 as Chief Executive Officer of one of our predecessor companies formed in 1985, which became a public company in August 1995. The public company, Sunstone Hotel Investors, Inc., commenced doing business in August 1995 upon its initial public offering. In November 1999, Mr. Alter participated in a management-led buyout to take that company private. He has been an owner of hotels since 1976, is a past president of the Holiday Inn Franchise Association and a past member of the Marriott Franchise board and is a member of YPO/WPO, a member of the Real Estate Roundtable and former Chairman of the Governmental Affairs Committee of the American Hotel & Lodging Association. Mr. Alter also serves as a director of the Capistrano Valley Symphony. Mr. Alter holds a B.S. degree in Hotel Administration from the Cornell School of Hotel Administration.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Alter should serve as a director: his professional background and experience, education, previously held

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chief executive level position at the Company, intimate knowledge of the Company s hotels, relationships within the hospitality industry, prior Company board experience, and his extensive background and experience in hotels, finance and real estate development.

Z. Jamie Behar Age: 52 Director

Ms. Behar has served as a director since October 26, 2004. Since October 2005, Ms. Behar has been Managing Director, Real Estate & Alternative Investments, for Promark Investment Advisors, Inc. (Promark, formerly known as General Motors Investment Management Corporation). From 1986 through October 2005, Ms. Behar was a Portfolio Manager with Promark. She manages Promark s clients real estate investment portfolios, including both private market and publicly traded security investments, as well as their alternative investment portfolios, totaling approximately $9 billion. She is a member of Promark s Management Committee and Investment Committee, and is Vice Chairman of the Promark Real Estate & Alternative Investment Approval Committee. Ms. Behar is a member of the Board of Directors of Desarrolladora Homex, S.A. de C.V., a publicly listed home development company located in Mexico (and for which she also serves on the audit committee), and serves on the advisory boards of several domestic and international private real estate investment entities. Ms. Behar holds a B.S.E. degree from The Wharton School of the University of Pennsylvania, an M.B.A. degree from the Columbia University Graduate School of Business and the CFA charter.

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

Arthur L. Buser, Jr. Age: 48 Director

Mr. Buser has served as our President and CEO and as a director since January 22, 2009. Mr. Buser joined the Company as President on July 21, 2008. For the 11 years prior to joining Sunstone, Mr. Buser served in a variety of roles at Jones Lang LaSalle Hotels Americas, or JLLH Americas, where he was most recently the Head of Global Hotel Capital Markets and in such capacity was responsible for oversight of hotel equity and debt transactions. Mr. Buser also previously served as a member of JLLH Americas Board of Directors and as President of Hotel Capital Markets. Mr. Buser holds a B.S. degree in Hotel Administration from the Cornell School of Hotel Administration, as well as an M.B.A. from The UCLA Anderson School of Management.

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

Thomas A. Lewis, Jr. Age: 57 Director

Mr. Lewis has served as a director since May 2, 2006. Mr. Lewis is Chief Executive Officer of Realty Income Corporation, a NYSE-listed real estate investment trust. Mr. Lewis is also Vice Chairman of the Board of Directors of Realty Income Corporation and has been a member of its Board of Directors since September 1993. He also serves as a director of Crest Net Lease, Inc., a subsidiary of Realty Income Corporation. He joined Realty Income Corporation in 1987 and served in a variety of executive positions, including Senior Vice President, Capital Markets until 1997, when he was named Chief Executive Officer. In 2000 and 2001 he also held the position of President. Prior to joining Realty Income Corporation, he was an executive with Johnstown Capital, a real estate investment company (1982 to 1987), an investment specialist with Sutro & Co., Inc. (1979- 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.

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

Keith M. Locker Age: 49 Director

Mr. Locker has served as a director since May 2, 2006. From December 2006-2007, Mr. Locker was a director of The Mills Corporation, a publicly traded retail mall REIT, where he was chairman of the compensation committee. He also served as a director of Glenborough Realty Trust, a publicly traded office REIT, where he was a member of the audit and compensation committees. Additionally, since March 2004, Mr. Locker has been a director if IVP Securities, LLC. Moreover, since September 2003, Mr. Locker has been President of Inlet Capital LLC, an investment and asset management firm focused on the commercial real estate industry, and President and Managing Member of COP Holdings, LLC, an investment firm focused on factory retail outlet centers. In addition, since February 2003, Mr. Locker has been President of Global Capital Resources LLC and GCR Advisors Inc., which companies together are the Co- General Partner and Co- Advisor, respectively, to the NYLIM-GCR Fund-1 2002 L.P., which provides fixed and variable rate senior and subordinate mortgages. Mr. Locker was previously a Managing Director in the Real Estate Investment Banking Group at Deutsche Bank Securities, Inc. from September 2000 to February 2003. Prior to joining Deutsche Bank in 2000, Mr. Locker was Senior Managing Director at Bear, Stearns & Co. Inc., responsible for Real Estate Investment Banking. Mr. Locker has more than 25 years of major national market experience in real estate finance, private placement, capital markets and transaction structuring and risk management. Mr. Locker earned a B.S./B.A. from Boston University School of Management in 1983 and an M.B.A. from the Wharton School in 1988. Mr. Locker is Trustee of the National Jewish Center, and is a member of NAREIT, Urban Land Institute, Commercial Mortgage Securities Association, International Council of Shopping Centers, The Wharton School Zell-Lurie Real Estate Center, Fisher Center for Real Estate and Urban Economics and numerous philanthropic and community organizations.

