

Sunstone Hotel Investors, Inc.  
Form 424B5  
March 30, 2011  
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\*\*Filed pursuant to Rule 424(b)(5).

Reg. Statement No. 333-155101

**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.**

**SUBJECT TO COMPLETION, DATED MARCH 30, 2011**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

(To Prospectus dated January 14, 2011)

**Shares**

**Sunstone Hotel Investors, Inc.**

**% Series D Cumulative Redeemable**

**Preferred Stock**

**(Liquidation Preference \$25.00 Per Share)**

We are offering \_\_\_\_\_ shares of our \_\_\_\_\_ % Series D Cumulative Redeemable Preferred Stock, par value \$0.01 per share, which we refer to in this prospectus supplement as our series D preferred. We will pay cumulative dividends on our series D preferred in the amount of \$ \_\_\_\_\_ per share each year, which is equivalent to \_\_\_\_\_ % of the \$25.00 liquidation preference per share. Dividends on our series D preferred sold in this offering will be payable quarterly in arrears on the 15th day of each of January, April, July and October of each year, commencing July 15, 2011. Our series D preferred is not subject to any sinking fund. Upon liquidation, dissolution or winding up, our series D preferred will rank senior to our common stock, par value \$0.01 per share (the \_\_\_\_\_ common stock \_\_\_\_\_), with respect to the payment of distributions and amounts.

We are not allowed to redeem our series D preferred prior to \_\_\_\_\_, 2016, except as described in the immediately following paragraph and in limited circumstances to preserve our status as a real estate investment trust, or REIT. On or after \_\_\_\_\_, 2016, we may, at our option, redeem our series D preferred, in whole or from time to time in part, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends on such series D preferred up to, but not including, the redemption date.

In addition, upon the occurrence of a Change of Control (as defined herein), we may, at our option, redeem the series D preferred, in whole or in part and within 120 days after the first date on which such Change of Control occurred, by paying \$25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption.

If we exercise any of our redemption rights relating to the series D preferred, the holders of series D preferred will not have the conversion right described below. The series D preferred have no maturity date and will remain outstanding indefinitely unless redeemed by us or converted in connection with a Change of Control by the holders of series D preferred. Holders of our series D preferred will generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other events.

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Upon the occurrence of a Change of Control, each holder of series D preferred will have the right (unless, prior to the Change of Control Conversion Date (as defined herein), we have provided or provide notice of our election to redeem the series D preferred) to convert some or all of the series D preferred held by such holder on the Change of Control Conversion Date into a number of shares of our common stock per series D preferred to be converted equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a series D preferred dividend payment and prior to the corresponding series D preferred dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Share Price (as defined herein); and

, or the Share Cap, subject to certain adjustments;  
subject, in each case, to provisions for the receipt of alternative consideration as described in this prospectus supplement.

The series D preferred ranks *pari passu* with our 8.0% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share, and Series C Cumulative Convertible Redeemable Preferred Stock, par value \$0.01 per share.

The series D preferred are subject to certain restrictions on ownership designed to preserve our qualification as a REIT for federal income tax purposes.

We intend to file an application to list the series D preferred on the NYSE under the symbol `SHO PR D`.

**Investing in the series D preferred involves a high degree of risk. Before buying any series D preferred, you should carefully read the discussion of material risks of investing in the series D preferred under the heading Risk Factors beginning on page S-11 of this prospectus supplement and beginning on page 8 of our Annual Report on Form 10-K for the year ended December 31, 2010.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price (1)	\$	\$
Underwriting discount	\$	\$
Proceeds to Sunstone Hotel Investors, Inc. (before expenses)	\$	\$

(1) Plus accrued dividends, if any, from April , 2011.

We have granted the underwriters the right to purchase up to an additional shares of series D preferred at the public offering price, less the underwriting discount, to cover overallocments within 30 days from the date of this prospectus supplement.

The underwriters expect that the shares will be delivered in global form through the book-entry delivery system of The Depository Trust Company on or about April , 2011.

*Joint Book-Running Managers*

**J.P. Morgan**

**BofA Merrill Lynch**  
The date of this Prospectus Supplement is March , 2011.

**Wells Fargo Securities**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

You should read this prospectus supplement along with the accompanying prospectus, as well as the information incorporated by reference herein and therein, carefully before you invest in our preferred stock. These documents contain important information that you should consider before making your investment decision. This prospectus supplement and the accompanying prospectus contain the terms of this offering of preferred stock. The accompanying prospectus contains information about our securities generally, some of which does not apply to the preferred stock covered by this prospectus supplement. This prospectus supplement may add, update or change information contained in or incorporated by reference in the accompanying prospectus. If the information in this prospectus supplement is inconsistent with any information contained in or incorporated by reference in the accompanying prospectus, the information in this prospectus supplement will apply and will supersede the inconsistent information contained in or incorporated by reference in the accompanying prospectus.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus before making your investment decision. You should also read and consider the additional information incorporated by reference in this prospectus supplement and the accompanying prospectus before making your investment decision. See **Incorporation of Certain Information by Reference** in this prospectus supplement.

**You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or the SEC. Neither we nor the underwriters have authorized any other person to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. Neither we nor the underwriters are making an offer to sell the series D preferred in any jurisdiction where the offer or sale is not permitted.**

You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless this prospectus supplement otherwise indicates or the context otherwise requires, the terms **our**, **us**, **our company** and **we** as used in this prospectus supplement refer to Sunstone Hotel Investors, Inc. and its consolidated subsidiaries. We also use the term **Operating Partnership** to specifically refer to Sunstone Hotel Partnership, LLC and its consolidated subsidiaries in cases where it is important to distinguish between us and the Operating Partnership. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the over-allotment option granted to the underwriters is not exercised in whole or in part.

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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 accompanying 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 accompanying 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 accompanying prospectus.

We incorporate by reference into this prospectus supplement and the accompanying prospectus the documents or information referred to under the heading "Incorporation of Certain Information by Reference" in the accompanying prospectus:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 17, 2011 (including information specifically incorporated by reference therein from our Proxy Statement for our 2011 Annual Meeting filed with the SEC on March 25, 2011);

our Current Reports on Form 8-K filed with the SEC on March 29, 2011; 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.

We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed filed with the SEC. The documents incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 17, 2011, contain important information about us.

