

Sunstone Hotel Investors, Inc.
Form 424B4
May 21, 2009
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(4)

Reg. Statement No. 333-155101

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS SUPPLEMENT DATED MAY 20, 2009

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 20, 2008)

18,000,000 SHARES

Sunstone Hotel Investors, Inc.

COMMON STOCK

We are offering 18,000,000 shares of our common stock. Arthur L. Buser, Jr., our President and Chief Executive Officer, is purchasing 40,000 shares of our common stock in this offering.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol SHO. On May 19, 2009, the last reported sale price of our common stock was \$5.56 per share. Shares of our common stock are subject to ownership and transfer limitations that must be applied to maintain our status as a real estate investment trust, or REIT.

See Risk Factors beginning on page S-5 of this prospectus supplement to obtain information about where to read certain factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission, or the SEC, nor any other state or federal regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

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	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to Sunstone Hotel Investors, Inc. (before expenses)	\$	\$

To the extent the underwriters sell more than 18,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 2,700,000 shares from us.

The underwriters expect to deliver the shares in New York, New York on or about May , 2009.

Citi

J.P.Morgan

Merrill Lynch & Co.

The date of this Prospectus Supplement is May , 2009.

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You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate as of any date other than the date on the front of the respective document.

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INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC's rules allow us to incorporate by reference information into this prospectus supplement and the attached prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus supplement and the attached prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement and before the date that the offering of the securities by means of this prospectus supplement is terminated will automatically update and, where applicable, supersede any information contained, or incorporated by reference, in this prospectus supplement or in the attached prospectus.

We incorporate by reference into this prospectus supplement and the attached prospectus:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on February 12, 2009;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed with the SEC on May 7, 2009;

our Current Reports on Form 8-K filed with the SEC on January 14, 2009, January 26, 2009, May 4, 2009 and May 14, 2009;

the description of the common stock included in our registration statement on Form 8-A, filed with the SEC on October 7, 2004, together with any amendment or report filed with the SEC for the purpose of updating such description; and

all documents we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, on or after the date of this prospectus supplement and before the termination of this offering.

The documents incorporated by reference in this prospectus supplement and the attached prospectus and, in particular, our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on February 12, 2009, contain important information about us.

You should read "Incorporation of Certain Information by Reference" in the attached prospectus for information about how to obtain the documents incorporated by reference.

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SUMMARY

The information below is a summary of the more detailed information included elsewhere in, or incorporated by reference in, this prospectus supplement. You should read carefully the following summary in conjunction with the more detailed information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference. This summary is not complete and does not contain all of the information you should consider before purchasing shares of our common stock. You should carefully read the Risk Factors section beginning on page S-5 of this prospectus supplement to determine whether an investment in our common stock is appropriate for you.

Sunstone Hotel Investors, Inc.

We were incorporated in Maryland on June 28, 2004. We are a REIT under the Internal Revenue Code of 1986, as amended, or the Code. As of the date of this prospectus supplement, we owned 42 hotels comprised of 14,295 rooms, located in 14 states and in Washington, D.C. In addition, we own a 38% equity interest in a joint venture that owns the Doubletree Guest Suites Times Square hotel, located in New York City, New York. We also own other non-hotel investments.

Our primary business is to acquire, own, asset manage and renovate full-service hotels in the United States. As part of our ongoing portfolio management strategy, we may also sell hotels from time to time. Our hotels are operated under leading brand names, such as Marriott, Hyatt, Fairmont, Hilton and Starwood. Our portfolio primarily consists of upper upscale and upscale full-service hotels. We also own luxury and midscale hotels. The classifications luxury, upper upscale, upscale and midscale are defined by Smith Travel Research, an independent provider of lodging industry statistical data.

