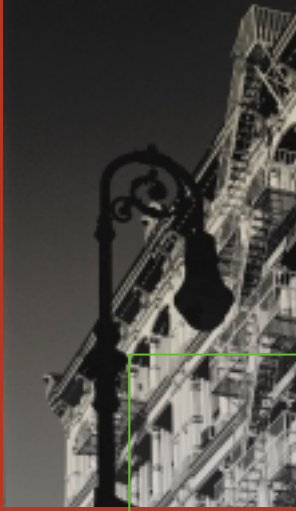




WINSTON HOTELS

FORESIGHT & FUTURE SITE

YEAR 2000 ANNUAL REPORT



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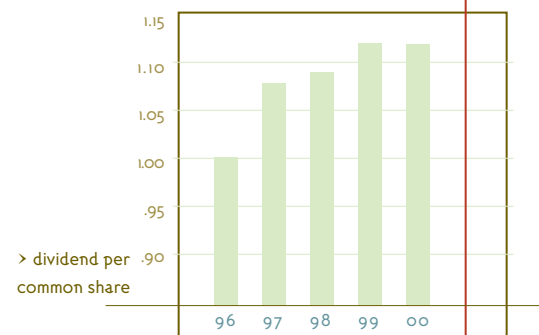
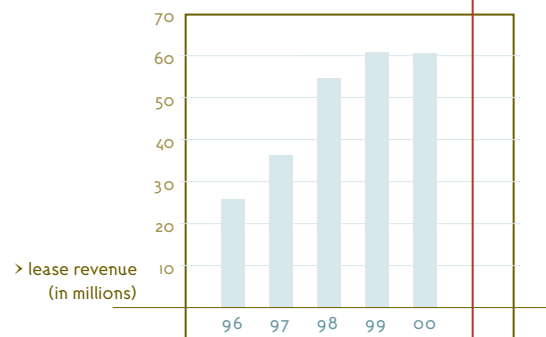
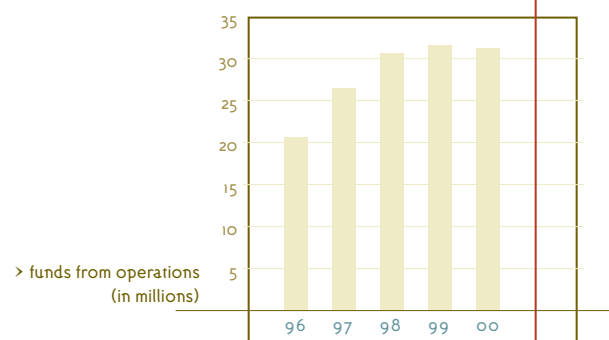
COMPANY PROFILE

Winston Hotels, Inc. is a real estate investment trust (REIT) based in Raleigh, North Carolina which **develops, acquires and rehabilitates** premium limited-service, high-end extended stay and full-service hotels. The Company currently owns 49 operating hotels with 6,723 rooms in 12 states and holds a 49 percent ownership interest in three joint ventures, which own two operating hotels and a third under development. The Company also has provided mezzanine financing for two other hotels. Increasingly central to Winston's **strategy** are third party financing and consulting activities related to the development of hotels for unaffiliated third parties. The **quality** of Winston's portfolio is reflected by its strengthening affiliation with the upscale brand segment, as well as its broadening **geographic diversity**.

FINANCIAL HIGHLIGHTS

- Total assets at cost: \$471.9 million
- Debt/total assets ratio: 36.6%
- Unleveraged return on investment: 12.7%
- Total revenue: \$63.7 million
- FFO per share: \$1.72
- FFO payout ratio: 65.1%
- Earnings before interest, taxes, depreciation, and amortization (EBITDA): approximately 3.9 times the Company's interest cost.
- Dividend per Common Share: \$1.12
- Dividend yield: 15.7%

Note: All data as of December 31, 2000



Hilton Garden Inn
Evanston, Illinois

A LETTER TO THE SHAREHOLDERS



FORESIGHT



Hilton Garden Inn
Windsor, Connecticut

Strategic foresight was fundamental to Winston in 2000. In a year characterized by market uncertainty, Winston and the hotel REIT sector in general faced several market-related pressures and challenges: rising interest rates, reduced availability of capital and a flattening real estate market. Given this environment, Winston achieved the following operating results: FFO reached \$31.3 million, or \$1.72 per share, which exceeded our expectations set at the beginning of the year by \$0.01. The growth in our fee-based revenues helped the Company maintain consistent operating results as well as a constant annualized dividend of \$1.12, even as some of our peers were compelled to cut their dividends. Although market conditions were not favorable for growth, we have begun to experience some success in developing additional sources of income. These include a 49% ownership interest in three joint venture projects through which we have earned, and continue to earn, fees from development, design and asset management services. We also have formed a strategic alliance to co-develop two additional hotels, where Winston also has provided mezzanine financing.