You should read "Incorporation of Certain Information by Reference" in the accompanying 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 herein and therein. This summary is not complete and does not contain all of the information you should consider before purchasing shares of our series D preferred. You should carefully read the Risk Factors section beginning on page S-11 of this prospectus supplement and beginning on page 8 of our Annual Report on Form 10-K for the year ended December 31, 2010 to determine whether an investment in our series D preferred is appropriate for you.*

#### **Sunstone Hotel Investors, Inc.**

We are a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code. As of the date of this prospectus supplement, we owned 33 hotels or the 33 hotels. The 33 hotels are comprised of 12,676 rooms, located in 14 states and in Washington, D.C. 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, Fairmont, Hilton, Hyatt and Starwood. Our portfolio primarily consists of upper upscale and upscale full-service hotels. We also own luxury and upper midscale hotels. The classifications luxury, upper upscale, upscale and upper 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, a subsidiary of Interstate Hotels & Resorts, Inc. managed 13 of our 33 hotels. Additionally, subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. managed 13 of our 33 hotels, and Davidson Hotel Company, a subsidiary of Denihan Hospitality Group, Fairmont Hotels & Resorts (U.S.), Highgate Hotels, L.P., Hilton Worldwide, Hyatt Corporation and Sage Hospitality Resources each managed one of our 33 hotels. We have attempted to align the interests of our managers with our own interests by structuring our management agreements to allow our managers to earn incentive management fees upon the attainment of certain profit thresholds.

Our headquarters are located at 120 Vantis, Suite 350, Aliso Viejo, California 92656, and our telephone number is (949) 330-4000. We were incorporated in Maryland on June 28, 2004.

#### **Recent Developments**

##### ***Hilton San Diego Bayfront Hotel***

On March 29, 2011, we executed a definitive agreement to acquire a 75% majority interest in a joint venture that owns the 1,190-room Hilton San Diego Bayfront hotel located in San Diego, California for a total valuation of \$475.0 million or approximately \$399,000 per key. The total valuation of \$475.0 million represents a 13.8x 2010 EBITDA multiple. Upon acquisition, the joint venture expects to enter into \$240.0 million of non-recourse senior mortgage debt with an expected maturity in April 2016, which will bear an annual interest rate of LIBOR plus approximately 325 basis points. The expected mortgage debt is subject to completion of final documentation and closing conditions that may impact the final terms. Hilton Worldwide will continue to manage the hotel and will remain as the 25% minority equity partner in the joint venture. The acquisition is expected to close during the second quarter of 2011, although there can be no assurance the acquisition will close, or if it does, when the acquisition will close.

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***Royal Palm Hotel***

On March 28, 2011, we executed a definitive agreement to sell the 409-room Royal Palm hotel for \$130.0 million. At closing, we will receive \$40.0 million in cash and will originate a \$90.0 million secured purchase money loan to the seller. We will also retain an earn out right which will enable us to receive a future payment of up to \$20.0 million in the event that the hotel achieves certain return hurdles. The purchaser will be obligated to complete the planned renovation of the hotel, which is budgeted to cost approximately \$42.5 million, and which is expected to be completed in 2012. The seller loan is expected to bear an interest rate of 5% over LIBOR with a 1% LIBOR floor, and is expected to mature on December 31, 2013. We expect the disposition to close in April 2011, although there can be no assurance the disposition will close, or if it does, when the disposition will close.

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**The Offering**

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of our series D preferred, see Description of the Series D Preferred in this prospectus supplement and Description of our Capital Stock Preferred Stock on page 5 of the accompanying prospectus. We will contribute the net proceeds of the sale of our series D preferred to the Operating Partnership and the Operating Partnership will issue to us series D preferred units, the economic terms of which will be substantially similar to the series D preferred.

Issuer	Sunstone Hotel Investors, Inc.
Securities Offered	shares of our series D preferred.
Ranking	<p>The series D preferred ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up:</p> <p>senior to all classes or series of our common stock, and to any other class or series of our capital stock expressly designated as ranking junior to the series D preferred;</p> <p>on parity with any class or series of our capital stock expressly designated as ranking on parity with the series D preferred, including the 8.0% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share, or series A preferred, and Series C Cumulative Convertible Redeemable Preferred Stock, par value \$0.01 per share, or series C preferred; and</p> <p>junior to any other class or series of our capital stock expressly designated as ranking senior to the series D preferred.</p> <p>Any future authorization or issuance of a class or series of our capital stock expressly designated as ranking senior to the series D preferred would require the affirmative vote of at least two-thirds of the outstanding shares of series D preferred.</p>
Dividends	<p>Investors that purchase our series D preferred in this offering will be entitled to receive cumulative cash dividends on the series D preferred, payable quarterly in arrears on the 15th day of each January, April, July and October of each year (or if not a business day, on the next succeeding business day), commencing July 15, 2011, at the rate of % per annum of the \$25.00 liquidation preference per share (equivalent to an annual rate of \$ per annum per share). Any dividend payable on the series D preferred for any partial dividend period (other than the first dividend period after the sale of shares of series D preferred in this offering) shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends on</p>



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the series D preferred will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared.

Generally, dividends paid by regular C corporations to persons or entities that are taxed as United States individuals are taxed for U.S. federal income tax purposes at the rate applicable to long-term capital gains, which is currently a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our series D preferred, generally will continue to be taxed at regular ordinary income tax rates for such purposes, except to the extent that the special rules relating to qualified dividend income and capital gains dividends paid by a REIT apply. See U.S. Federal Income Tax Considerations in the accompanying prospectus.

Liquidation Preference

If we liquidate, dissolve or wind-up, holders of the series D preferred will have the right to receive \$25.00 per share, plus accrued and unpaid dividends (whether or not earned or declared) up to, but not including, the date of payment, before any payment is made to holders of our common stock and any other class or series of capital stock ranking junior to the series D preferred as to liquidation rights. The rights of holders of series D preferred to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our capital stock ranking senior to or on parity with the series D preferred as to liquidation, including our series A preferred and series C preferred.

Optional Redemption

We may not redeem the series D preferred prior to , 2016, except as described below under Special Optional Redemption and in limited circumstances to preserve our status as a REIT. On and after , 2016, the series D preferred will be redeemable at our option, in whole or in part at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends up to, but not including, the redemption date. Any partial redemption will be on a pro rata basis.

Special Optional Redemption

Upon the occurrence of a Change of Control (as defined in Description of the Series D Preferred Special Optional Redemption ), we may, at our option, redeem the series D preferred, in whole or in part and

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within 120 days after the first date on which such Change of Control occurred, by paying \$25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If, prior to the Change of Control Conversion Date (as defined below), we exercise our redemption right (whether our optional redemption right or our special optional redemption right), you will not have the conversion right described below.

No Maturity, Sinking Fund or Mandatory Redemption

The series D preferred has no maturity date and we are not required to redeem the series D preferred at any time. Accordingly, the series D preferred will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right or, under circumstances where the holders of series D preferred have a conversion right, the holders of series D preferred decide to convert the series D preferred. The series D preferred is not subject to any sinking fund.

Further Issuances

We may create and issue further series D preferred ranking equally and ratably with the series D preferred offered by this prospectus supplement in all respects, so that such further series D preferred will be consolidated and form a single series with the series D preferred offered by this prospectus supplement and will have the same terms as to status, redemption or otherwise.