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

Keith P. Russell Age: 64 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 Nationwide Health Properties, Inc. (for which he also serves as chair of the audit committee and a member of the nominating and governance committee). From 2003 to 2008, Mr. Russell was a director of Countrywide Financial Corporation, where he was a member of the audit and ethics, credit, finance and special oversight committees. From 2002 to 2008 Mr. Russell was a director of Countrywide Bank (private) and from 2001 to 2007 he was a member of the UCLA Anderson Board of Visitors (non-profit). Mr. Russell has been a panelist at various conferences and seminars, addressing topics such as corporate governance and audit committee role. Mr. Russell holds a B.A. degree in Economics from the University of Washington and an M.A. degree in Economics from Northwestern University.

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,

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previously held senior-executive level positions, other public company board experience, prior Company board experience, his extensive experience in corporate risk, accounting and finance and general investment experience.

Lewis N. Wolff	Age: 74	Co-Chairman

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

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

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

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Proposal 2:

Ratification of the Audit Committee s Appointment of

Independent Registered Public Accounting Firm

The Audit Committee has selected and appointed the firm of Ernst & Young LLP to act as our independent registered public accounting firm for the year ending December 31, 2010. Ernst & Young LLP audited the financial statements for us for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 and for the period October 26, 2004 through December 31, 2004 and for our predecessor for the period January 1, 2004 through October 25, 2004 and for the year ended December 31, 2003. Ratification of the appointment of Ernst & Young LLP requires a majority of the votes cast. Any shares not voted, whether by abstention, broker non-vote or otherwise, have no impact on the vote.

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

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

Audit, Audit-Related, Tax and Other Fees

The aggregate fees billed for professional services provided by Ernst & Young LLP for 2009 and 2008 were as follows:

Type of Fees	**2009**	**2008**
Audit Fees	$ 782,812	$ 857,357
Audit-related Fees		24,000
Tax Fees	17,929	75,207
Other Fees	1,995	22,945
Total Fees	$ 802,736	$ 979,509

In the above table, in accordance with the definitions of the Securities and Exchange Commission, or the SEC, audit fees are fees paid by us to Ernst & Young LLP for the audit of our consolidated financial statements included in our annual report on Form 10-K and review of the unaudited financial statements included in our quarterly reports on Form 10-Q or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements, including in connection with public offerings of securities. Audit fees also include fees paid by us to Ernst & Young LLP for the audit of our internal control over financial reporting. In 2009, audit fees consisted primarily of $631,281 for the full-year audit, quarterly reviews and the audit of our internal control over financial reporting and $151,531 for services related to statutory and regulatory filings. In 2008, audit fees consisted primarily of $802,357 for the full-year audit, quarterly reviews and the audit of our internal control over financial reporting and $55,000 for services related to public offerings.

Audit-related Fees are fees billed by Ernst & Young LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. In 2009, there were zero audit-related fees. In 2008, audit-related fees consisted of an audit of one hotel.

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

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

Pre-approval Policies and Procedures

Our Audit Committee has adopted a pre-approval policy requiring that the Audit Committee pre-approve all audit and permissible non-audit services to be performed by Ernst & Young LLP. Any proposed service that has received pre-approval but which will exceed pre-approved cost limits will require separate pre-approval by the Audit Committee. The Audit Committee has delegated to its chair the authority to grant the required approvals for all audit and permissible non-audit services to be performed by Ernst & Young LLP that do not exceed $75,000 for any one project, provided that the chair reports the details of the exercise of any such delegated authority at the next meeting of the Audit Committee. All services performed by the independent registered public accounting firm in 2009 were approved by the Audit Committee pursuant to its pre-approval policy.

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

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Proposal 3:

Approval of Amendments to the 2004 Long-Term Incentive Plan

The Board of Directors and the Compensation Committee have determined that it is in the best interest of the Company and its stockholders to amend the Company s 2004 Long-Term Incentive Plan (the LTIP) (a) to increase the number of shares of common stock available for issuance from 3,850,000 to 6,050,000, or by 2,200,000 shares, and (b) to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders (the LTIP Amendment). In determining the increase to the number of authorized shares available for issuance under the LTIP, the Board of Directors and the Compensation Committee engaged The Schonbraun McCann Group LLP (Schonbraun), an independent executive compensation consultancy. Schonbraun performed various analyses, including application of tests utilized by RiskMetrics Group, to confirm that the proposed amendment meets the guidelines of various institutional investors. The Board of Directors and the Compensation Committee believe that both (a) the increase to the number of shares of common stock available for issuance under the LTIP, and (b) the addition of language to the LTIP prohibiting repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders, are desirable to accomplish the objectives of the LTIP discussed below and are in the best interest of the Company s stockholders.

The Board of Directors and the Compensation Committee have approved the LTIP Amendment substantially in the form attached hereto as Exhibit A to be effective as of the date of approval by the Company s stockholders. The LTIP Amendment will not become effective unless stockholder approval is obtained at the 2010 annual meeting of stockholders. The principal features of the LTIP are summarized below and are qualified in their entirety by reference to the full text of the LTIP together with the LTIP Amendment (assuming stockholder approval of the LTIP Amendment). The LTIP may be obtained by writing to Sunstone Hotel Investors, Inc. at our principal executive office: 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, Attention: Secretary.