Our hotels are operated by third-party managers pursuant to management agreements with Sunstone Hotel TRS Lessee, Inc. or its subsidiaries. As of the date of this prospectus supplement, Sunstone Hotel Properties, Inc., a division of Interstate Hotels & Resorts, Inc., operated 24 of our 42 hotels. Additionally, subsidiaries of Marriott Services, Inc. or Marriott International, Inc., which we refer to collectively as Marriott, operated 13 of our hotels, Hyatt Corporation operated two of our hotels, and Fairmont Hotels & Resorts (U.S.) Hilton Hotels Corporation and Starwood Hotels & Resorts Worldwide, Inc. each operated one of our hotels. We have attempted to align the interests of our operators with our own by structuring our management agreements to allow our operators to earn incentive management fees upon the attainment of certain profit thresholds.

Our headquarters are located at 903 Calle Amanecer, Suite 100, San Clemente, California 92673, and our telephone number is (949) 369-4000.

Recent Developments

Exchangeable Senior Note Tender Offer

On May 20, 2009, we announced the final results of the tender offer and consent solicitation previously announced by Sunstone Hotel Partnership, LLC, our wholly owned subsidiary, or the Operating Partnership, to purchase any and all of its outstanding 4.60% exchangeable senior notes due 2027, or the Senior Notes, and to solicit consents from the registered holders of the Senior Notes to adopt a proposed amendment to the indenture governing the Senior Notes.

In accordance with the terms and conditions of the tender offer and based on the final tabulation by Global Bondholder Services Corporation, the depositary for the tender offer and consent solicitation, or the Depositary, a

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total of \$123.5 million in principal amount of Senior Notes, representing approximately 66.4% of the outstanding Senior Notes, were validly tendered and not validly withdrawn. Upon acceptance of all such tendered Senior Notes for purchase, holders of such tendered Senior Notes will be entitled to \$700 per \$1,000 principal amount of the Senior Notes (which includes a consent fee of \$15 per \$1,000 principal amount of the Senior Notes), for total consideration of approximately \$86.5 million (excluding fees and costs of the tender offer and consent solicitation). We expect to recognize a gain of approximately \$26.0 million as a result of the repurchase of Senior Notes pursuant to the tender offer.

In accordance with the terms and conditions of the consent solicitation and based on the final tabulation by the Depositary, a total of \$58.0 million in principal amount of Senior Notes, representing approximately 31.0% of the outstanding Senior Notes, delivered consents but did not tender their related Senior Notes for a consent fee of \$15 per \$1,000 principal amount of Senior Notes, for total consideration of approximately \$0.9 million (excluding fees and costs of the tender offer and consent solicitation).

Based on the final tabulation by the Depositary, the holders of a total of \$181.5 million in principal amount of Senior Notes delivered consents either in conjunction with a tender of the related Senior Notes or without tendering the related Senior Notes, representing 97.6% of the Senior Notes outstanding on or prior to the expiration time of the tender offer and consent solicitation, resulting in the approval of the proposed amendment to the indenture governing the Senior Notes.

The Depositary will promptly pay for the Senior Notes validly tendered and for consents received. After giving effect to the purchase of the tendered Senior Notes, the Operating Partnership will have outstanding approximately \$62.5 million in aggregate principal amount of the Senior Notes.

We intend to continue to maintain higher than historical cash balances, after giving effect to the tender offer and consent solicitation and this offering, until such time as we believe the lodging cycle is approaching a recovery phase.

Amendment to Credit Facility

We are party to a \$200.0 million revolving credit facility, or the Credit Facility. On April 22, 2009, we drew down \$60.0 million on the Credit Facility in connection with the tender offer and consent solicitation and had \$3.5 million in outstanding irrevocable letters of credit backed by the Credit Facility, leaving, as of that date, up to \$136.5 million available under the Credit Facility.

We announced on May 7, 2009 that we had reached an agreement in principle with our two lead credit facility banks to amend the Credit Facility. Under the terms of the agreement in principle, the Credit Facility will be converted to an \$85.0 million senior secured facility secured by mortgages on five of our currently unencumbered hotels. The amount available under the amended credit facility at any given time will be dependent on the value of the borrowing base of assets included as collateral. The terms of the proposed amendment provide significant financial covenant relief, reducing the minimum fixed charge coverage ratio from 1.50x to 1.00x with flexibility to drop to 0.90x for up to four quarters. The initial interest rate of the amended facility is expected to be approximately 375 basis points over LIBOR, subject to increase in certain circumstances, which is an increase from the current rate of 90 to 150 basis points over LIBOR, depending on the type of the advance and certain financial ratios. The term of the Credit Facility will not be extended and will expire on July 11, 2011, unless we comply with certain requirements to extend the term for one additional year. While we currently expect to close on the amended credit facility in the second quarter, no assurances can be made that the amendment will close on the terms described herein, or at all.