Winston's portfolio of assets at year-end included 49 operating hotels with 6,723 rooms in 12 states and a 49 percent ownership interest in three joint ventures which own two operating upscale hotels and a third under development. We work continually to move our portfolio toward newer, upscale hotels through the rehabilitation of existing properties or otherwise through divestiture and judicious reinvestment. While some of the portfolio's upscale hotels, such as the Hilton Garden Inns, were able to generate a 10 percent RevPar increase for the year, there also remain older, limited-service properties that generated only modest growth. The performance of these assets does not satisfy us, and we will continue to look for ways either to improve their operating results or to sell these properties. The geographic distribution of our assets, while still weighted in the Southern Atlantic states, increasingly has become diversified as management looks to initiate a greater number of projects in the United States' North Eastern, Middle Atlantic and Pacific regions. The Company's integrated strategy is to continue with the accumulation and development of new and geographically diverse, upscale projects, while improving or selling older, limited-service properties. Moreover, the Company's strategy includes initiating relationships which enable us to leverage our internal strengths regarding development and financing services.



The Company's integrated strategy is to continue with the accumulation and development of new and geographically diverse, upscale projects, while improving or selling older, limited-service properties. Moreover, the Company's strategy includes initiating relationships which enable us to leverage our internal strengths regarding development and financing services.

Two of the three joint-venture upscale hotels opened during 2000. The first was the 158-room Hilton Garden Inn in Windsor, Connecticut, developed in partnership with Regent Partners, Inc. The second was the 118-room Jacksonville Hampton Inn at Ponte Vedra Beach, Florida, which was developed with Marsh Landing Investment, LLC. In addition to these, Winston has commenced construction of its third joint venture property, a 175-room Hilton Garden Inn in Evanston, Illinois, which is scheduled to open in July 2001. The upscale Hilton is adjacent to the campus of Northwestern University.

Investment only constitutes the first part of Winston's involvement in these projects. Our joint venture agreements also enable Winston to earn fee income through management's in-house development and asset management capabilities. Arrangements such as these allow us to exploit our core capabilities, which become an especially important resource when market conditions are less certain. The resilience and foresight implicit in this strategy highlight one of Winston's central goals: to increase shareholder value by creating and maintaining additional sources of income.

Winston entered into a strategic alliance in 2000 with Noble Investment Group, Ltd. for the specific purpose of developing projects requiring both mezzanine debt and consulting services. Noble is a leading private hotel company that, together with Winston, is developing two Hilton Garden Inns in Atlanta, GA and Tampa, FL. In addition to these locations, we also intend to explore projects in other key markets including Princeton, NJ, and Chapel Hill, NC.

Mezzanine financing capabilities bring Winston distinctive market advantages. A mezzanine loan provided by a managing member of the project, like Winston, typically bridges the gap between equity invested and senior debt by providing 10%-15% of the project's all-in cost through debt. Not only does this create a lending asset with its associated financing fees, but also it creates project management fees, thus enhancing the Company's FFO. To date, such project

fees already have offset the loss of hotel revenue due to the sale of two under performing hotels during 2000.

Winston's financial foresight has produced one of the most conservative capital structures in the industry. Our year-end outstanding debt level was 37% of the undepreciated cost of total assets. EBITDA at year-end was 3.9 times interest costs. The Company also announced an interest rate swap in December 2000, which fixes our interest rate on \$50 million of debt at a rate of 5.915% until December 18, 2002. This results in an effective interest rate of 7.365% on \$50 million after considering the 1.45% interest rate spread provided for in our line of credit. The transaction, coupled with our \$69 million of outstanding securitized debt bearing an interest rate of 7.375%, effectively locks in approximately 70% of the Company's outstanding debt at very attractive rates.



FUTURE SITE

Looking beyond 2000, Winston plans to incorporate its more recent sources of revenue and growth through projects that generate development, design, purchasing and financing fees, with the solid, long-term outlook into the "futuresites" that drive our business.

Meristar Hotels and Resorts, Inc. currently leases 48 of the 51 hotels the Company either owns or holds an interest in through joint ventures. As we mentioned throughout 2000, in advance of the recent effective date of the REIT Modernization Act, the Company and Meristar held discussions regarding the Company's acquisition of the Meristar leases. After carefully considering all aspects of the proposed transaction, Winston believes that it is not in the best interest of its shareholders to acquire all of the leases at this point. The Company and Meristar will continue to work closely together for the benefit of the operations of our hotels. Moreover, we have agreed with Meristar to leave open the possibility of future discussions regarding the Company's acquisition of some or all of the leases at the appropriate time.

During the year, the Company sold two underperforming limited service assets and used the proceeds to generate greater returns through reinvesting the proceeds in joint venture projects and mezzanine loans. This strategy is in line with the Company's 2001 strategy, which is to continue its efforts to enhance shareholder value by focusing on newer, upscale properties, and to generate additional sources of revenue by capitalizing on our in-house core competencies relating to development and financing activities.

Looking ahead to 2001, Winston again expects to meet or exceed its operations and strategic goals through maintaining its principles of foresight and futuresight. As in the past, we appreciate the confidence you have expressed in the Company's future. While economic conditions affecting our sector continue to challenge us, we are gratified by the effectiveness of our response to current conditions. We appreciate your continuing loyalty and support and look forward to 2001 and beyond.



Charles M. Winston
Chairman of the Board

Robert W. Winston, III
Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

Commission file number 0-23732

WINSTON HOTELS, INC.

(Exact name of registrant as specified in its charter)

North Carolina
(State of incorporation)

56-1624289
(I.R.S. Employer Identification Number)

2626 Glenwood Avenue, Suite 200
Raleigh, North Carolina
(Address of principal executive offices)

27608
(Zip Code)

(919) 510-6010
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value per share
Preferred Stock, \$0.01 par value per share
(Title of Class)

New York Stock Exchange
New York Stock Exchange
(Name of Exchange upon Which Registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ☐

The aggregate market value of the registrant's Common Stock, \$0.01 par value per share, at March 1, 2001, held by those persons deemed by the registrant to be non-affiliates was approximately \$133,153,144.