Description of Plan

We adopted the LTIP and it became effective in October 2004 upon completion of our initial public offering. The purpose of the LTIP is to attract and retain our directors, executive officers and employees. The LTIP is administered by the Compensation Committee of the Board of Directors, which has broad powers to interpret and implement the plan.

Types of Awards

The LTIP provides for grants of incentive stock options (within the meaning of Section 422 of the Code), nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards such as performance shares.

Shares Subject to the LTIP; Other Limitations on Awards

At the time of our initial public offering, we established the maximum number of shares of common stock issuable under the LTIP at 2,100,000. The Company s stockholders approved an amendment to the LTIP at the Company s 2007 annual meeting of stockholders, whereby the maximum number of shares of common stock issuable under the LTIP was increased from 2,100,000 to 3,850,000. As of March 12, 2010, 1,047,319 shares of our common stock have been awarded and have vested under the LTIP, 1,376,471 shares of our common stock have been awarded and remain unvested and 200,000 stock options have been awarded, vested and remain unexercised, leaving 1,226,210 shares of our common stock available for issuance under the LTIP. The stock options have an exercise price of $17.71 and a remaining term of approximately eight years. The Company is

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asking its stockholders to approve the LTIP Amendment providing for an increase in the number of shares of common stock available for issuance under the LTIP to a total of 6,050,000 shares, which would bring the number of shares available for future issuance to 3,426,210 shares. The Company intends to file with the SEC a Registration Statement on Form S-8 covering the additional shares of our common stock issuable under the LTIP as a result of the LTIP Amendment.

Shares that may be issued under the LTIP may be authorized but unissued shares of our common stock, treasury shares or shares otherwise acquired for the purposes of the LTIP. If any award is forfeited or is otherwise terminated or canceled without the delivery of shares of our common stock, if shares of our common stock are surrendered or withheld from any award to satisfy a recipient s income tax or other withholding obligations, or if shares of our common stock owned by a recipient are tendered to pay the exercise price of awards, then such shares will again become available under the LTIP. The Compensation Committee has broad authority to adjust the terms of any outstanding awards and the number of shares of our common stock issuable under the LTIP for any increase or decrease in the number of issued shares of our common stock resulting from a stock split, reverse stock split, stock dividend, spin-off, combination or reclassification of our common stock, or any other event that the Compensation Committee determines affects our capitalization.

Eligibility

Awards may be made to any director, officer or employee, including any prospective employee, and to any consultant or advisor selected by the Compensation Committee.

Additional information about the LTIP and the types of awards provided by the LTIP is provided under the heading Executive Officer Compensation Compensation Discussion and Analysis in this proxy.

Repricing

Presently, outstanding stock option and stock appreciation rights awarded under the LTIP are not expressly forbidden from being reduced in price per share or from being canceled in exchange for cash or another award when the price per share of such stock option or stock appreciation right exceeds the fair market value of the underlying shares of common stock of the Company. The LTIP Amendment will specifically prohibit the Company from repricing stock options and stock appreciation rights without the approval of a majority of the Company s stockholders.

The Board of Directors recommends a vote FOR the approval of amendments to our 2004 Long-Term Incentive Plan (a) to increase the number of authorized shares to be issued under the 2004 Long-Term Incentive Plan by 2,200,000 shares and (b) to prohibit repricing of stock options and stock appreciation rights without the approval of a majority of the Company s stockholders.

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Corporate Governance

In light of applicable legal requirements, such as the Sarbanes-Oxley Act of 2002 and related rules promulgated by both the NYSE and the SEC, we provide the following discussion to inform you of our efforts to assure that we employ best practices in our corporate governance. A copy of our Corporate Governance Guidelines is available in the Investor Relations section of our website at www.sunstonehotels.com. In addition, a printed copy of the Corporate Governance Guidelines will be provided without charge upon request to Sunstone Hotel Investors, Inc., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, 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 provides that directors, officers (including our CEO and all senior financial officers) and employees owe a duty to us to advance our business interests when the opportunity to do so arises. Among other things, our directors, officers and employees are prohibited 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., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, Attention: Secretary.

Independence of Directors and Committees

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

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

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

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

The Board of Directors Leadership Structure

Mr. Alter serves as our Executive Chairman, Mr. Wolff as our non-executive Co-Chairman and Mr. Buser as our President and CEO. We believe this board leadership structure is best for the Company and our stockholders, as Mr. Wolff can wholly focus his efforts on running the Board of Directors and Mr. Alter can divide his time as needed to assist Mr. Wolff and Mr. Buser with board and Company matters, respectively. Furthermore, by having other directors share the role of chairman of the Board of Directors, Mr. Buser will focus his efforts on running the Company.

We believe our CEO and our Executive Chairman and Co-Chairman have an excellent working relationship that has allowed Mr. Buser to make a good transition into the role of CEO and will allow him to focus on the challenges that the Company is facing in the current business environment. By dividing the chairman and CEO roles, we ensure there is no duplication of effort between the respective positions. We believe this provides strong leadership for our Board of Directors, while also positioning our CEO as the leader of the Company in the eyes of our employees and other stakeholders.