Limited Voting Rights

Holders of series D preferred will generally have no voting rights. However, if we are in arrears on dividends on the series D preferred for six or more quarterly periods, whether or not consecutive, holders of the series D preferred (voting together as a class with the holders of all other classes or series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote at our next annual meeting and each subsequent annual meeting of stockholders for the election of two additional directors to serve on our board of directors until all unpaid dividends and the dividend for the then current period with respect to the series D preferred and any other class or series of parity preferred stock have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, we may not make certain material adverse changes to the terms of the series D preferred without the affirmative vote of the holders of at least two-thirds of the outstanding shares of series D preferred and all other shares of any class or series

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ranking on parity with the series D preferred that are entitled to similar voting rights (voting together as a single class).

Among other things, we may, without any vote of the holders of the series D preferred, issue additional shares of series D preferred.

Information Rights

During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any series D preferred are outstanding, we will (i) transmit by mail or other permissible means under the Exchange Act to all holders of series D preferred as their names and addresses appear in our record books and without cost to such holders, copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) within 15 days following written request, supply copies of such reports to any prospective holder of the series D preferred. We will mail (or otherwise provide) the reports to the holders of series D preferred within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act.

Listing

We intend to file an application to list the series D preferred on the NYSE under the symbol `SHO PR D`. If listing is approved, we expect trading to commence within 30 days after initial delivery of the series D preferred.

Restrictions on Ownership and Transfer

For us to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, not more than 50% in value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals, as defined in the Code. In order to assist us in meeting these requirements, no one person may own, actually or constructively, more than 9.8% (in value or in number of shares, whichever is more restrictive) of the outstanding shares of our series D preferred or more than 9.8% in value of the aggregate of the outstanding shares of our classes of stock. See [Description of the Series D Preferred](#) [Restrictions on Ownership and Transfer](#).

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Conversion Rights

Upon the occurrence of a Change of Control, each holder of series D preferred will have the right (unless, prior to the Change of Control Conversion Date, we have provided or provide notice of our election to redeem the series D preferred) to convert some or all of the shares of series D preferred held by such holder on the Change of Control Conversion Date into a number of shares of our common stock per series D preferred to be converted equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a series D preferred dividend payment and prior to the corresponding series D preferred dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Share Price (as defined below); and

, or the Share Cap, subject to certain adjustments;

subject, in each case, to provisions for the receipt of alternative consideration, as described in the prospectus supplement.

The Share Cap is subject to pro rata adjustments for any Share Splits (as defined below) with respect to shares of our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product of (i) the Share Cap in effect immediately prior to such Share Split multiplied by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

If we have provided or provide a redemption notice, whether pursuant to our special optional redemption right in connection with a Change of Control or our optional redemption right, holders of series D preferred will not have any right to convert the series D preferred in connection with the Change of Control Conversion Right (as defined below) and any series D preferred subsequently selected for redemption that have been tendered for conversion will be redeemed on

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the related date of redemption instead of converted on the Change of Control Conversion Date.

For definitions of Change of Control Conversion Right, Change of Control Conversion Date, Common Share Price and Share Split and for a description of the adjustments and provisions for the receipt of alternative consideration that may be applicable to the Change of Control Conversion Right, see Description of the Series D Preferred Conversion Rights.

Except as provided above in connection with a Change of Control, the series D preferred are not convertible into or exchangeable for any other securities or property.

Notwithstanding any other provision of our series D preferred, no holder of our series D preferred will be entitled to convert such series D preferred for shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to exceed the share ownership limits contained in our charter, including the articles supplementary setting forth the terms of the series D preferred. See Description of Our Capital Stock Restrictions on Ownership and Transfer in the accompanying prospectus.

Use of Proceeds

We estimate that the net proceeds to us from this offering will be approximately \$ , after deducting the underwriting discount and other estimated offering expenses payable by us. We will contribute the net proceeds from this offering to our Operating Partnership in exchange for series D preferred units, the economic terms of which are substantially similar to the series D preferred. The Operating Partnership will subsequently use the net proceeds from this offering primarily for growth capital expenditures, future acquisitions and other general corporate purposes, including working capital. See Use of Proceeds.

Tax Considerations

The material federal income tax considerations of purchasing, owning and disposing of the series D preferred are summarized in Supplemental Material U.S. Federal Income Tax Considerations.

Form

The series D preferred will be issued and maintained in book-entry form registered in the name of the nominee of The Depository Trust Company, except under limited circumstances.

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**RISK FACTORS**

See the information under the heading "Risk Factors" beginning on page 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 17, 2011, which information has been incorporated by reference into this prospectus supplement, and other information included in this prospectus supplement and the accompanying prospectus and reports we file from time to time with the SEC that we incorporate by reference herein for a discussion of factors you should carefully consider before deciding to invest in shares of our series D preferred. In addition to the risk factors incorporated by reference herein, please see the additional risk factors referenced below:

**Our series D preferred has not been rated and is subordinated to our existing and future debt, and your interest could be diluted by the issuance of additional parity preferred securities and by other transactions.**

Our series D preferred has not been rated by any nationally recognized statistical rating organization, which may negatively affect its market value and your ability to sell it. It is possible that one or more rating agencies might independently determine to issue such a rating or that such a rating, if issued, could adversely affect the market price of our series D preferred. In addition, we may elect in the future to obtain a rating of our series D preferred, which could adversely impact their market price. Ratings only reflect the views of the rating agency or agencies issuing the ratings and they could be revised downward or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of a rating could have an adverse effect on the market price of our series D preferred.

The payment of amounts due on the series D preferred will be subordinated to all of our existing and future debt. We may also issue additional shares of series D preferred or additional preferred shares in the future which are on a parity with (or, upon the affirmative vote or consent of the holders of two-thirds of the outstanding series D preferred and each other class or series of preferred stock ranking on a parity with the series D preferred which are entitled to similar voting rights, voting as a single class, senior to) the series D preferred with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up. In addition to our series D preferred, as of March 29, 2011 we also have 7,050,000 shares of series A preferred outstanding and 4,102,564 shares of series C preferred outstanding, both of which are parity stock. Any of these factors may affect the trading price for the series D preferred.

**As a holder of series D preferred, you have extremely limited voting rights.**

Your voting rights as a holder of series D preferred will be limited. Our shares of common stock are the only class carrying full voting rights. Voting rights for holders of series D preferred exist primarily with respect to adverse changes in the terms of the series D preferred, the creation of additional classes or series of preferred shares that are senior to the series D preferred and our failure to pay dividends on the series D preferred for six or more quarterly periods (whether or not consecutive).

**The change of control conversion feature may not adequately compensate you, and the change of control conversion and redemption features of the series D preferred may make it more difficult for a party to take over our company or discourage a party from taking over our company.**

Upon a Change of Control, holders of our series D preferred will have the right (subject to our special optional redemption right) to convert some or all of their series D preferred into shares of our common stock (or equivalent value of alternative consideration) and under these circumstances we will also have a special optional redemption right to redeem the series D preferred. See "Description of the Series D Preferred Special Optional Redemption and Conversion Rights." Upon such a conversion, holders will be limited to a maximum number of shares equal to the Share Cap. If the Common Share Price is less than \$ (which is approximately % of the per-share closing sale price of our common shares on , 2011), subject

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to adjustment, holders will receive a maximum of \_\_\_\_\_ shares of our common stock per series D preferred, which may result in a holder receiving value that is less than the liquidation preference of the series D preferred. In addition, those features of our series D preferred may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that otherwise could provide the holders of shares of our common stock and series D preferred with the opportunity to realize a premium over the then current market price or that shareholders may otherwise believe is in their best interests.