As of March 1, 2001, there were 16,926,678 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document

Where Incorporated

1. Proxy Statement for Annual Meeting of Shareholders to be held on May 8, 2001

Part III

WINSTON HOTELS, INC.

Form 10-K Annual Report

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PART I.

ITEM 1. BUSINESS

General Development of Business

Winston Hotels, Inc. (“WHI”) operates so as to qualify as a real estate investment trust (“REIT”) for federal income tax purposes. During 1994, WHI completed an initial public offering of its common stock (“Common Stock”), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the “Partnership”). The Partnership used a substantial portion of the proceeds to acquire nine additional hotel properties. These ten hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the “Company”) began operations as a REIT on June 2, 1994. As of December 31, 2000, WHI’s ownership in the Partnership was 92.86%.

During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 additional hotel properties. During 1998, the Company added 13 additional properties to its portfolio, five of which were internally developed. During 2000, the Company sold two hotels. As of December 31, 2000, the Company owned 49 hotel properties (the “Current Hotels”) in 12 states having an aggregate of 6,723 rooms.

The Company also owns a 49% ownership interest in three joint ventures, two of which each own an operating hotel and a third which owns a hotel under development and expected to open in July 2001, collectively (the “Joint Venture Hotels”). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn, currently under construction, located in Evanston, IL. Additionally, the Company has provided mezzanine financing to two unrelated parties for two other hotels in which the Company will have no ownership interest.

As of December 31, 2000, the Company leased 47 of the 49 Current Hotels to CapStar Winston Company, L.L.C. (“CapStar Winston”), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. (“MeriStar”), one of the Current Hotels to Bristol Hotel Tenant Company, a wholly owned subsidiary of Bass PLC of London (“Bass”) and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. (“Prime”). CapStar Winston also currently leases one Joint Venture Hotel located in Ponte Vedra, FL and has signed a lease agreement to lease the Joint Venture Hotel located in Evanston, IL to be opened in July 2001. Bass also currently leases the Joint Venture Hotel located in Windsor, CT. All 49 of the Current Hotels were leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the “Percentage Leases”). Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rent (“Base Rent”) or percentage rent (“Percentage Rent”). The Percentage Leases are designed to allow the Company to participate in the growth in revenues at the Current Hotels by requiring that a portion of each Current Hotel’s room revenues in excess of specified amounts will be paid to the Company as Percentage Rent.

Narrative Description of Business

Growth Strategy

The Company’s growth strategy is to enhance shareholder value by increasing cash available for distribution per share of Common Stock through: (i) participating in any increased room revenue from the Current Hotels and any subsequently acquired or developed hotels through Percentage Leases; (ii) acquiring additional hotels, or ownership interests in hotels, that meet the Company’s investment criteria; (iii) selectively developing hotels to own and hotel additions as market conditions warrant; (iv) leveraging off of its management team’s expertise, such as third party development and purchasing and design services, and (v) mezzanine financing activities whereby the Company initiates hotel loans to third party borrowers.

Internal Growth Strategy

The Company participates in any increased room revenue from the Current Hotels through Percentage Leases. The Company believes that internal growth, through increases in Percentage Rent has and, in the future, may result from: (i) continued sales and marketing programs by the lessees and operators; (ii) completion of refurbishment projects as needed at the Current Hotels; (iii) maintaining hotel franchises with demonstrated market acceptance and national reservation systems; and (iv) continuation of the industry-wide trend of increasing average daily room rate (“ADR”) and revenue per available room (“REVPAR”).

The Percentage Leases provide that a percentage of room revenues in specified ranges is paid as Percentage Rent. For most leases, the percentage of room revenues paid as Percentage Rent increases as a higher specified level of room revenues is achieved. Pursuant to each Percentage Lease, Base Rent and the ranges of room revenues specified for purposes of calculating Percentage Rent are

adjusted on a quarterly or annual basis for inflation beginning on the first day after the first full fiscal year of the Percentage Lease, based on changes in the United States Consumer Price Index ("CPI").

Acquisition Strategy

The Company intends to acquire additional hotels, or ownership interests in hotels, with strong national franchise affiliations in the mid-scale and upscale market segments, or hotel properties with the potential to obtain such franchise affiliations. In particular, the Company will consider acquiring limited-service hotels such as Hampton Inn and Fairfield Inn by Marriott hotels; full-service hotels such as Hilton Garden Inn, Courtyard by Marriott and Holiday Inn hotels; and extended-stay hotel properties such as Homewood Suites by Hilton, Hampton Inn and Suites, Residence Inn, Spring Hill Suites by Marriott and Staybridge by Holiday Inn (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward Looking Statements").

The Company intends to consider investments in hotel properties that meet one or more of the following criteria: (i) properties in locations with relatively high demand for rooms, a relatively low supply of hotel properties and barriers to easy entry into the hotel business, such as a scarcity of suitable sites or zoning restrictions; (ii) successful hotels available at favorable prices; and (iii) newly developed hotels that the developer does not intend to own. The Company believes its relationship with each lessee and franchisor will provide additional potential investment opportunities.