Our Board of Directors has five independent members and two non-independent members, the Executive Chairman and the CEO. A number of the members of our Board of Directors are currently serving or have served as members of senior management of other public companies and have served as directors of other public companies. We have three board committees comprised solely of independent directors. We believe that the number of independent, experienced directors that make up our Board of Directors, along with the independent oversight of the Board of Directors by the non-executive Co-Chairman, provides our management with appropriate oversight, leadership and guidance.

Pursuant to our bylaws and our governance guidelines, our Board of Directors determines the best board leadership structure for the Company from time to time. As part of our annual board self-evaluation process, we evaluate our leadership structure to ensure that the Board of Directors continues to believe that it provides the optimal structure for the Company and stockholders. While we recognize that different board leadership structures may be appropriate for companies in different situations, we believe our current leadership structure, with Mr. Buser serving as CEO, Mr. Alter as Executive Chairman and Mr. Wolff as Co-Chairman, is the optimal structure for the Company at this time.

Risk Oversight

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 affect 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.

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

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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.

Director Attendance at Meetings

Each of our directors is expected to attend each annual meeting of stockholders. Although our Board of Directors recognizes that conflicts may occasionally prevent a director from attending a Board of Directors or stockholder meeting, the Board of Directors expects each director to make every possible effort to keep such absences to a minimum. The Board of Directors held ten meetings and acted by written consent on eight occasions in 2009. 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, except Mr. Wolff, attended our annual meeting of stockholders in 2009.

Stockholder Communication with the Board 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., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, Attn: Secretary. Stockholders should provide proof of stock ownership with their correspondence. All communications from verified stockholders will be received and processed by the Secretary and then directed to the appropriate member(s) of the Board of Directors.

In addition, any interested party who wishes to communicate directly with our non-employee directors may contact Mr. Wolff, our Co-Chairman, at the mailing address of the Company s executive offices at 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212. All communications will be received and processed by the Secretary and then directed to the appropriate non-employee director(s).

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Committees of the Board of Directors

Committees

Our Board of Directors has established a number of committees, including the Compensation Committee, the Audit Committee and the Nominating and Corporate Governance Committee, each of which is briefly described below. 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., 903 Calle Amanecer, Suite 100, San Clemente, California 92673-6212, 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 policies applicable to employees generally. The members of the Compensation Committee are independent directors as required by the listing standards and rules of the NYSE, are non-employee directors within the meaning of Section 162(m) of the 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 Compensation Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Compensation Committee. The current members of our Compensation Committee are Keith P. Russell and Lewis N. Wolff. Mr. Wolff is the chair. The Compensation Committee held five meetings and acted by written consent on two occasions during 2009. The Company expects that after the annual meeting, the Compensation Committee members will remain the same.

Audit Committee

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

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

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

The current members of our Audit Committee are Thomas A. Lewis, Keith M. Locker and Keith P. Russell. Mr. Locker is the chair. The Audit Committee held four meetings during 2009. We expect that after the annual meeting, the Audit Committee members will remain the same. The Audit Committee charter is attached hereto as Exhibit B.

Audit Committee Financial Expert

The Board of Directors has determined that each of 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 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.

Nominating and Corporate Governance Committee

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

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

* maintain the highest personal and professional ethics, integrity and values;
* represent the long-term interests of stockholders;
* exercise independence of thought, objective perspective and mature judgment;
* constructively challenge ideas and assumptions;
* 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 also reviews the results of the self-evaluations provided by the directors with respect both to the Board of Directors and the individual directors and considers these results in light of the criteria for individual directors and objectives of the Board of Directors. Based on this process, the Nominating and Corporate Governance Committee is able to recommend, 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.

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If the Board of Directors determines to seek additional directors for nomination, the Nominating and Corporate Governance Committee will consider as potential director nominees candidates recommended by various sources, including any member of the Board of Directors or senior management. The Nominating and Corporate Governance Committee may also retain a third-party search firm to identify candidates. The Nominating and Corporate Governance Committee also considers recommendations for nominees that are timely submitted by stockholders and only if such recommendations are delivered in the manner prescribed by the advance notice provisions contained in Article II, Section 2.11 of our bylaws for stockholder proposals. (See Stockholder Proposals for the 2011 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 Z. Jamie Behar, Keith M. Locker and Lewis N. Wolff. Mr. Wolff is the chair. The Nominating and Corporate Governance Committee held one meeting during 2009. We expect that after the annual meeting, the Nominating and Corporate Governance Committee members will remain the same.

Committee Membership

The table below summarizes current membership information for each of the Board of Directors committees:

	Compensation	**Audit**	**Nominating and Corporate Governance**
Mr. Alter			
Ms. Behar			X
Mr. Buser			
Mr. Lewis		X	
Mr. Locker		X*	X
Mr. Russell	X	X	
Mr. Wolff	X*		X*

* Chair

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

	Compensation	Audit	Nominating and Corporate Governance
Mr. Alter			
Ms. Behar			X
Mr. Buser			
Mr. Lewis		X	
Mr. Locker		X*	X
Mr. Russell	X	X	
Mr. Wolff	X*		X*

* Chair

Meetings of Non-Employee Directors

Ms. Behar and Messrs. Lewis, Locker, Russell and Wolff are currently our non-employee directors. The non-employee directors held four meetings in 2009. Following the annual meeting, we expect that our non-employee directors will be Ms. Behar and Messrs. Lewis, Locker, Russell and Wolff, and that Mr. Wolff will be selected to preside over executive sessions of the non-employee directors.