**There is no established trading market for the series D preferred, listing on the NYSE does not guarantee a market for the series D preferred and the market price and trading volume of the series D preferred may fluctuate significantly.**

The series D preferred are a new issue of securities with no trading market. We intend to file an application to list the series D preferred on the NYSE. However, an active and liquid trading market to sell the series D preferred may not develop after the issuance of the series D preferred offered hereby or, even if it develops, may not be sustained. Because the series D preferred have no stated maturity date, investors seeking liquidity may be limited to selling their shares in the secondary market. If an active trading market does not develop, the market price and liquidity of the series D preferred may be adversely affected. Even if an active public market does develop, we cannot guarantee you that the market price for the series D preferred will equal or exceed the price you pay for your shares of series D preferred.

The market determines the trading price for the series D preferred and may be influenced by many factors, including our history of paying dividends on the series D preferred, variations in our financial results, the market for similar securities, investors' perception of us, our issuance of additional preferred equity or indebtedness and general economic, industry, interest rate and market conditions. Because the series D preferred carry a fixed dividend rate, their value in the secondary market will be influenced by changes in interest rates and will tend to move inversely to such changes. In particular, an increase in market interest rates may result in higher yields on other financial instruments and may lead purchasers of series D preferred to demand a higher yield on the price paid for the series D preferred, which could adversely affect the market price of the series D preferred.

**We cannot assure you that the purchase or financing of the Hilton San Diego Bayfront hotel will be completed on a timely basis or at all.**

Although we have executed a definitive agreement to acquire a 75% majority interest in a joint venture that owns the Hilton San Diego Bayfront hotel, the agreement is subject to customary closing requirements and conditions including ground lessor approval from the Port of San Diego. We cannot assure you that the requirements or conditions to closing the proposed acquisition, including approval from the Port of San Diego, will be satisfied, that we will complete the proposed acquisition on a timely basis or at all, that we will complete the proposed acquisition on the announced terms, or that we will complete the financing on the terms contemplated. Our failure to complete the proposed acquisition or the contemplated financing on the terms contemplated may impede our growth and cause us to incur non-recoverable costs.

If the proposed acquisition is completed, the risks associated with joint venture investments generally discussed in detail in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 17, 2011, will apply to the proposed acquisition, including, without limitation, the following:

the risk that the proposed acquisition may not yield the returns we expect;

the potential for our profitability to suffer because of acquisition-related costs or amortization costs for acquired intangible assets;  
and

other risks discussed under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 17, 2011.

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**Our acquisition of the Hilton San Diego Bayfront hotel will increase our asset and geographic concentration, and accordingly we may be disproportionately harmed by matters affecting that hotel or California.**

On a pro forma basis, the San Diego Bayfront hotel would represent approximately 14% of our revenues for the year ended December 31, 2010 and approximately 11% of our assets as of December 31, 2010. Furthermore, following the acquisition on a pro forma basis, approximately 32% of our rooms and approximately 34% of our revenues for the year ended December 31, 2010 are located in California. The size of this hotel and the concentration of our hotels in California expose our business to economic conditions, competition and real and personal property tax rates unique to California. Natural disasters in California, such as earthquakes, fires or mudslides, would disproportionately affect our hotel portfolio. The California economy and tourism industry, in comparison to other parts of the country, is negatively affected to a greater extent by changes and downturns in certain industries, including the entertainment and high technology industries. It is also possible that because of our California concentration, a change in California laws applicable to hotels and the lodging industry may have a greater impact on us than a change in comparable laws in another geographical area in which we have hotels. Adverse developments with the Hilton San Diego Bayfront hotel or in California generally could harm our revenue or increase our operating expenses in that state.

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**USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering will be approximately \$ \_\_\_\_\_, after deducting the underwriting discount and other estimated offering expenses payable by us. We will contribute the net proceeds that we receive to the Operating Partnership in exchange for additional membership units in the Operating Partnership, the economic terms of which are substantially similar to the series D preferred. The Operating Partnership will subsequently use those net proceeds primarily for growth capital expenditures, future acquisitions and other general corporate purposes, including working capital.

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**Table of Contents****RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS***(in thousands, except ratio amounts)*

	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
<b>Earnings:</b>					
Income (loss) from continuing operations	\$ (38,163)	\$ (43,184)	\$ 29,067	\$ 29,376	\$ 9,117
<b>Continuing operations:</b>					
Equity in (earnings) losses of unconsolidated joint ventures	(555)	27,801	1,445	3,588	(140)
Distributions from unconsolidated joint ventures	900	500	5,675		
Interest expense and amortization of deferred financing fees	70,830	76,539	83,176	77,463	54,702
Interest portion of rental expense	3,218	3,226	3,235	3,241	3,052
<b>Discontinued operations:</b>					
Interest expense and amortization of deferred financing fees	17,172	22,698	18,618	25,791	31,877
Interest portion of rental expense	133	163	165	169	899
<b>Total earnings</b>	<b>\$ 53,535</b>	<b>\$ 87,743</b>	<b>\$ 141,381</b>	<b>\$ 139,628</b>	<b>\$ 99,507</b>
<b>Combined Fixed Charges and Preferred Stock Dividends:</b>					
<b>Continuing operations:</b>					
Interest expense and amortization of deferred financing fees	\$ 70,830	\$ 76,539	\$ 83,176	\$ 77,463	\$ 54,702
Interest portion of rental expense	3,218	3,226	3,235	3,241	3,052
Preferred dividends	20,652	20,749	20,884	20,795	19,616
<b>Discontinued operations:</b>					
Interest expense and amortization of deferred financing fees	17,172	22,698	18,618	25,791	31,877
Interest portion of rental expense	133	163	165	169	899
<b>Total combined fixed charges and preferred stock dividends</b>	<b>\$ 112,005</b>	<b>\$ 123,375</b>	<b>\$ 126,078</b>	<b>\$ 127,459</b>	<b>\$ 110,146</b>
<b>Ratio of earnings to combined fixed charges and preferred stock dividends</b>			<b>1.12</b>	<b>1.10</b>	
<b>Deficiency of earnings to combined fixed charges and preferred stock dividends</b>	<b>\$ (58,470)</b>	<b>\$ (35,632)</b>	<b>\$</b>	<b>\$</b>	<b>\$ (10,639)</b>

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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 under the heading Risk Factors in our Annual Report on Form 10-K, filed with the SEC on February 17, 2011, and under the heading Risk Factors on page S-11 of this prospectus supplement, and in the reports we file from time to time with the SEC and incorporated by reference herein, including, but not limited to, the following factors:

general economic and business conditions affecting the lodging and travel industry, both nationally and locally;

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 8 of the 33 hotels;

our ability to complete acquisitions and dispositions;

competition for the acquisition of hotels;

performance of hotels after they are acquired;

competition from hotels not owned by us;

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 debt, including secured, unsecured, fixed and variable rate debt;

financial and other covenants in our debt and preferred stock;

impairments to our hotels and goodwill;

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

relationships with third party joint venture partners; 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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**DESCRIPTION OF THE SERIES D PREFERRED**

This description of the % Series D Cumulative Redeemable Preferred Stock, par value \$0.01 per share, which we refer to as series D preferred, supplements the description of the general terms and provisions of our stock, including preferred stock, contained in the accompanying prospectus. You should consult that general description for further information.