Sale of Hotel Property

On May 20, 2009, we announced the sale of the 274-room Marriott located in Napa, California for gross sale proceeds of \$36.0 million. We expect to recognize a net loss of approximately \$14.0 million as a result of this sale. We estimate that the property would require approximately \$6.0 million in near-term renovation expenditures to comply with Marriott brand standards. The sale closed at the end of business on May 20, 2009.

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The Offering

Common stock offered by us	18,000,000 shares
Total shares of common stock outstanding immediately after this offering ⁽¹⁾	72,477,013 shares
Use of proceeds	The estimated net proceeds of approximately \$95.5 million from this offering (or approximately \$109.9 million if the underwriters over-allotment option is exercised in full) will be contributed to the Operating Partnership in exchange for additional membership units of the Operating Partnership. The Operating Partnership will subsequently use those net proceeds for working capital and general corporate purposes, including potentially the repayment of any amounts drawn on the Credit Facility, and/or the repurchase of the \$123.5 million principal amount of Senior Notes tendered pursuant to the tender offer and consent solicitation, which repurchase will be consummated using approximately \$86.5 million in cash. See Use of Proceeds.
Distribution policy	To maintain our qualification as a REIT, we intend to make quarterly distributions to our stockholders of at least 90% of our REIT taxable income (which excludes net capital gains and does not necessarily equal net income as calculated in accordance with generally accepted accounting principles).
New York Stock Exchange symbol	SHO

(1) This number is based on 54,477,013 shares of our common stock outstanding at May 20, 2009 and does not include:

1,509,544 additional shares of our common stock available for future issuance under our 2004 long-term incentive plan, and 261,454 shares issuable in respect of unvested restricted stock units or stock options outstanding as of such date;

4,497,953 shares of common stock issuable upon conversion of our outstanding shares of series C cumulative convertible redeemable preferred stock; and

any exercise of the underwriters' over-allotment option.

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RISK FACTORS

See the information under the heading "Risk Factors" beginning on page 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on February 12, 2009, which information has been incorporated by reference into this prospectus supplement, and other information included in this prospectus supplement and the attached prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock. In addition to the risk factors incorporated by reference herein, please see the additional risk factor referenced below:

Certain of our long-lived assets and goodwill have in the past become impaired and may become impaired in the future.

We periodically review each of our properties and any related goodwill for possible impairment. During the quarter ended March 31, 2009, we determined that the economic environment relating to four of our hotels continued to decline. Accordingly, we conducted an impairment evaluation related to these four hotels, and at the conclusion of our evaluation, recorded an impairment loss of \$3.6 million to goodwill and other impairment losses. Our other properties and related goodwill may become impaired, or our properties and related goodwill which have previously become impaired may become further impaired, in the future, which may adversely affect our financial condition and results of operations.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately \$95.5 million, after deducting underwriting discounts and commissions and estimated offering expenses (or approximately \$109.9 million if the underwriters' over-allotment option is exercised in full, after deducting underwriting discounts and commissions and estimated offering expenses), in each case at an assumed public offering price of \$5.56 per share which is the last reported sales price per share on May 19, 2009. We will contribute the net proceeds that we receive to the Operating Partnership in exchange for additional membership units in the Operating Partnership. The Operating Partnership will subsequently use those net proceeds for working capital and other general corporate purposes, including potentially the repayment of any amounts drawn on the Credit Facility, which currently bear interest at a rate of 90 to 150 basis points over LIBOR, depending on the type of advance and certain financial ratios, and which amounts are due upon the expiration of the Credit Facility on July 11, 2011, unless the term of the facility is extended in accordance with the terms thereof, and/or the repurchase of the \$123.5 million principal amount of Senior Notes tendered pursuant to the tender offer and consent solicitation, which repurchase will be consummated using approximately \$86.5 million in cash. The Senior Notes bear interest at the rate of 4.60% per annum and mature on July 15, 2027. See "Recent Developments" beginning on page S-2 of this prospectus supplement for more information regarding the Credit Facility and the Senior Notes.