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Report of the Audit Committee of the Board of Directors

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

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

In performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 114, Communication with Audit Committees. In addition, the Audit Committee has discussed with the independent auditors the auditors independence from Sunstone and its management, including the matters in the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board.

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

In reliance on the reviews and discussions referred to above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee charter, the Audit Committee recommended to the Board of Directors the inclusion of the audited financial statements in Sunstone s 2009 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Keith M. Locker, Chair

Thomas A. Lewis

Keith P. Russell

February 17, 2010

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Compensation of Directors

During 2009, each of our independent directors was entitled to receive an annual cash retainer of $30,000 (payable in quarterly installments), an annual stock grant of shares having a value equal to $60,000 for serving on our Board of Directors, and an attendance fee paid in cash of $1,500 per meeting of our Board of Directors if the meeting was attended in person or $500 if the meeting was attended telephonically. Pursuant to an arrangement with Ms. Behar s employer, all director fees for Ms. Behar (including the value of the annual stock grant and attendance fees), which amounted to $99,500 in 2009, are paid in cash to her employer.

In addition, during 2009, each member of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee was entitled to an attendance fee of $1,500 per committee meeting or $500 if the meeting was attended telephonically. The chair of our Audit Committee received $15,000, the chair of our Compensation Committee received $7,500 and the chair of our Nominating and Corporate Governance Committee received $7,500, in each case in cash payable in quarterly installments.

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

2009 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	All Other Compensation ($)(3)	Total ($)
Z. Jamie Behar				
Thomas A. Lewis	42,500	110,278(2)	2,558	155,336
Keith M. Locker	60,500	110,278(2)	3,188	173,966
Keith P. Russell	48,000	110,278(2)	2,593	160,871
Lewis N. Wolff	57,500	110,278(2)	2,488	170,266

(1) The amounts in this column represent the grant date fair value for grants of restricted stock made to the director.

(2) Each of our independent directors was entitled to receive, among other compensation, an annual stock grant of shares having a value equal to $60,000 for serving on our Board of Directors. To determine the number of restricted shares granted, the dollar amount is divided by the average closing price of the Company s stock over the 20 trading days ending three business days prior to the grant date. Accordingly, based on a grant date of May 7, 2009 and the average closing price of the Company s common stock over the 20 trading days ending three days prior to such date (which average price was $3.64), each of the independent directors was granted 16,484 shares of restricted stock, with a grant date fair value of $110,278. The grant date fair value of the restricted stock awards granted to our independent directors equals the number of shares of restricted stock (16,484) multiplied by the closing common share price of $6.69 on the NYSE on the date of the grant (May 7, 2009).

(3) Represents dividends received on unvested restricted stock during the calendar year 2009 and the cost to the Company for complimentary hotel rooms received at Company hotels.

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Executive Officers

The following sets forth biographical information regarding our executive officers as of February 18, 2010, other than Messrs. Alter and Buser, whose biographical information is set forth above under Proposal 1: Election of Directors.

Kenneth E. Cruse, 41, is our Executive Vice President and Chief Financial Officer, or CFO. Mr. Cruse joined us in April 2005 as Senior Vice President Asset Management, and was appointed Senior Vice President Corporate Finance on September 1, 2006, Senior Vice President and CFO on January 1, 2007 and Executive Vice President and CFO on February 18, 2010. Since December 2007, Mr. Cruse has been a director of BuyEfficient, LLC, a 50% owned subsidiary of the Company. For the eight years prior to joining Sunstone, Mr. Cruse worked in a variety of roles for Host Marriott Corporation, the predecessor of Host Hotels and Resorts, Inc., most recently as Vice President, Corporate Finance. Mr. Cruse holds a B.S. degree from Colorado State University and an M.B.A. degree from Georgetown University.

Marc A. Hoffman, 52, is our Executive Vice President and Chief Operating Officer, or COO. Mr. Hoffman joined us in June 2006 as Vice President Asset Management, and was appointed Senior Vice President Asset Management in January 2007 and Executive Vice President and Chief Operating Officer on February 18, 2010. For the twenty-seven years prior to joining Sunstone, Mr. Hoffman served in various positions at Marriott International, Inc., including General Manager of The Vail Marriott, General Manager of Marriott s Harbor Beach Resort and Spa, Marriott Market Manager for Fort Lauderdale, General Manager of The Ritz-Carlton Palm Beach (where under Mr. Hoffman s leadership, the hotel obtained the Mobil 5 Star Award), and most recently as Vice President and Managing Director of Grande Lakes Orlando, which included the 1,000-room JW Marriott, the 584-room Ritz-Carlton Resort and Spa, and The Ritz-Carlton Golf Club. Mr. Hoffman holds an AOS degree from The Culinary Institute of America and a B.A. degree from Florida International University.

Executive Officer Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis explains our compensation philosophy and policies that apply to our executive officers, including our named executive officers listed in the Summary Compensation Table below, or the Named Executive Officers. It explains the structure and rationale associated with each material element of the compensation program for our executive officers, describes the actual compensation paid to our Named Executive Officers for 2009, and provides important context for the more detailed disclosure relating to our Named Executive Officers in the compensation tables following this Compensation Discussion and Analysis.

