

Audit Committee Charter

Committee Membership:

The Audit Committee of the Board of Directors (the “Board”) of Sunstone Hotel Investors, Inc. (the “Company”) shall be comprised of at least three directors, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise “independent” under the rules of the New York Stock Exchange, Inc. and Rule 10A-3 under the Securities Exchange Act of 1934. The Board shall also determine that each member is “financially literate,” and that one member of the Audit Committee has “accounting or related financial management expertise,” as such qualifications are interpreted by the Board in its business judgment, and whether any member of the Audit Committee is an “audit committee financial expert,” as defined by the rules of Securities and Exchange Commission (the “SEC”). If the Board has determined that a member of the Audit Committee is an audit committee financial expert, it may presume that such member has accounting or related financial management expertise.

No director may serve as a member of the Audit Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee, and discloses this determination in the Company’s annual proxy statement.

Members shall be appointed on an annual basis by the Board based on nominations recommended by the Company’s Nominating and Corporate Governance Committee. Members may be removed from the Audit Committee by the Board at any time, with or without cause. Any member may resign from the Audit Committee by giving written notice to the Chair of the Audit Committee.

Committee Purposes:

The purposes of the Audit Committee are to:

1. Assist the Board in fulfilling its oversight responsibilities to the shareholders, the investment community and others relating to (i) the integrity of the Company’s financial statements, (ii) the effectiveness of the Company’s internal control over financial reporting; (iii) the Company’s compliance with legal and regulatory requirements promulgated by Sarbanes-Oxley, the SEC or the New York Stock Exchange, Inc., (iv) the independent auditors’ qualifications and independence, and (v) the performance of the independent auditors and the Company’s internal audit function; and

2. prepare an audit committee report as required by the SEC for inclusion in the Company’s annual proxy statement. In fulfilling its purpose, the Audit Committee is responsible for maintaining free and open communication between itself, independent auditor, the internal auditors and management of the Company, and for determining that all parties are aware of their responsibilities.

The function of the Audit Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company’s financial

statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements and the effectiveness of internal control over financial reporting, and for reviews of the Company's quarterly financial statements prior to the filing of each quarterly report. In fulfilling their responsibilities hereunder, it is recognized that members of the Audit Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. In carrying out its responsibilities, the Audit Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Audit Committee will take appropriate actions to monitor the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

The independent auditors shall submit to the Audit Committee annually a formal written statement (the "Auditors' Statement") describing: the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and all relationships between the independent auditors and the Company, including each non-audit service provided to the Company to assess the auditors' independence. The independent auditors shall submit to the Audit Committee annually a formal written statement of the fees billed in each of the last two fiscal years for each of the following categories of services rendered by the independent auditors: (i) the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements; (ii) assurance and related services not included in clause (i) that are reasonably related to the performance of the audit or review of the Company's financial statements, in the aggregate and by each service; (iii) tax compliance, tax advice and tax planning services, in the aggregate and by each service; and (iv) all other products and services rendered by the independent auditors, in the aggregate and by each service.

Committee Duties and Responsibilities:

To carry out its purposes, the Audit Committee shall have the following duties and responsibilities:

1. with respect to the independent auditors,
 - (i) to be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors (including the resolution of disagreements between management and the independent auditors regarding financial reporting), who shall report directly to the Audit Committee;

(ii) instruct the independent auditors that they shall report directly to the Audit Committee;

(iii) to be directly responsible for the appointment, compensation, retention and oversight of the work of any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or to perform audit, review or attestation services, which firm shall also report directly to the Audit Committee;

(iv) to pre-approve, or to adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors, including specific pre-approval of internal control-related services based on PCAOB Rule 3525, and shall receive certain disclosure, documentation and discussion of non-prohibited tax services by the independent auditor based on PCAOB Rule 3524. The Audit Committee shall not engage the independent auditor to perform non-audit services proscribed by law or regulation. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting;

(v) to ensure that the independent auditors prepare and deliver annually an Auditors' Statement (it being understood that the independent auditors are responsible for the accuracy and completeness of this Statement), and to discuss with the independent auditors any relationships or services disclosed in this Statement that may impact the quality of audit services or the objectivity and independence of the Company's independent auditors;

(vi) to obtain from the independent auditors in connection with any audit a timely report relating to the Company's annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and any material written communications between the independent auditors and management, such as any "management" letter or schedule of unadjusted differences;

(vii) to review and evaluate the qualifications, performance and independence of the lead partner of the independent auditors;

(viii) to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the audit firm itself; and

(ix) to take into account the opinions of management and the Company's internal auditors (whether such auditors are Company employees or third parties, collectively, the "internal auditors") in assessing the independent auditors' qualifications, performance and independence.

2. with respect to the internal audit,

(i) to review the appointment, compensation, retention and annual

internal audit plan of the internal auditors and all major changes to the plan;

(ii) to review and discuss with the internal auditors the scope, progress and results of executing the internal audit plan as well as receive reports on the status of significant findings and recommendations, and management's responses;

(iii) to review the charter, reporting relationship, activities, staffing, organizational structure and credentials of the internal auditors;

(iv) to review and evaluate the qualifications and performance of the lead partner or director of the internal auditors; and

(v) to use the internal auditors' evaluation of the Company's internal controls to evaluate management's performance in designing and maintaining effective controls.