An affiliate of Citigroup Global Markets Inc. is the administrative agent under the Credit Facility, and affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under the Credit Facility and other debt obligations. To the extent any portion of the net proceeds are used to repay amounts drawn on the Credit Facility, affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated will be receiving a portion of the net proceeds from this offering.

A \$1.00 increase (decrease) in the assumed public offering price of \$5.56 per share, the closing price of our common stock on the New York Stock Exchange on May 19, 2009, would increase (decrease) the net proceeds to us from this offering by approximately \$17.2 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. An increase (decrease) of one million shares in the number of shares offered by us would increase (decrease) the expected net proceeds from this offering by approximately \$5.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, assuming a public offering price of \$5.56 per share.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This prospectus supplement contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, should, will or the negative of such terms and other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those expressed or implied by these forward-looking statements. In evaluating these statements, you should specifically consider the risks outlined in detail in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 12, 2009, under the heading Risk Factors and under the heading Risk Factors on page S-5 of this prospectus supplement, including, but not limited to, the following factors:

general economic and business conditions affecting the lodging and travel industry, both nationally and locally, including a prolonged U.S. recession;

our need to operate as a REIT and comply with other applicable laws and regulations;

rising operating expenses;

relationships with and requirements of franchisors and hotel brands;

relationships with and the performance of the managers of our hotels;

the ground or air leases for eight of our hotels;

performance of hotels after they are acquired;

competition for the acquisition of hotels;

competition in the operation of our hotels;

our ability to complete acquisitions and dispositions;

the need for renovations and other capital expenditures for our hotels;

the impact of renovations on hotel operations and delays in renovations or other developments;

changes in business strategy or acquisition or disposition plans;

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our level of outstanding debt, including secured, unsecured, fixed and variable rate debt;

financial and other covenants in our debt and preferred stock;

our ability to successfully complete negotiations for the amendment to the Credit Facility;

volatility in the credit or equity markets and the effect on lodging demand or our ability to obtain financing on favorable terms or at all; and

other events beyond our control.

These factors may cause our actual events to differ materially from the expectations expressed or implied by any forward-looking statement. We do not undertake to update any forward-looking statement.

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UNDERWRITING

We and the underwriters named below have entered into a purchase agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are the representatives of the underwriters.

Underwriters	Number of Shares
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Total	18,000,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 2,700,000 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 2,700,000 additional shares.

Paid by Us

	No Exercise	Full Exercise
Per Share	\$	\$
Total	\$	\$

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ per share from the initial public offering price. Any such dealers may resell shares to certain other brokers or dealers at a discount of up to \$ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

We estimate that our portion of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$350,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the several underwriters may be required to make because of any of those liabilities.

For a period of 60 days after the date of this prospectus supplement, subject to certain exceptions, we have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to any additional shares of our common

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stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of all of the representatives. The foregoing sentence shall not apply to the shares sold in this offering.

Our officers and certain of our directors have agreed that they will not offer, sell, contract to sell, pledge (subject to certain limited exceptions approved by the representatives) or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap or other arrangement, without, in each case, the prior written consent of one or more of the representatives for a period of 60 days after the date of this prospectus supplement or to registration statements required to be filed pursuant to the registration rights agreement we entered into with respect to the Senior Notes.

Arthur L. Buser, Jr., our President and Chief Executive Officer, is purchasing 40,000 shares of our common stock pursuant to the terms and conditions of this offering.

In connection with the offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Each of the representatives has from time to time performed, and may in the future perform, various financial advisory and investment banking services for us for which it has received or will receive customary fees and expenses. In addition, an affiliate of Citigroup Global Markets Inc. is the administrative agent under the Credit Facility, and affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under our Credit Facility and other debt obligations. To the extent any portion of the net proceeds from this offering are used to repay amounts drawn on the Credit Facility, affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated will be receiving a portion of the net proceeds from this offering.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

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to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive. Each purchaser of shares described in this prospectus supplement located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an offer to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

released, issued, distributed or caused to be released, issued or distributed to the public in France; or

used in connection with any offer for subscription or sale of the shares to the public in France.