During 2009, we had several developments in the composition of our senior management team. Mr. Buser, our President since July 21, 2008, was appointed CEO, effective January 22, 2009. Simultaneously with Mr. Buser s appointment to CEO, Mr. Alter relinquished his position as interim CEO, and currently serves as our Executive Chairman. Effective May 15, 2009, Christopher M. Lal, our General Counsel since November 2007, was terminated in connection with certain changes to our corporate organizational structure.

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.

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Compensation Philosophy and Objectives

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

Our executive compensation program is designed to reward performance relative to financial and other metrics that we believe will result in favorable total stockholder returns, both in terms of absolute appreciation in the value of our shares, and in terms of relative performance as compared to our peers, taking into consideration our competitive position within the real estate industry and each executive s long-term career contributions to the Company.

In order to achieve these compensation objectives, the Compensation Committee has established a compensation structure that primarily rewards our executives for performance relative to financial metrics and other financial indicators that we believe are related to maximizing stockholder value in our industry. The Compensation Committee has also designed the compensation program to reward our executive officers at levels that the Compensation Committee generally believes to be competitive for companies in its industry, including in part as a result of the review of executive officer compensation levels at certain companies in a peer group, as identified below. These compensation objectives are also furthered by the compensation program providing that a significant amount of the executive officer s total compensation will be variable and will be awarded by reference to these key financial metrics and other financial indicators.

To implement these compensation objectives, the executive compensation program for fiscal year 2009 generally consisted of a combination of:

* annual base salary;
* annual cash incentive bonus;
* annual equity incentive awards with a three-year vesting period; and
* health and welfare programs and certain perquisites.

Implementation of our Compensation Philosophy and Objectives

Compensation Committee

The Compensation Committee assists the Board of Directors in discharging the Board of Directors responsibilities relating to compensation of our executive officers. It evaluates and recommends to the Board of Directors appropriate policies and decisions relative to executive officer benefits, bonus, incentive compensation, severance, and equity-based or other compensation plans. It also oversees preparation of executive compensation disclosures for inclusion in our proxy statement and assists management in regulatory compliance with respect to compensation matters. The members of the Compensation Committee in 2009 were Keith P. Russell and Lewis N. Wolff, each of whom is independent within the meaning of the listing standards of the NYSE, is a non-employee director within the meaning of Rule 16b-3 of the Exchange Act and is an outside director within the meaning of Section 162(m) of the Code.

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 CEO regarding the compensation of the executive officers other than the CEO. Although the Compensation Committee discusses the CEO s compensation with him, the CEO does not provide recommendations for changes in his own compensation, and final deliberations and all votes regarding the recommendation of his compensation to the full Board of Directors

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are made in executive sessions, without the CEO present. Only Compensation Committee members vote on recommendations to the full Board of Directors regarding changes in executive compensation.

As described in more detail below, compensation for fiscal year 2009 for each of our executive officers was determined by the Compensation Committee based upon a review of the Company s performance, the individual performance of each such executive officer, total compensation paid by the Company to each executive officer in prior years, and, in certain instances, taking into account certain peer group information provided in a compensation consultant s report. The Compensation Committee s analysis is discussed below in the context of each element and amount of compensation.

The annual cash incentive bonus and equity incentive awards for a fiscal year are typically paid in the first quarter of the subsequent fiscal year, when audited financial statements for such fiscal year become available for the Company. For example, in February 2010, we paid the 2009 cash incentive bonuses and issued long-term equity incentive awards to the Named Executive Officers with respect to the Company s performance for fiscal year 2009.

Consultants

We generally do not make regular use of compensation consultants. However, in connection with compensation decisions made in 2009, our Compensation Committee referred to a report prepared by Schonbraun in connection with our management restructuring in 2006. At that time, Schonbraun was asked to report to the Compensation Committee on market data on executive pay levels and incentive program designs, to recommend compensation levels for our executive officers and to recommend modifications to the Company s existing annual and long-term incentive plan designs. In prior years, the Compensation Committee used Schonbraun s report to assist it in developing specific elements and levels of compensation for our senior management members. Although the Compensation Committee continues to refer to the Schonbraun report, the Compensation Committee takes into account the age of the report and the changes in the economy and the industry since the time the report was issued. Schonbraun was also retained in 2009 to assist in evaluating compensation levels for some executives for 2010 in light of their increased responsibilities.

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Peer Group Information

In connection with its engagement in 2006, Schonbraun provided certain market data on executive pay levels for a group of peer companies and compared our 2006 executive compensation levels with this peer group information. The peer group companies were selected by Schonbraun based on their market size, geographic location, property type and asset quality. The peer group companies for purposes of Schonbraun s 2006 review of executive compensation consisted of the following:

* Ashford Hospitality Trust, Inc.
* Choice Hotels International
* DiamondRock Hospitality Company
* Equity Inns, Inc.
* Felcor Lodging Trust Incorporated
* Gaylord Entertainment Company
* Highland Hospitality Corporation
* Hilton Hotels Corp.
* Host Hotels & Resorts, Inc.
* Innkeepers USA Trust
* LaSalle Hotel Properties
* MeriStar Hospitality Corporation
* Starwood Hotel & Resorts Worldwide
* Strategic Hotels & Resorts, Inc.

* Winston Hotels, Inc.