3. with respect to accounting principles and policies, financial reporting and internal control over financial reporting,

(i) to advise management, the internal auditors and the independent auditors that they are expected to provide to the Audit Committee a timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;

(ii) to consider any reports or communications (and management's and/or the internal auditors' responses thereto) submitted to the Audit Committee by the independent auditors, including those required by or referred to under the standards of the Public Company Accounting Oversight Board (PCAOB) (United States), as it may be modified or supplemented or other professional standards;

(iii) to meet with management, the independent auditors and, the internal auditors:

- to discuss the scope of the annual audit;
- to discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- to discuss any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management, the internal auditors or the independent auditors, relating to the Company's financial statements;
- to discuss any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management;
- to review differences that were noted or proposed by the auditors but were passed (as immaterial or otherwise);
- to discuss any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the Company;

- to discuss, with management and the internal auditors, management's process for assessing the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, including any material weaknesses or significant deficiencies identified;

- to review management's report on its assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year and the independent auditor's report on the effectiveness of internal control over financial reporting;

- to discuss with the independent auditor the characterization of deficiencies in internal control over financial reporting. The Audit Committee shall also discuss, with management, management's remediation plan to address internal control deficiencies. The Audit Committee shall determine that the disclosures describing any identified material weaknesses and management's remediation plans are clear and complete;

- to discuss with management its process for performing its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act, including the evaluation of the effectiveness of disclosure controls by the Chief Executive Officer and Chief Financial Officer;

- to discuss with management, the internal auditors and the independent auditor (1) any changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting that are required to be disclosed and (2) any other changes in internal control over financial reporting that were considered for disclosure in the Company's periodic filings with the SEC;

- to review and approve all related-party transactions required to be disclosed according to SEC Regulation S-K, Item 404, and discuss with management the business rationale for the transactions and whether appropriate disclosures have been made;

- to review the form of opinion the independent auditors propose to render to the Board and shareholders; and

- to discuss, as appropriate: (a) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy and effectiveness of the Company's internal control over financial reporting and any special remedial actions adopted in light of significant deficiencies or material weaknesses; (b) analyses prepared by management and/or the independent auditors setting forth all critical accounting policies and practices of the Company and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; (d) consideration of the judgment of both management and the independent auditor about the quality, not just the acceptability, of accounting principles; and (e) the completeness and clarity of the disclosures in the financial statements;

- (iv) to inquire of the Company's chief executive officer and chief

financial officer regarding any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting;

(v) to discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company's exposure to risk, including the risk of fraud, and to discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including antifraud programs and controls;

(vi) to obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934;

(vii) to discuss with Company attorneys or outside counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies;

(viii) to discuss and review the type and presentation of information to be included in earnings press releases;

(ix) to discuss the types of financial information and to approve the earnings guidance provided, and to periodically review the types of presentations made, to analysts and rating agencies;

(x) to establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters;

(xi) to review and discuss any reports concerning material violations submitted to it by Company attorneys or outside counsel pursuant to the SEC attorney professional responsibility rules (17 C.F.R. Part 205) or otherwise;

(xii) to review the Company's compliance and ethics programs, including legal and regulatory requirements, and review with management its periodic evaluation of the effectiveness of such programs. The Audit Committee shall review the Company's code of conduct and programs that management has established to monitor compliance with such code. The Audit Committee shall receive any corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty by the Company; and

(xiii) to establish hiring policies for employees or former employees of the independent auditors.

4. with respect to reporting and recommendations,

(i) to prepare any report or other disclosures, including any recommendation of the Audit Committee, required by the rules of the SEC to be included in

the Company's annual proxy statement;

(ii) to conduct and issue the evaluation required under "Performance Evaluation" below; and

(iii) to report its activities to the full Board on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate.

Committee Structure and Operations:

The Audit Committee, in conjunction with the Nominating and Corporate Governance Committee, shall designate one member of the Audit Committee as its chairperson. The chairperson (or in his or her absence, a member designated by the chairperson) shall preside at each meeting of the Committee and set the agendas for Committee meetings. The Audit Committee shall meet once every fiscal quarter, or more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Audit Committee should meet separately periodically with management, the internal auditors and the independent auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. A majority of the members of the Committee shall constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a meeting at which a quorum is present.

Delegation to Subcommittee:

The Audit Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Audit Committee (including a subcommittee consisting of a single member). The Audit Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.

Performance Evaluation:

The Audit Committee shall conduct and review with the Board an annual performance evaluation of the Audit Committee, which evaluation shall compare the performance of the Audit Committee with the requirements of this charter. The performance evaluation shall also recommend to the Board any improvements to the Audit Committee's charter deemed necessary or desirable by the Audit Committee. The performance evaluation by the Audit Committee shall be conducted in such manner as the Audit Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Audit Committee or any other member of the Audit Committee designated by the Audit Committee to make the report.

Resources and Authority of the Audit Committee:

The Audit Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management.

The Company shall provide for appropriate funding, as determined by the Audit Committee, in its capacity as a committee of the Board, for payment of:

1. Compensation to the independent auditors and any other public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
2. Compensation of any advisors employed by the Audit Committee; and
3. Ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.