Additional investments in hotel properties may be made through the Partnership, directly by WHI or with other entities. The Company's ability to acquire additional hotel properties and develop hotels depends primarily on its ability to obtain additional debt financing, proceeds from subsequent issuances of Common Stock or other securities, proceeds from the sale of hotel properties or co-investments from other investors.

Development Strategy

The Company intends to pursue hotel development as suitable opportunities arise. The Company may finance 100% of such development or seek partners who would co-invest in development or rehabilitation joint ventures. The Company intends to consider development of hotels with strong national franchise affiliations in markets where the Company believes that carefully timed and managed development will yield returns to the Company that exceed returns from any available hotels in those markets that meet the Company's acquisition criteria (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward Looking Statements"). The Company earns certain fees from its joint venture development activity and also is exploring other opportunities to use management's expertise to earn additional fees through third party development.

In June 1999, the Company entered into a joint venture agreement to jointly develop and own upscale hotels with Regent Partners, Inc., a leading real estate development, investment and services firm and a wholly owned subsidiary of J.A. Jones, Inc. ("Regent"). By combining Regent's expertise in hotel development with the Company's, this approach offers each organization the potential for attractive financial returns. Under the terms of the joint venture agreement (the "Regent Joint Venture"), Regent and the Company co-develop the hotels and receive fees for their respective services including development, purchasing and, upon opening of the hotel, ongoing asset management. The Regent Joint Venture consists of two separate joint ventures, each of which owns one hotel.

The Regent Joint Venture's initial project, a \$16.5 million, full-service 158-room Hilton Garden Inn in Windsor, CT, opened in September 2000. Construction has begun on the Regent Joint Venture's second project, a \$20 million, 177-room Hilton Garden Inn in the Chicago suburb of Evanston, which is scheduled to open in July 2001. The Company owns 49 percent of the Regent Joint Venture. The Company has the right to acquire Regent's interests in each project subject to the provisions of the joint venture agreement.

In April 2000, the Company entered into a joint venture agreement with Marsh Landing Investment, LLC to jointly develop an \$8.5 million, 118-room Hampton Inn in Ponte Vedra, FL. This hotel was opened in December 2000. The Company owns 49% of the joint venture, and Marsh Landing Investment, LLC, a company owned by Charles M. Winston and James H. Winston, owns the remaining 51%. Both Charles M. Winston and James H. Winston serve on the Company's Board of Directors. The Company has the right to acquire Marsh Landing Investment, LLC's interest subject to the provisions of the joint venture agreement.

In addition to generating development, purchasing and asset management fee income and thus enhancing the Company's revenues and cash flow, other benefits of these joint venture agreements include expanding our affiliations with leading upscale brands and the potential addition of new hotels to our portfolio, despite the external capital constraints prevalent in today's real estate market.

Mezzanine Financing

On July 5, 2000, the Company entered into a strategic alliance with Noble Investment Group, Ltd. ("Noble") to partially finance and develop two Hilton Garden Inn hotels, one in Atlanta (Sugarloaf), GA and one in Tampa, FL, and to explore other similar upscale Hilton and Marriott opportunities. In July, the Company provided \$1.1 million in mezzanine funding for the 122-room Hilton Garden Inn in Atlanta (Sugarloaf) and in February 2001, provided approximately \$2.2 million in mezzanine funding for the 153-room Hilton Garden Inn in Tampa. Noble is responsible for providing the remainder of the funding and will own and operate the hotels. Both projects are under construction; the Atlanta (Sugarloaf) project is scheduled to open during the second quarter of 2001, and the Tampa project is scheduled to open during the first quarter of 2002. In connection with the alliance, the Company will co-develop the Atlanta (Sugarloaf) project with Noble, will provide all development services for the Tampa project, and will receive fees for its development services. The Company continues to seek additional mezzanine financing opportunities.

Operations and Property Management

As of December 31, 2000, CapStar Winston leased 47 of the Current Hotels, 38 of which they also operated. Interstate Management and Investment Corporation ("IMIC") managed eight of the Current Hotels and Hilton Hotels Corporation ("Hilton") managed one of the Current Hotels (collectively the "Property Managers") pursuant to management agreements with CapStar Winston with respect to each of such hotels. Bass and Prime each leased and operated one of the Current Hotels. CapStar Winston and Bass also each leased and operated one of the Joint Venture Hotels and CapStar Winston has signed a lease agreement to lease and operate a third joint venture hotel to be opened in July 2001. The lessees and the Property Managers seek to increase revenues at the Current Hotels by using established systems to manage the Current Hotels for marketing, rate achievement, expense management, physical facility maintenance, human resources, accounting and internal auditing. They are trained in all aspects of hotel operations, including negotiation of prices with corporate and other clients and responsiveness to marketing requirements in their particular markets, with particular emphasis placed on customer service. The lessees and the Property Managers employ a mix of marketing techniques designed for each specific Current Hotel, which include individual toll-free lines, cross-marketing of the Current Hotels' billboards and direct marketing, as well as taking advantage of national advertising by the franchisors of the Current Hotels.

The lessees lease the Current Hotels pursuant to the Percentage Leases. Under the Percentage Leases, the lessees, or the Property Managers, generally are required to perform all operational and management functions necessary to operate the Current Hotels. The lessees are entitled to all profits and cash flow from the Current Hotels after payment of rent under the Percentage Leases and other operating expenses, including, in the case of the nine Current Hotels managed by the Property Managers, the management fee payable to the Property Managers. The lessees, their affiliates and the Property Managers may manage other hotel properties in addition to hotels owned by the Company, however, the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessee.