Other than in connection with the Schonbraun engagement, as a general matter, our Compensation Committee has not engaged in benchmarking of compensation of our executive officers against other companies, but instead has relied on its own experience and judgment with respect to determining the competitiveness of Sunstone s compensation arrangements. In addition, with respect to the peer group information provided by Schonbraun, the Compensation Committee used that information in a subjective manner in its evaluation of and in making decisions concerning executive compensation as more particularly described, where applicable, below.

Tax Considerations

We take into account tax implications in the design of our executive compensation program. For example, pursuant to Section 162(m) of the Code, publicly traded companies may not deduct, in any taxable year, compensation in excess of $1,000,000 paid to their chief executive officer and each of the next three most highly compensated executive officers as of the end of any fiscal year (other than the chief financial officer) unless that compensation qualifies as performance-based compensation as defined in Section 162(m). The Compensation Committee believes that it is in the best interests of the Company and its stockholders to comply with the limitations of Section 162(m) of the Code to the extent practicable and consistent with retaining, attracting and motivating the Company s Named Executive Officers. The Executive Incentive Plan provides for the payment of annual incentive compensation in the form of cash bonuses or equity awards granted under the LTIP which is generally intended to qualify as performance-based compensation under Section 162(m). Nevertheless, there can be no assurance that our incentive compensation will be treated as performance-based compensation under

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Section 162(m). In addition, the Compensation Committee has reserved the right to pay executives compensation that may be subject to the deduction limit under Section 162(m) when the Compensation Committee believes that such compensation is appropriate, consistent with the Compensation Committee s philosophy and in our and our stockholders best interests.

Section 409A of the Code

Section 409A of the Code requires that nonqualified deferred compensation be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities, penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, we design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including our named executive officers, in a manner intended either to be exempt from, or to satisfy the requirements of, Section 409A.

Section 280G of the Code

Section 280G of the Code disallows a tax deduction with respect to excess parachute payments to certain executives of companies which undergo a change in control. In addition, Section 4999 of the Code imposes a 20 percent penalty on the individual receiving the excess payment. Parachute payments are compensation that is linked to or triggered by a change in control and may include, but are not limited to, bonus payments, severance payments, certain fringe benefits and payments and acceleration of vesting from long-term incentive plans including stock options and other equity-based compensation. Excess parachute payments are parachute payments that exceed a threshold determined under Section 280G based on the executive s prior compensation. In approving the compensation arrangements for our named executive officers, our compensation committee considers all elements of the cost to our Company of providing such compensation, including the potential impact of Section 280G. However, our compensation committee may, in its judgment, authorize compensation arrangements that could give rise to loss of deductibility under Section 280G and the imposition of excise taxes under Section 4999 when it believes that such arrangements are appropriate to attract and retain executive talent.

Accounting Standards

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

Elements of Executive Compensation

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

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

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

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

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

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 (other than annual cost-of-living increases provided pursuant to certain of our executives employment agreements) 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. 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. In light of market conditions and the overall economic environment during 2009, none of our named executive officers received a salary increase during 2009. In addition, based on similar considerations, Mr. Alter agreed to a decrease of $100,000 in salary in 2010, lowering his total 2010 annual salary to $186,000, and Mr. Buser agreed not to receive a salary increase for 2010. The following is a discussion of the base salary determinations for each of our Named Executive Officers.

Robert A. Alter. From January 1, 2008 to July 20, 2008, Mr. Alter s annual base salary in his capacity as our Executive Chairman was $275,000. After Mr. Alter s appointment to interim CEO, effective March 21, 2008, his employment agreement was amended to increase his annual base salary to $475,000 effective July 21, 2008. Upon Mr. Buser s appointment to CEO, effective January 22, 2009, Mr. Alter s annual base salary was returned to $286,000, pursuant to the terms of his employment agreement, reflecting a cost-of-living increase of 4% to his original base salary of $275,000. Effective February 22, 2010, Mr. Alter s base salary was decreased to $186,000.

Arthur L. Buser, Jr. From July 21, 2008 to January 21, 2009, during which time Mr. Buser served as the Company s President, his annual base salary was $425,000. Upon Mr. Buser s appointment to CEO, effective January 22, 2009, his annual base salary was increased from $425,000 to $650,000, pursuant to the terms of his employment agreement. Mr. Buser s base salary for 2010 is $650,000.

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Kenneth E. Cruse. Mr. Cruse s base salary for 2009 was $294,193, the same base salary paid to Mr. Cruse as of December 31, 2008. Mr. Cruse s annual base salary was increased to $350,000, effective February 22, 2010, representing an increase of approximately 19.0%.

Marc A. Hoffman. Mr. Hoffman s base salary for 2009 was $301,069, the same base salary paid to Mr. Hoffman as of December 31, 2008. Mr. Hoffman s annual base salary was increased to $350,000, effective February 22, 2010, representing an increase of approximately 16%.

Christopher M. Lal. Mr. Lal s base salary for 2009 was $265,000, the same base salary paid to Mr. Lal as of December 31, 2008. Mr. Lal s employment at the Company ended on May 15, 2009.