**General.** We are currently authorized to issue up to 100,000,000 shares of preferred stock in one or more series. Each series will have the designations, powers, preferences, rights, qualifications, limitations or restrictions as Maryland law permit and our board of directors may determine by adoption of applicable articles supplementary to our charter.

This summary of the terms and provisions of the series D preferred is not complete. Our board of directors will adopt articles supplementary designating the terms of the series D preferred, and you may obtain a complete copy of the articles supplementary designating the series D preferred by contacting us. In connection with this offering, we will file the articles supplementary with the SEC. Our board of directors may authorize the issue and sale of additional series D preferred from time to time.

We will apply to list the series D preferred on the NYSE under the symbol SHO PR D. If listing is approved, we expect trading to commence within 30 days after initial delivery of the series D preferred.

The transfer agent, registrar and disbursement agent for the series D preferred is American Stock Transfer & Trust Company, LLC.

**Ranking.** The series D preferred ranks, with respect to dividend rights and rights upon voluntary or involuntary liquidation, dissolution or winding-up of our affairs, senior to all classes or series of our common stock and to any other class or series of our capital stock expressly designated as ranking junior to the series D preferred, on parity with any class or our capital stock expressly designated as ranking on parity with the series D preferred, including our 8.0% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share, which we refer to as series A preferred, and our Series C Cumulative Convertible Redeemable Preferred Stock, \$0.01 par value per share, which we refer to as series C preferred, and junior to any other class or series of our capital stock expressly designated as ranking senior to the series D preferred. Any future authorization or issuance of a class or series of our capital stock expressly designated as ranking senior to the series D preferred would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of series D preferred.

**Dividends.** Subject to the preferential rights of any security senior to the series D preferred as to dividends, the holders of series D preferred are entitled to receive, when, as and if authorized by our board of directors and declared by us out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of % per annum of the \$25.00 liquidation preference per share of the series D preferred (equivalent to an annual rate of \$ per share of the series D preferred). Dividends will be payable quarterly in arrears on the 15th day of each January, April, July and October of each year (or if not a business day, on the next succeeding business day), commencing July 15, 2011. Dividends payable on the series D preferred for any partial period (other than the first dividend period after the sale of shares of series D preferred in this offering) will be computed on the basis of a 360-day year consisting of twelve 30-day months. Accrued but unpaid dividends on the series D preferred will accumulate as of the dividend payment date on which they first became payable. Dividends on the series D preferred will accrue whether or not:

we have earnings;

there are funds legally available for the payment of those dividends; or

those dividends are authorized or declared.

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Except as described in the next paragraph, unless full cumulative dividends on the series D preferred for all past dividend periods shall have been, or contemporaneously are, declared and paid in cash or declared and a sum sufficient for the payment thereof in cash is set aside for payment, we will not:

declare or pay or set aside for payment of dividends, and we will not declare or make any distribution of cash or other property, directly or indirectly, on or with respect to any shares of our common stock or series A preferred or series C preferred, or any other class or series of stock ranking as to dividends on parity with or junior to the series D preferred for any period; or

redeem, purchase or otherwise acquire for any consideration, or make any other distribution of cash or other property, directly or indirectly, on or with respect to, or pay or make available any monies for a sinking fund for the redemption of, any common stock or series A preferred or series C preferred, or any other class or series of stock ranking, with respect to dividends and upon liquidation, on parity with or junior to our series D preferred.

The foregoing sentence, however, will not prohibit:

dividends payable solely in capital stock ranking junior to the series D preferred;

the conversion into or exchange for other shares of any class or series of capital stock ranking junior to the series D preferred; and

our purchase of shares of series D preferred, preferred stock ranking on parity with the series D preferred as to payment of dividends or capital stock or equity securities ranking junior to the series D preferred pursuant to our charter to the extent necessary to preserve our status as a REIT.

**Liquidation Preference.** Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, and before any distribution or payment shall be made to holders of our common stock or any other class or series of our stock ranking, as to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, junior to the series D preferred, the holders of shares of series D preferred are entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference of \$25.00 per share of series D preferred, plus an amount equal to any accrued and unpaid dividends (whether or not earned or declared) up to, but not including, the date of payment. The rights of holders of series D preferred to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our capital stock ranking senior or on parity with the series D preferred as to liquidation, including our series A preferred and series C preferred. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of series D preferred will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, or the voluntary sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

**Optional Redemption.** We may not redeem the series D preferred prior to \_\_\_\_\_, 2016, except as described below under Special Optional Redemption and Restrictions on Ownership and Transfer. On and after \_\_\_\_\_, 2016, we may, at our option, upon not less than 30 nor more than 60 days written notice, redeem the series D preferred, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends (whether or not declared) up to, but not including, the date fixed for redemption, without interest, to the extent we have funds legally available for that purpose. Unless full cumulative dividends on all outstanding shares of series D preferred shall have been or contemporaneously are authorized, declared and paid in cash or declared and a sufficient sum set aside for payment of all past dividend periods and the then-current dividend period, no shares of series D preferred shall be redeemed unless all outstanding shares of series D preferred are simultaneously redeemed. All shares of the series D preferred that we redeem or repurchase will be retired and restored to the status of authorized but unissued shares of preferred stock, without designation as to series or class.

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If (i) we have given a notice of redemption, (ii) have set aside sufficient funds for the redemption in trust for the benefit of the holders of the series D preferred called for redemption and (iii) irrevocable instructions have been given to pay the redemption price and all accrued and unpaid dividends, then from and after the redemption date, those series D preferred will be treated as no longer being outstanding, no further dividends will accrue and all other rights of the holders of those series D preferred will terminate, except the right to receive the redemption price plus any accrued and unpaid dividends payable upon such redemption, without interest. The holders of those series D preferred will retain their right to receive the redemption price for their shares and any accrued and unpaid dividends payable upon such redemption, without interest.

The holders of series D preferred at the close of business on a dividend record date will be entitled to receive the dividend payable with respect to the series D preferred on the corresponding payment date notwithstanding the redemption of the series D preferred between such record date and the corresponding payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on series D preferred to be redeemed.