CapStar Winston is a wholly owned subsidiary of MeriStar, a New York Stock Exchange company. As of December 31, 2000, MeriStar, the nation's largest independent hotel management company, leased or managed 222 hotels with 48,054 rooms in 34 states, the District of Columbia, Puerto Rico, Canada and the U.S. Virgin Islands.

IMIC, a hotel development and management company, operates eight of the Current Hotels under separate management agreements with CapStar Winston. Each year, CapStar Winston pays IMIC a base management fee for each Current Hotel managed by IMIC based on a percentage of the budgeted gross operating profit for that year with incentive amounts based on actual gross operating profits if they exceed budgeted amounts. IMIC has agreed that each year it will spend a specified percentage of the gross revenues of each Current Hotel managed by IMIC on repairs and maintenance of the hotel. CapStar Winston and the Company have retained the right to control the expenditure of funds budgeted for capital and non-routine items, including, at their discretion, approving plans and selecting and overseeing contractors and other vendors. IMIC currently operates 28 hotels in six states, including 24 limited-service hotels and 4 full-service, convention or resort hotels.

Hilton manages one of the Current Hotels under a management agreement with CapStar Winston. Each year, CapStar Winston pays Hilton a management fee based on a percentage of the gross operating profit for the hotel managed by Hilton with certain incentive amounts. Hilton is recognized internationally as a preeminent hospitality company. Hilton develops, owns, manages or franchises 1,900 hotels, resorts and vacations ownership properties. Its portfolio includes many of the world's best known and most highly regarded hotel brands, including Hilton, Doubletree, Embassy Suites, Hampton Inn, Homewood Suites by Hilton, Red Lion Hotels & Inns and Conrad International.

Bass is one of the leading hotel operating companies in the world. As of December 31, 2000, Bass operated more than 3,000 hotels in close to 100 countries, primarily full-service hotels in the upscale and mid-scale segments of the hotel industry with branded hotels including Crowne Plaza, Holiday Inn, Holiday Inn Select and Holiday Inn Express hotels.

Prime, a New York Stock Exchange company, is one of the nation's premier lodging companies. Prime operates two proprietary brands, AmeriSuites (all-suites) and Wellesley Inns (limited-service). It also owns and/or manages hotels operated under franchise agreements with national hotel chains. As of December 31, 2000, Prime Hospitality Corporation owned 135 hotels, operated 55 hotels under lease agreements with REITs and managed 24 hotels from third parties.

Franchise Agreements

All of the Company's Current Hotels operate under franchise licenses and the Company anticipates that most of the additional hotel properties in which it invests will be operated under franchise licenses. Franchisors provide a variety of benefits for franchisees which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems.

The hotel franchise licenses generally specify certain management, operational, record keeping, accounting, reporting and marketing standards and procedures with which the lessees must comply. The franchise licenses obligate the lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided, display of signs, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas.

Of the Current Hotels' franchise licenses, one expires in 2006, three expire in 2007, five expire in 2008, three expire in 2009, two expire in 2010, three expire in 2011, two expire in 2012, two expire in 2014, two expire in 2016, 18 expire in 2017 and eight expire in 2018. The franchise agreements provide for termination at the franchisor's option upon the occurrence of certain events, including the lessees' failure to pay royalties and fees or perform its other covenants under the franchise agreement, bankruptcy, abandonment of the franchise, commission of a felony, assignment of the franchise without the consent of the franchisor, or failure to comply with applicable law in the operation of the relevant Current Hotel. The lessees are entitled to terminate the franchise license only by giving at least 12 months notice and paying a specified amount of liquidated damages. The franchise agreements will not renew automatically upon expiration. The lessees are responsible for making all payments under the franchise agreements to the franchisors. Under the franchise agreements, the lessees pay a franchise fee of an aggregate of between 3% and 5% of room revenues, plus additional fees that amount to between 3% and 4% of room revenues from the Current Hotels.

Competition

The hotel industry is highly competitive with various participants competing on the basis of price, level of service and geographic location. The Current Hotels compete with other hotel properties in their geographic markets. Some of the Company's competitors may have greater marketing and financial resources than the Company, the lessees, and the Property Managers. Several of the Current Hotels are located in areas in which they may compete with other Current Hotels for business. The Company competes for acquisition opportunities with entities that may have greater financial resources than the Company. These entities may generally be able to accept more risk than the Company can prudently manage, including risks with respect to the creditworthiness of a hotel operator.

Employees

The Company had 29 employees as of March 1, 2001.

Environmental Matters

Under various federal, state and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. Furthermore, a person that arranges for the disposal or transports for disposal or treatment of a hazardous substance at another property may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remedy such substances, may adversely affect the owner's ability to use or sell such real estate or to borrow using such real estate as collateral. Certain environmental laws and common law principles could be used to impose liability for the release of and exposure to hazardous substances, including asbestos-containing materials ("ACMs") into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances, including ACMs. In connection with the ownership and operation of the Current Hotels, the Company, the lessees, or the Property Managers, as the case may be, may be potentially liable for such costs.