Annual Cash Incentive Bonuses and Equity Incentive Awards

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

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

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

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

Criteria and Metrics for 2009 Incentive Compensation. In the first quarter of 2009, the Compensation Committee established quantitative and qualitative performance measures for both the annual cash incentive bonuses and the annual equity incentive awards. The Compensation Committee determined that the amounts of the bonuses and awards to each Named Executive Officer would be based on the following three components, each weighted as described: (1) 25% based on return on investment, (2) 25% based on adjusted funds from operations, or adjusted FFO, per share (as described below), and (3) 50% based on subjective and objective

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measures of the officer s individual performance. Adjusted FFO is the net income (loss) computed in accordance with GAAP, excluding gains and losses from sales of property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustment for unconsolidated partnerships, joint ventures, prepayment penalties, written-off deferred financing costs, impairment losses and other identified adjustments. The weighting established by the Compensation Committee reflects its subjective 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 adjust criteria to account for material intra-year transactions and circumstances.

For each of these three components, the Compensation Committee established four achievement levels Threshold, Target, High and Superior, and for each achievement level, a corresponding multiple. For any of the three components, the amount granted to the applicable Named Executive Officer was the product of (a) his base salary, (b) the weighting for that component as described above and (c) the multiple corresponding to his level of achievement.

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

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

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

The Compensation Committee determined that for fiscal year 2009, the range for return on investment should be as described in the table below. The Compensation Committee set these levels such that the Threshold equals a minimally-expected ratio of EBITDA to invested capital for a stabilized portfolio of hotel assets, the Target level equates to a typically expected ratio of EBITDA to invested capital for a stabilized portfolio of hotel assets, the High level equates to an above-average ratio of EBITDA to invested capital for a stabilized portfolio of hotel assets and the Superior level equates to a well-above average ratio of EBITDA to invested capital for a stabilized portfolio of hotel assets.

Adjusted FFO Per Share. The primary objective of the adjusted FFO per share component is to measure management s ability to budget appropriately and oversee the financial performance of the Company. We adjust FFO for items including, but not limited to, write-off of deferred financing fees, prepayment penalties, gains and losses on extinguishment of debt, goodwill and other impairments, along with adjustments relating to prior periods. In 2009, we adjusted FFO for the write-off of deferred financing fees, default rate interest, loan penalties and fees, gains on extinguishment of debt, property and goodwill impairment losses and bad debt expense on a corporate note receivable.

The Compensation Committee determined that for fiscal year 2009, the range for adjusted FFO per share should be as described in the table below. The Compensation Committee set these levels such that the Threshold generally approximates the low end of the Company s initial adjusted FFO per share guidance, the Target generally approximates the mid-point of the Company s initial adjusted FFO per share guidance, the High generally approximates the high end of the Company s initial adjusted FFO per share guidance and the Superior corresponds to a level in excess of the high end of the Company s initial adjusted FFO per share guidance.

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Individual Goals. The primary objective of the individual goals is to drive individual performance and ensure accountability to individual performance throughout the calendar year. The Named Executive Officers each had the same qualitative individual goals for 2009, which fell within four categories: Outperform; Grow or Maintain Cash Position; Effective Communication; and Support Hotels. The Outperform metric consisted of, among other things, achieving a certain level of cost savings, improving Company employee survey scores and enhancing organizational culture. The Grow or Maintain Cash Position metric consisted of, among other things, requiring the Named Executive Officers to execute on certain disposition and finance initiatives in an effort to grow the Company s cash reserves and reduce Company debt. The Effective Communication metric consisted of, among other things, personal development of subordinate employees, maintaining best in class relationships with investors and executing on certain technology initiatives. Lastly, the Support Hotels metric consisted of, among other things, requiring the Named Executive Officers to take necessary constructive action with respect to various of the Company s hotels, as reasonably requested by hotel General Managers in their responses to surveys issued by the Company.

In determining the Threshold, Target, High and Superior achievement levels, while the Compensation Committee considered information previously provided and recommendations made by Schonbraun, the Compensation Committee s determination of these amounts reflected its subjective analysis of the amounts required to appropriately incentivize each Named Executive Officer to achieve the relevant corporate and individual goals.

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

The following is a tabular presentation of the foregoing performance criteria and related achievement levels as determined by the Compensation Committee:

Performance Measures	Weight	Threshold	Target	High	Superior	Actual
Return on Investment	25.0%	9.5%	10.0%	10.5%	11.0%	6.8%
Adjusted FFO Per Share	25.0%	$ 1.38	$ 1.48	$ 1.58	$ 1.68	$ 0.68
Individual Performance	50.0%	(1)	(1)	(1)	(1)	(1)

(1) Determined on an individual basis. See above for a description of the goals for each Named Executive Officer for fiscal year 2009.

2009 Awards. To determine the actual incentive awards for each Named Executive Officer above, in February 2010, the Compensation Committee reviewed and assessed the performance of the Company and each Named Executive Officer in comparison to the subjective and objective performance measures established in 2009. The Compensation Committee determined the extent to which each of the various objective and subjective performance measures were achieved and decided whether the incentive compensation for each performance measure should be funded at the Threshold, Target, High or Superior level.

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The following tables detail the actual calculation of the cash incentive bonus and the equity incentive award with respect to the 2009 fiscal year for each Named Executive Officer who was employed by Sunstone at the end of 2009. The paragraphs following the tables describe the information contained in the tables below.

Cash Incentive Bonus

	Achievement	Weighting	Threshold(1)	Target(1)	High(1)	Superior(1)	Percentage of Base Salary	Base Salary ($)