***Special Optional Redemption.*** Upon the occurrence of a Change of Control, we may, at our option, redeem the series D preferred, in whole or in part and within 120 days after the first date on which such Change of Control occurred, by paying \$25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If, prior to the Change of Control Conversion Date, we have provided or provide notice of redemption with respect to the series D preferred (whether pursuant to our optional redemption right or our special optional redemption right), you will not have the conversion right described below under Conversion Rights.

We will mail to you, if you are a record holder of the series D preferred, a notice of redemption no less than 30 days nor more than 60 days before the redemption date. We will send the notice to your address, as shown on our share transfer books. A failure to give notice of redemption or any defect in the notice or in its mailing will not affect the validity of the redemption of any series D preferred except as to the holder to whom notice was defective. Each notice will state the following:

the redemption date;

the redemption price;

the number of shares of series D preferred to be redeemed;

the place or places where the certificates for the series D preferred are to be surrendered for payment;

that the series D preferred are being redeemed pursuant to our special optional redemption right in connection with the occurrence of a Change of Control and a brief description of the transaction or transactions constituting such Change of Control;

that holders of the series D preferred to which the notice relates will not be able to tender such series D preferred for conversion in connection with the Change of Control and each series D preferred tendered for conversion that is selected, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date; and

that dividends on the series D preferred to be redeemed will cease to accrue on the redemption date.

If we redeem fewer than all of the outstanding shares of series D preferred, the notice of redemption mailed to each stockholder will also specify the number of shares of series D preferred that we will redeem from each shareholder. In this case, we will determine the number of outstanding shares of series D preferred to be redeemed on a pro rata basis, by lot or by any other equitable method we may choose.

If (i) we have given a notice of redemption, (ii) have set aside sufficient funds for the redemption in trust for the benefit of the holders of the series D preferred called for redemption and (iii) irrevocable instructions have been given to pay the redemption price and all accrued and unpaid

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dividends, then from and after the redemption date, those series D preferred will be treated as no longer being outstanding, no further dividends will accrue and all

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other rights of the holders of those series D preferred will terminate, except the right to receive the redemption price plus any accrued and unpaid dividends payable upon such redemption, without interest. The holders of those series D preferred will retain their right to receive the redemption price for their shares and any accrued and unpaid dividends payable upon such redemption, without interest.

The holders of series D preferred at the close of business on a dividend record date will be entitled to receive the dividend payable with respect to the series D preferred on the corresponding payment date notwithstanding the redemption of the series D preferred between such record date and the corresponding payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on series D preferred to be redeemed.

A Change of Control is when, after the original issuance of the series D preferred, the following have occurred and are continuing:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of shares of our company entitling that person to exercise more than 50% of the total voting power of all shares of our company entitled to vote generally in elections of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

following the closing of any transaction referred to in the bullet above, neither we nor the acquiring or surviving entity has a class of common securities (or ADRs representing such securities) listed on the NYSE, the NYSE Amex or NASDAQ, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, NYSE Amex or NASDAQ.

**Conversion Rights.** Upon the occurrence of a Change of Control, each holder of series D preferred will have the right, unless, prior to the Change of Control Conversion Date, we have provided or provide notice of our election to redeem the series D preferred as described under Optional Redemption or Special Optional Redemption, to convert some or all of the shares of series D preferred held by such holder (the Change of Control Conversion Right) on the Change of Control Conversion Date into a number of shares of common stock per series D preferred (the Common Share Conversion Consideration) equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of series D preferred to be converted plus the amount of any accrued and unpaid dividends to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a series D preferred dividend payment and prior to the corresponding series D preferred dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Share Price (such quotient, the Conversion Rate); and

, or the Share Cap.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a common share dividend), subdivisions or combinations (in each case, a Share Split) with respect to shares of our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product of (i) the Share Cap in effect immediately prior to such Share Split multiplied by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable in connection with the exercise of the Change of Control Conversion Right will not exceed shares of common

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stock (or equivalent Alternative Conversion Consideration, as applicable), subject to increase to the extent the underwriters' over-allotment option to purchase additional series D preferred is exercised, not to exceed \_\_\_\_\_ shares of common stock in total (or equivalent Alternative Conversion Consideration, as applicable) (the Exchange Cap). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which shares of our common stock will be converted into cash, securities or other property or assets (including any combination thereof) (the Alternative Form Consideration), a holder of shares of series D preferred will receive upon conversion of such series D preferred the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Share Conversion Consideration immediately prior to the effective time of the Change of Control (the Alternative Conversion Consideration, and the Common Share Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of Control, is referred to as the Conversion Consideration).

If the holders of shares of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the consideration that the holders of the series D preferred will receive will be the form of consideration elected by the holders of the shares of common stock who participate in the determination (based on the weighted average of elections) and will be subject to any limitations to which all holders of shares of common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in the Change of Control.

We will not issue fractional common shares upon the conversion of our series D preferred. Instead, we will pay the cash value of such fractional shares.

Within 15 days following the occurrence of a Change of Control, we will provide to holders of series D preferred a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

the events constituting the Change of Control;

the date of the Change of Control;

the last date on which the holders of shares of series D preferred may exercise their Change of Control Conversion Right;

the method and period for calculating the Common Share Price;

the Change of Control Conversion Date, which will be a business day occurring within 20 to 35 days following the date of the notice;

that if, prior to the Change of Control Conversion Date, we have provided or provide notice of our election to redeem all or any portion of the shares of series D preferred, you will not be able to convert shares of series D preferred and such shares of series D preferred will be redeemed on the related redemption date, even if they have already been tendered for conversion pursuant to the Change of Control Conversion Right;

if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of series D preferred;

the name and address of the paying agent and the conversion agent; and

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the procedures that the holders of shares of series D preferred must follow to exercise the Change of Control Conversion Right. We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of

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the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of series D preferred.

To exercise the Change of Control Conversion Right, the holder of series D preferred will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) evidencing the shares of series D preferred to be converted, duly endorsed for transfer, together with a written conversion notice completed, to our transfer agent. The conversion notice must state:

the relevant Change of Control Conversion Date;

the number of shares of series D preferred to be converted; and

that the shares of series D preferred are to be converted pursuant to the applicable provisions of the series D preferred.

The Change of Control Conversion Date will be a business day that is no less than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of series D preferred.

The Common Share Price will be (i) if the consideration to be received in the Change of Control by holders of shares of our common stock is solely cash, the amount of cash consideration per share of common stock, and (ii) if the consideration to be received in the Change of Control by holders of shares of our common stock is other than solely cash, the average of the closing price per share of common stock on the 10 consecutive trading days immediately preceding, but not including, the effective date of the Change of Control.

Holders of series D preferred may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal must state:

the number of withdrawn shares of series D preferred;

if certificated shares of series D preferred have been issued, the certificate numbers of the withdrawn shares of series D preferred; and

the number of shares of series D preferred, if any, which remain subject to the conversion notice.