Phase I environmental site assessments ("ESAs") were obtained on all of the Current Hotels. The Phase I ESAs were intended to identify potential sources of contamination for which the Current Hotels may be responsible and to assess the status of environmental regulatory compliance. The Phase I ESAs included historical reviews of the Current Hotels, reviews of certain public records,

preliminary investigations of the sites and surrounding properties, screening for the presence of asbestos, PCBs and underground storage tanks, and the preparation and issuance of a written report. The Phase I ESAs did not include invasive procedures, such as soil sampling or ground water analysis. The Phase I ESA reports have not revealed any environmental condition, liability or compliance concern that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any such condition, liability or compliance concern. Nevertheless, it is possible that these reports do not reveal all environmental conditions, liabilities or compliance concerns or that there are material environmental conditions, liabilities or compliance concerns that arose at a Current Hotel after the related Phase I ESA report was completed of which the Company is unaware. Moreover, no assurances can be given that (i) future laws, ordinances or regulations will not impose any material environmental liability, or (ii) the current environmental condition of the Current Hotels will not be affected by the condition of the properties in the vicinity of the Current Hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company.

In addition to the ESAs, the Company also obtained asbestos surveys for the Holiday Inn Select-Garland (Dallas), Texas and the Comfort Inn-Greenville, South Carolina. In each of the asbestos surveys, the consultants discovered the presence of ACMs. The Company is monitoring the presence of the ACMs with the assistance of its consultants.

The Company believes that the Current Hotels are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances and other environmental matters. The Company has not been notified by any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substance or other environmental substances in connection with any of its properties.

Tax Status

The Company elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended, effective for its short taxable year ended December 31, 1994. The Company believes that it qualifies for taxation as a REIT, and with certain exceptions, the Company will not be subject to tax at the corporate level on its taxable income that is distributed to the shareholders of the Company. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 95% of its annual taxable income. For taxable years beginning after December 31, 2000, the annual taxable income distribution requirement has been lowered to 90%. Failure to qualify as a REIT will render the Company subject to federal income tax (including any applicable minimum tax) on its taxable income at regular corporate rates and distributions to the shareholders in any such year will not be deductible by the Company. Although the Company does not intend to request a ruling from the Internal Revenue Service (the "Service") as to its REIT status, the Company has obtained the opinion of its legal counsel that the Company qualifies as a REIT, which opinion is based on certain assumptions and representations and is not binding on the Service or any court. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and properties.

REIT Modernization Act

Prior to January 1, 2001, under the REIT qualification requirements of the Internal Revenue Code, REITs generally were required to lease their hotels to third party operators. Under the REIT Modernization Act of 1999 (the "RMA"), which became effective January 1, 2001, REITs are permitted to lease their hotels to wholly owned taxable REIT subsidiaries of the REITs ("TRS Lessees"). Under the RMA, the TRS Lessees may not operate the leased hotels and must enter into management agreements with eligible independent contractors who will manage the hotels. The Company has carefully considered opportunities presented by the RMA and, at the present time, has decided to retain its existing relationship with its lessees.

Seasonality

The Company's operations historically have been seasonal in nature, reflecting higher REVPAR during the second and third quarters. This seasonality and the structure of the Percentage Leases, which provide for a higher percentage of room revenues above the minimum equal quarterly levels to be paid as Percentage Rent, can be expected to cause fluctuations in the Company's receipt of quarterly lease revenue under the Percentage Leases. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101") which provides guidance on revenue recognition. The Company adopted SAB 101 effective January 1, 2000. SAB 101, which requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessee, effectively defers recognition by the Company of a significant portion of percentage lease revenue from the first and second quarters, to the third and fourth quarters of the calendar year. SAB 101 has no impact on the Company's FFO, or its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends (see Note 2 to the Company's consolidated financial statements).

Executive Officers of the Registrant

The following table lists the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Charles M. Winston	71	Chairman of the Board of Directors
Robert W. Winston, III	39	Chief Executive Officer
James D. Rosenberg	47	President, Chief Operating Officer and Secretary
Joseph V. Green	50	Executive Vice President, Chief Financial Officer
Kenneth R. Crockett	44	Executive Vice President of Development

Charles M. Winston. Charles Winston has served as Chairman of the Board of Directors since March 15, 1994. Mr. Winston is a native of North Carolina and a graduate of the University of North Carolina at Chapel Hill with an A.B. degree. Mr. Winston has more than 37 years of experience in developing and operating full service restaurants and hotels. Mr. Winston is Robert Winston's father and brother of James Winston, a director.

Robert W. Winston, III. Robert Winston has served as Chief Executive Officer and Director of the Company since March 15, 1994. Mr. Winston served as the Company's President from March 15, 1994 through January 14, 1999 and as Secretary for the periods from March 1994 through May 1995 and from October 1997 until May 5, 1998. Mr. Winston is a native of North Carolina and a graduate of the University of North Carolina at Chapel Hill with a B.A. degree in economics. Mr. Winston is Charles Winston's son and James Winston's nephew.

James D. Rosenberg. Mr. Rosenberg assumed the title of President on January 14, 1999. Mr. Rosenberg has also served as Chief Operating Officer since January 5, 1998, Secretary since May 5, 1998, and served as Chief Financial Officer from January 5, 1998 through May 18, 1999. Mr. Rosenberg is a CPA and a graduate of Presbyterian College and received an MBA from the University of South Carolina. Prior to joining the Company, Mr. Rosenberg held the position of Senior Vice President with Holiday Inn Worldwide since 1994 where he was responsible for managing 85 hotels in seven countries. Prior to joining the Holiday Inn organization, Mr. Rosenberg was a partner in Sage Hospitality Resources and served as Executive Vice President and Chief Financial Officer of the Denver-based hospitality firm. Mr. Rosenberg started his career with Price Waterhouse, L.L.P.