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Such offers, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1^o-or-2^o-or 3^o of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The shares offered in this prospectus supplement have not been registered under the Securities and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

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Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,
shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

VALIDITY OF THE COMMON STOCK

The validity of the shares of common stock offered hereby and certain other matters relating to Maryland law will be passed on by Venable LLP of Baltimore, Maryland. O Melveny & Myers LLP, of San Francisco, California, will act as counsel to the underwriters.

EXPERTS

Our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 12, 2009 (including the schedule appearing therein) and the effectiveness of our internal control over financial reporting as of December 31, 2008 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements and the effectiveness of our internal control over financial reporting as of the respective dates (to the extent covered by consents filed with the SEC) given on the authority of such firm as experts in accounting and auditing.

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\$500,000,000

SUNSTONE HOTEL INVESTORS, INC.

Common Stock

Preferred Stock

Depositary Shares

Sunstone Hotel Investors, Inc., or the Company, from time to time may offer to sell common stock and preferred stock, either separately or represented by depositary shares for an aggregate initial offering price of up to \$500,000,000. The preferred stock may be convertible into or exercisable or exchangeable for common or preferred stock or other securities of the Company or debt or equity securities of one or more other entities. The common stock of the Company is listed on the New York Stock Exchange, or NYSE, and trades under the ticker symbol SHO.

The Company may offer and sell any combination of these securities, in one or more offerings, to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

This prospectus describes some of the general terms that may apply to certain of these securities. The specific terms of any securities to be offered will be described in a supplement to this prospectus.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated November 20, 2008.

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AVAILABLE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any documents filed by us at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public through the SEC's Internet site at <http://www.sec.gov> and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common stock is listed.

We have filed with the SEC a registration statement on Form S-3 relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document of the Company, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington, D.C., as well as through the SEC's Internet site.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC's rules allow us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus and before the date that the offering of the securities by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

We incorporate by reference into this prospectus the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- (1) Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on February 21, 2008, as amended by our Form 10-K/A filed with the SEC on February 25, 2008;
- (2) Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2008, June 30, 2008 and September 30, 2008, filed with the SEC on May 8, 2008, August 5, 2008 and November 5, 2008, respectively;
- (3) Current Reports on Form 8-K filed with the SEC on January 11, 2008, February 12, 2008, March 7, 2008, April 3, 2008, April 11, 2008, May 13, 2008, June 23, 2008 and November 3, 2008;
- (4) The description of the common stock included in our registration statement on Form 8-A, filed with the SEC on October 7, 2004, together with any amendment or report filed with the SEC for the purpose of updating such description;
- (5) The description of our Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share, contained in the Registration Statement on Form 8-A filed with the SEC on March 11, 2005; and
- (6) All documents filed by the Company under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, on or after the date of this prospectus and before the termination of this offering.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request a copy of these filings at no cost, by writing or calling us at the following address or telephone number:

Edgar Filing: Sunstone Hotel Investors, Inc. - Form 424B4

Sunstone Hotel Investors, Inc.

Attn: Secretary

903 Calle Amanecer, Suite 100

San Clemente, California 92673

Telephone: (949) 369-4000

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DESCRIPTION OF SECURITIES WE MAY OFFER

Rights of our stockholders are governed by the Maryland General Corporation Law, or MGCL, our charter and our bylaws. The following is a summary of the provisions of securities we may offer, from time to time, and describes certain provisions of our charter and bylaws. For information on how to obtain copies of our charter and bylaws, see Available Information.

COMMON STOCK

Our charter provides that we are authorized to issue 500,000,000 shares of common stock, \$0.01 par value per share, and 100,000,000 shares of preferred stock, \$0.01 par value per share. Our board of directors, without any action by our stockholders, may amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

The following summary description of our common stock is based on the provisions of our charter, bylaws and the applicable provisions of the MGCL. This information may not be complete in all respects and is qualified in its entirety by reference to the provisions of our charter, bylaws and the MGCL.