Notwithstanding the foregoing, if the series D preferred are held in global form, the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures of The Depository Trust Company.

Series D preferred as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such shares of series D preferred, whether pursuant to our optional redemption right or our special optional redemption right. If we elect to redeem shares of series D preferred that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of series D preferred will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date \$25.00 per share, plus any accrued and unpaid dividend thereon to, but not including, the redemption date.

We will deliver amounts owing upon conversion no later than the third business day following the Change of Control Conversion Date.



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In connection with the exercise of any Change of Control Conversion Right, we will comply with all U.S. federal and state securities laws and stock exchange rules in connection with any conversion of shares of series D preferred into shares of common stock. Notwithstanding any other provision of our series D preferred, no holder of our series D preferred will be entitled to convert such series D preferred for shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to exceed the share ownership limits contained in our charter, including the articles supplementary setting forth the terms of the series D preferred. See [Description of Capital Stock](#) [Restrictions on Ownership and Transfer](#) in the accompanying prospectus.

These Change of Control conversion and redemption features may make it more difficult for or discourage a party from taking over our company. See [Risk Factors](#) The change of control conversion feature may not adequately compensate you, and the change of control conversion and redemption features of our series D preferred may make it more difficult for or discourage a party from taking over our company.

Except as provided above in connection with a Change of Control, the series D preferred are not convertible into or exchangeable for any other securities or property.

***No Maturity, Sinking Fund or Mandatory Redemption.*** The series D preferred has no maturity date and we are not required to redeem the series D preferred at any time. Accordingly, the series D preferred will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right or under circumstances where the holders of shares of series D preferred have a conversion right, the holders of shares of series D preferred decide to convert them. The series D preferred is not subject to any sinking fund.

***Limited Voting Rights.*** Holders of the series D preferred generally do not have any voting rights, except as set forth below.

If dividends on the series D preferred are in arrears for six or more quarterly periods, whether or not consecutive, holders of the shares of series D preferred (voting together as a single class with all other classes or series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote at our next annual meeting of stockholders and each subsequent annual meeting of stockholders, for the election of two additional directors to serve on our board of directors (which we refer to as a preferred stock director), until all unpaid dividends and the dividend for the then current period with respect to the series D preferred and any other class or series of parity preferred stock have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In such a case, the number of directors serving on the board of directors will be increased by two members. The preferred stock directors will be elected by a plurality of the votes cast in the election to serve until our next annual meeting and until their successors are duly elected and qualified or until such directors right to hold the office terminates pursuant to the Termination Event (as defined below), whichever occurs earlier.

If and when all accumulated dividends and the dividend for the current dividend period on the series D preferred and for all classes and series of preferred stock ranking on parity with series D preferred and upon which similar voting rights have been conferred and are exercisable shall have been paid in full or a sum sufficient for such payment is irrevocably deposited in trust for payment, the holders of the series D preferred shall be immediately divested of the voting rights set forth above (subject to re-vesting in the event of each and every preferred dividend default) and, if all dividends in arrears and the dividends for the current dividend period have been paid in full or set aside for payment in full on all other classes or series of parity preferred stock, the term and office of such preferred stock directors so elected will terminate immediately and the entire board of directors will be reduced accordingly (the [Termination Event](#) ).

In addition, so long as any shares of series D preferred remain outstanding, we will not, without the consent or the affirmative vote of the holders of at least two-thirds of the outstanding shares of series D preferred and each other class or series of preferred stock ranking on parity with the series D preferred with respect to the payment of dividends or the distribution of assets upon our liquidation, dissolution or winding-up upon which

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similar voting rights have been conferred, voting as a single class, given in person or by proxy, either in writing or at a meeting:

authorize, create or issue, or increase the authorized or issued amount of, any class or series of stock ranking senior to such series D preferred with respect to payment of dividends, or the distribution of assets upon the liquidation, dissolution or winding-up of our affairs, or reclassify any of our authorized stock into any such stock, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such stock; or

amend, alter or repeal the provisions of our charter or the terms of the series D preferred, whether by merger, consolidation, transfer or conveyance of all or substantially all of its assets or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the series D preferred;

except that with respect to the occurrence of any of the events described in the second bullet point immediately above, so long as the series D preferred remains outstanding with the terms of the series D preferred materially unchanged or the holders of shares of series D preferred receive stock of the successor with substantially identical rights, taking into account that, upon the occurrence of an event described in the second bullet point above, we may not be the surviving entity, the occurrence of such event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of series D preferred, and in such case such holders shall not have any voting rights with respect to the events described in the second bullet point immediately above.

Furthermore, if the holders of the series D preferred receive the greater of the full trading price of the series D preferred on the date of an event described in the second bullet point immediately above or the \$25.00 liquidation preference per share of series D preferred pursuant to the occurrence of any of the events described in the second bullet point immediately above, then such holders shall not have any voting rights with respect to the events described in the second bullet point immediately above.

**Information Rights.** During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any shares of series D preferred are outstanding, we will (i) transmit by mail or other permissible means under the Exchange Act to all holders of series D preferred as their names and addresses appear in our record books and without cost to such holders, copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) within 15 days following written request, supply copies of such reports to any prospective holder of the series D preferred. We will mail (or otherwise provide) the reports to the holders of series D preferred within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act.

**Restrictions on Ownership and Transfer.** To qualify as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended, or the Code, we must meet certain requirements concerning the ownership of our outstanding shares of equity stock. Specifically, not more than 50% in value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of a taxable year. Additionally, shares of our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

Our charter and articles supplementary for the series D preferred contain restrictions on the ownership and transfer of our capital stock that are intended to assist us in complying with these requirements and continuing to qualify as a REIT. The articles supplementary for the series D preferred provides that, subject to the exceptions described below, no one person or entity may actually or beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (in value or in number of shares,

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whichever is more restrictive) of the outstanding shares of our series D preferred. In addition, the relevant sections of our charter provide that, subject to certain exceptions, no one person or entity may actually or beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% in value of the aggregate of the outstanding shares of all classes and series of our stock. We refer to each of these restrictions as an ownership limit and collectively as the ownership limits.

Our board of directors or a committee thereof, in its sole discretion, may exempt (prospectively or retroactively) a person from the and may from time to time increase or decrease the ownership limits, subject to certain limitations, if the board of directors or committee thereof determines that such exemption will not cause us to fail to qualify as a REIT under the Code. The person seeking an exemption from the ownership limits applicable to the series D preferred may be required to provide to our board of directors or a committee thereof such representations or undertakings or to agree that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in the articles supplementary) will result in such series D preferred being transferred to a charitable trust. Our board of directors may require a ruling from the IRS or an opinion of counsel, in either case in form and substance satisfactory to the board of directors, in its sole discretion, in order to determine or ensure our status as a REIT. For a description of the consequences of having shares of stock, including series D preferred, transferred to a charitable trust, please see Description of Capital Stock Restrictions on Ownership and Transfer in the accompanying prospectus.