Joseph V. Green. Mr. Green assumed the title of Executive Vice President, Chief Financial Officer on May 18, 1999. Mr. Green has also served as Executive Vice President - Acquisitions and Finance from January 1, 1998 through May 18, 1999, after having advised Winston Hospitality, Inc. on matters regarding hotel acquisitions and finance since 1993, including the initial public offering of WHI. Mr. Green is a graduate of East Carolina University, was awarded his J.D. degree from Wake Forest University School of Law and received a Master of Laws in Taxation from Georgetown University.

Kenneth R. Crockett. Mr. Crockett was appointed Senior Vice President of Development of the Company in September 1995 and Executive Vice President of Development in January 1998. Mr. Crockett is a graduate of the University of North Carolina at Chapel Hill with a B.S. degree in Business Administration. Prior to joining the Company, Mr. Crockett was an Associate Partner for project development in commercial real estate at Capital Associates, a real estate development firm located in the Raleigh, North Carolina area.

ITEM 2. PROPERTIES

The following table sets forth certain unaudited information with respect to the Current Hotels:

	2000					1999				
	Number of Rooms	Room Revenues (\$000)	ADR	Occupancy %	Lease Revenues (\$000)	Number of Rooms	Room Revenues (\$000)	ADR	Occupancy %	Lease Revenues (\$000)
<u>Hampton Inns</u>										
Boone, NC	95	\$ 2,074	\$ 82.45	72.33%	891	95	\$ 1,896	\$ 72.31	75.64%	\$ 787
Brunswick, GA	128	2,112	59.87	75.28%	829	128	2,022	58.32	74.22%	785
Cary, NC	130	1,920	64.65	62.43%	732	130	2,081	67.21	65.24%	859
Charlotte, NC	125	2,590	81.46	69.49%	1,190	125	2,780	79.08	77.06%	1,327
Chester, VA	66	1,286	69.78	76.32%	544	66	1,334	71.66	77.29%	582
Duncanville, TX *	119	1,030	44.25	71.90%	350	119	1,221	49.83	56.39%	403
Durham, NC	137	2,410	65.75	73.11%	992	137	2,582	68.19	75.72%	1,120
Gwinnett, GA (Hampton Inn & Suites)	136	2,821	79.61	71.18%	1,428	136	2,799	78.57	71.77%	1,428
Hilton Head, SC	124	2,349	80.60	63.69%	939	124	2,380	76.72	68.21%	975
Jacksonville, NC	120	1,949	60.16	73.78%	779	120	1,872	58.62	72.90%	741
Las Vegas, NV	128	2,232	59.94	79.50%	1,057	128	1,872	58.63	68.35%	926
Perimeter, GA	131	2,452	84.75	60.33%	1,202	131	2,391	80.13	62.40%	1,173
Raleigh, NC	141	2,960	74.08	77.42%	1,396	141	2,930	73.07	77.91%	1,391
Southern Pines, NC	126	1,740	65.98	57.18%	620	126	2,065	63.90	70.28%	850
Southlake, GA	124	2,319	66.34	76.42%	961	124	2,235	64.46	76.01%	921
W. Springfield, MA	126	3,011	85.41	77.07%	1,460	126	2,850	80.14	77.69%	1,365
White Plains, NY	156	5,257	111.72	82.42%	2,728	156	4,902	105.16	81.87%	2,510
Wilmington, NC	118	2,022	69.44	67.41%	791	118	2,242	68.55	75.95%	946
<u>Comfort Inns</u>										
Augusta, GA	123	1,294	58.67	49.01%	378	123	1,413	57.39	54.85%	468
Charleston, SC	128	2,390	75.65	67.44%	1,086	128	2,534	75.24	72.10%	1,194
Chester, VA	122	2,008	64.02	70.25%	872	122	2,115	64.58	73.53%	958
Clearwater/St. Petersburg, FL	120	1,548	58.84	60.09%	489	120	1,659	53.40	71.40%	576
Durham, NC	138	2,607	68.45	75.40%	1,209	138	2,536	72.68	69.28%	1,176
Fayetteville, NC	176	2,132	53.92	61.38%	917	176	2,198	54.08	63.28%	962
Greenville, SC	190	1,428	53.33	38.50%	357	190	1,552	46.96	47.65%	423
London, KY (Comfort Suites) *	62	68	50.60	36.32%	26	62	941	54.50	76.29%	394
Orlando, FL (Comfort Suites)	214	3,732	61.44	77.56%	1,583	214	3,865	61.13	80.94%	1,705
Raleigh, NC	149	1,492	46.77	58.49%	507	149	1,812	48.52	68.68%	657
Wilmington, NC	146	1,993	57.53	64.83%	732	146	2,297	56.98	75.66%	949
<u>Homewood Suites</u>										
Alpharetta, GA	112	2,613	89.93	70.88%	1,284	112	2,611	90.44	70.61%	1,242
Cary, NC	120	3,086	89.96	78.75%	1,861	120	3,252	89.63	82.85%	1,986
Clear Lake, TX	92	2,460	92.54	78.94%	1,087	92	2,294	94.80	72.06%	987
Durham, NC	96	2,178	78.92	78.53%	1,089	96	1,916	81.21	67.32%	890
Lake Mary, FL	112	3,175	105.86	73.17%	1,624	112	2,999	91.82	79.89%	1,153
Phoenix, AZ	126	2,364	81.72	62.73%	1,404	126	2,422	70.95	74.23%	1,285
Raleigh, NC	137	3,322	89.43	74.08%	1,666	137	3,318	86.38	76.82%	1,589