As of October 31, 2008, there were 48,496,903 shares of our common stock issued and outstanding. Our common stock is listed on the NYSE under the symbol SHO.

Distributions. Subject to provisions of law and the preferential rights of any other class or series of stock and the restrictions on transfer of stock as provided in our charter, the holders of our common stock are entitled to receive distributions when, as and if authorized by our board of directors and declared by us out of assets legally available therefor. We will pay those distributions either in cash or otherwise in the amounts and on the date or dates designated by our board of directors.

Liquidation Preference. Upon the occurrence of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, and subject to the liquidation preferences of any outstanding class or series of stock, the holders of our common stock are entitled to receive their proportionate share of all assets available for distribution.

Voting Rights. Subject to the restrictions on transfer of stock in our charter and the separate voting rights of any other class or series of stock, holders of our common stock are entitled to one vote for each share of our common stock held on every matter submitted to a vote of stockholders. Except as otherwise required by the terms of any outstanding class or series of stock, the holders of our common stock have sole voting power. Holders of our common stock do not have cumulative voting rights in the election of directors, which means that the holders entitled to cast a majority of the votes entitled to be cast in the election of directors may elect all of the directors and the holders of the remaining shares of our common stock are not able to elect any directors.

No Other Rights. Holders of shares of our common stock have no conversion, sinking fund, redemption, exchange or appraisal rights and have no preemptive rights to subscribe for any of our securities.

Transfer Agent. The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Restrictions on Ownership and Transfer. To qualify as a real estate investment trust, or REIT, our charter contains certain restrictions as to ownership and transfer of our stock. For a summary of these restrictions, see Description of Our Capital Stock Restrictions on Ownership and Transfer below.

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PREFERRED STOCK

This section describes the general terms and provisions of the preferred stock we may offer. This information may not be complete in all respects and is qualified entirely by reference to our charter, bylaws and the applicable provisions of the MGCL. The specific terms of any series of preferred stock will be described in a prospectus supplement. Those terms may differ from the terms discussed below. Any series of preferred stock we issue will be governed by our charter, including the articles supplementary relating to that series, and our bylaws. We will file the articles supplementary with the SEC and incorporate it by reference as an exhibit to our registration statement at or before the time we issue any preferred stock of that series.

Authorized Preferred Stock. Our charter authorizes our board of directors to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series. Prior to issuance of shares of each series, our board of directors is required by the MGCL and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Upon issuance of a particular series of preferred stock, our board of directors is authorized to specify:

the number of shares to be included in the series;

the annual dividend rate for the series and any restrictions or conditions on the payment of dividends or other distributions;

the redemption price, if any, and the qualifications and terms and conditions of redemption;

any sinking fund provisions for the purchase or redemption of the series;

if the series is convertible, the terms and conditions of conversion;

the amounts payable to holders upon our liquidation, dissolution or winding up; and

any other rights, preferences, voting powers, restrictions and limitations relating to the series.

The board of directors' ability to authorize, without stockholder approval, the issuance of preferred stock with conversion and other rights may adversely affect the rights of holders of our common stock or other series of preferred stock that may be outstanding.

For a description of our issued and outstanding preferred stock, see [Description of Our Capital Stock Preferred Stock](#).

Specific Terms of a Series of Preferred Stock. The preferred stock we may offer will be issued in one or more series. Shares of preferred stock, when issued against full payment of its purchase price, will be fully paid and non-assessable. Their par value or liquidation preference, however, will not be indicative of the price at which they will actually trade after their issue. If necessary, the applicable prospectus supplement will provide a description of U.S. Federal income tax consequences relating to the purchase and ownership of the series of preferred stock offered by that prospectus supplement.

The preferred stock will have the dividend, liquidation, redemption, voting, conversion and other rights discussed below, unless otherwise described in a prospectus supplement relating to a particular series. The applicable prospectus supplement will discuss the following features of the series of preferred stock to which it relates:

the designation and par value per share;

the number of shares offered;

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the amount of liquidation preference per share;