Ownership limits also apply to the shares of common stock and other classes of our capital stock. See Description of Capital Stock Restrictions on Ownership and Transfer in the accompanying prospectus. Notwithstanding any other provision of the series D preferred, no holder of the series D preferred will be entitled to convert any shares of series D preferred into shares of common stock to the extent that receipt of shares of common stock would cause such holder or any other person to exceed the ownership limits applicable to shares of common stock contained in the charter.

These ownership limitations could have the effect of precluding, and may be used to preclude, a third party from obtaining control over us.

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**SUPPLEMENTAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

This discussion is a supplement to, and is intended to be read together with, the discussions under the heading "U.S. Federal Income Tax Considerations" beginning on page 23 of the accompanying prospectus. This summary is for general information only and is not tax advice.

The following discussion should follow the discussion under the heading "Taxation of Holders of Our Capital Stock - Taxable U.S. Stockholders Generally - Redemption or Repurchase by Us" in the accompanying prospectus.

***Conversion of Our Series D Preferred Stock into Common Stock.*** Upon the occurrence of a Change of Control, each holder of series D preferred will have the right (unless, prior to the Change of Control Conversion Date, we have provided or provide notice of our election to redeem the series D preferred) to convert some or all of such holder's series D preferred into shares of our common stock or the Alternative Conversion Consideration (i.e., an amount of cash, securities or other property or assets that such holder would have received upon the Change of Control had such holder converted the holder's series D preferred into shares of our common stock immediately prior to the effective time of the Change of Control (see "Description of the Series D Preferred - Conversion Rights"). Except as provided below, a U.S. stockholder generally will not recognize gain or loss upon the conversion of our series D preferred into shares of our common stock. A U.S. stockholder's basis and holding period in the shares of common stock received upon conversion generally will be the same as those of the converted series D preferred (but the basis will be reduced by the portion of adjusted tax basis allocated to any fractional share of common stock exchanged for cash).

Cash received upon conversion in lieu of a fractional share of common stock generally will be treated as a payment in a taxable exchange for such fractional share of common stock, and gain or loss will be recognized on the receipt of cash in an amount equal to the difference between the amount of cash received and the adjusted tax basis allocable to the fractional common share deemed exchanged. This gain or loss will be long-term capital gain or loss if the U.S. stockholder has held the series D preferred for more than one year. Any common stock received in exchange for accrued and unpaid dividends generally will be treated as a distribution by us, and subject to tax treatment as described in "U.S. Federal Income Tax Considerations - Taxation of Holders of Our Capital Stock - Taxable U.S. Stockholders Generally - Distributions Generally" in the accompanying prospectus.

In addition, if a U.S. stockholder receives the Alternative Conversion Consideration (in lieu of shares of our common stock) in connection with the conversion of the stockholder's shares of series D preferred, the tax treatment of the receipt of any such other consideration will depend on the nature of the consideration, and it may be a taxable exchange. U.S. stockholders converting their shares of series D preferred should consult their tax advisors regarding the U.S. federal income tax treatment of the consideration received upon such conversion.

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**UNDERWRITING**

J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC are acting as the underwriters of the \_\_\_\_\_ shares of series D preferred being offered to the public in this offering. Subject to the terms and conditions contained in the underwriting agreement dated March \_\_\_\_\_, 2011, the underwriters have agreed, severally, and not jointly, to purchase from us the respective number of series D preferred shares shown opposite their names below:

<b>Underwriter</b>	<b>Number of Shares</b>
J.P. Morgan Securities LLC	
Merrill Lynch, Pierce, Fenner & Smith  Incorporated	
Wells Fargo Securities, LLC	
 Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in the offering of shares to the public are subject to approval of certain legal matters by its counsel and to certain other conditions. The underwriters are obligated to purchase and accept delivery of all the shares if it purchases any of the shares offered for sale to the public.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer some of the shares to dealers at the public offering price less a concession fee not to exceed \$ \_\_\_\_\_ per share. The underwriters may allow, and dealers may re-allow a concession not to exceed \$ \_\_\_\_\_ on sales to other dealers. After the initial offering of the shares to the public, the representatives may change the public offering price and concessions. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to withdraw cancel or modify offers to the public and reject any order in whole or in part.

We estimate that our total expenses for this offering, excluding the underwriting discount, will be \$ \_\_\_\_\_.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and to contribute to payments the underwriters may be required to make in respect of any of those liabilities.

For a period of 60 days after the date of this prospectus supplement, we have agreed that we will not offer, sell, contract to sell, pledge, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to any series of our preferred stock that is not convertible into shares of our common stock, or publicly disclose the intention to do any of the foregoing or enter into swaps or similar arrangements having similar economic consequences without the prior written consent of the underwriter. The foregoing sentence shall not apply to the shares sold in this offering and certain other issuances.

In connection with the offering, the underwriters may purchase and sell shares of our series D preferred stock in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve syndicate sales of series D preferred stock in excess of the number of shares to be purchased by the underwriter in the offering, which creates a syndicate short position. Stabilizing transactions consist of certain bids for or purchases of shares made for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

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Any of these activities may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the series A preferred 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.

The underwriters have from time to time performed, and may in the future perform, various financial advisory and investment banking and commercial banking services for us for which it has received or will receive customary fees and expenses. In addition, affiliates of J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under our revolving credit facility, and Bank of America, N.A. is the administrative agent thereof. An affiliate of J.P. Morgan Securities LLC is a holder of shares of our series C preferred and some of our common shares.

In connection with the offering, certain of the underwriters or securities dealers may distribute this prospectus supplement and the accompanying prospectus by electronic means, such as e-mail. Certain of the underwriters may facilitate internet distribution for this offering to certain of their respective internet subscription customers. In addition, certain of the underwriters may allocate a limited number of shares for sale to their respective online brokerage customers. An electronic prospectus supplement and the accompanying prospectus will be made available on the internet website maintained by any such underwriter. Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on any such internet website is not part of this prospectus supplement or the accompanying prospectus.

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**LEGAL MATTERS**

The validity of the shares of series D preferred offered hereby and certain other matters relating to Maryland law will be passed on by Venable LLP of Baltimore, Maryland. Latham & Watkins LLP, Los Angeles, California, is our counsel and will pass upon certain legal matters described under Supplemental Material United States Income Tax Considerations in the prospectus supplement. O Melveny & Myers LLP, San Francisco, California, is counsel to the underwriters.

**EXPERTS**

The consolidated financial statements of Sunstone Hotel Investors, Inc. appearing in Sunstone Hotel Investors, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2010 (including schedules appearing therein), and the effectiveness of Sunstone Hotel Investors, Inc.'s internal control over financial reporting as of December 31, 2010 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 consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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**SUNSTONE HOTEL INVESTORS, INC.**

**Common Stock**

**Preferred Stock**

**Depository 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 depository shares, in one or more offerings. 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 January 14, 2011.

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