	2000					1999				
	Number of Rooms	Room Revenues (\$000)	ADR	Occupancy %	Lease Revenues (\$000)	Number of Rooms	Room Revenues (\$000)	ADR	Occupancy %	Lease Revenues (\$000)
<u>Holiday Inns</u>										
Abingdon, VA (Holiday Inn Express)	81	1,374	65.02	71.27%	645	81	1,394	63.16	74.63%	667
Clearwater, FL (Holiday Inn Express)	127	2,452	72.59	72.67%	1,090	127	2,496	68.49	78.61%	1,137
Dallas, TX (Holiday Inn Select)	244	4,079	72.00	63.44%	1,760	244	4,179	72.80	64.45%	1,891
Secaucus, NJ	160	5,907	126.31	79.86%	3,181	160	5,442	115.70	80.53%	2,765
Tinton Falls, NJ	171	4,803	98.81	77.66%	1,727	171	4,414	91.67	77.15%	1,548
<u>Courtyard by Marriott</u>										
Ann Arbor, MI	160	4,468	95.78	79.66%	2,162	160	4,277	90.84	80.62%	2,055
Houston, TX	198	3,619	83.46	59.83%	1,642	198	3,475	77.02	62.43%	1,565
Wilmington, NC	128	2,415	77.23	67.12%	976	128	2,551	74.39	73.83%	1,082
Winston-Salem, NC	122	2,466	84.34	65.47%	1,253	122	2,289	76.39	67.29%	1,121
<u>Hilton Garden Inns</u>										
Albany, NY	155	3,830	88.85	75.98%	1,949	155	3,286	92.12	63.05%	1,813
Alpharetta, GA	164	3,707	96.19	64.21%	2,333	164	3,827	98.74	64.75%	2,071
Raleigh/Durham, NC	155	4,320	110.18	69.12%	2,476	155	3,635	98.33	65.34%	2,030
Quality Suites - Charleston, SC	168	3,738	86.09	70.62%	1,616	168	3,955	86.96	74.17%	1,789
Residence Inn – Phoenix, AZ	168	3,310	81.35	66.17%	1,721	168	3,459	82.12	68.68%	1,799
Fairfield Inn – Ann Arbor, MI	110	2,068	72.02	71.31%	839	110	2,019	69.71	72.14%	821
TOTAL	6,904	\$ 134,977	\$ 78.24	69.11%	\$ 62,430	6,904	\$ 134,886	\$ 75.24	71.15%	\$ 62,237

* Hotel sold during 2000.

The Percentage Leases

The Partnership leases the Current Hotels for remaining terms of 8 to 13 years pursuant to Percentage Leases, which provide for rent equal to the greater of Base Rent or Percentage Rent. The Percentage Leases for the Current Hotels contain the provisions described below. The Company intends that future leases with respect to its hotel property investments will contain substantially similar provisions, although the Company may, in its discretion, alter any of these provisions with respect to any particular lease, depending on the purchase price paid, economic conditions and other factors deemed relevant at the time.

Percentage Lease Terms

Each Percentage Lease for the Current Hotels has a non-cancelable remaining term of 8 to 13 years, subject to earlier termination upon the occurrence of certain contingencies described in the Percentage Lease.

Amounts Payable under the Percentage Leases

During the term of each Percentage Lease, the lessees are or will be obligated to pay (i) the greater of Base Rent or Percentage Rent and (ii) certain other additional charges. Base Rent accrues and is required to be paid monthly. Percentage Rent consists of minimum percentage rent and excess percentage rent, if any. Minimum percentage rent is calculated based primarily on the amount of room revenue up to a predetermined threshold per the lease. The percentage, which differs by hotel, is multiplied by this amount to calculate minimum percentage rent. These percentages range from 23% to 81%. Excess percentage rent is calculated based primarily on the amount of any room revenue in excess of the predetermined threshold mentioned above. The percentage, which differs by hotel, is multiplied by this amount to calculate excess percentage rent. These percentages range from 5% to 80%. For most leases, the percentage used to calculate excess percentage rent exceeds the percentage used to calculate the minimum percentage rent. Percentage Rent is due either monthly or quarterly.

Beginning in the fiscal year following the year in which most Percentage Leases commence, and for each fiscal year thereafter, (i) the annual Base Rent and (ii) the Percentage Rent formulas will be adjusted on a quarterly or annual basis for inflation, based on changes in the CPI. The adjustment in any quarter may not exceed 2%, which may be less than the change in CPI for the quarter.

Other than real estate and personal property taxes, casualty insurance, capital improvements and maintenance of underground utilities and structural elements, which are obligations of the Company, the Percentage Leases require the lessees to pay rent, insurance, all costs and expenses and all utility and other charges incurred in the operation of the Current Hotels. The Percentage Leases also provide for rent reductions and abatements in the event of damage to, destruction of or a partial taking of any Current Hotel.

Maintenance and Modifications

Under the Percentage Leases, the Company is required to maintain the underground utilities and the structural elements of the improvements, including exterior walls (excluding plate glass) and the roof of such Current Hotel. In addition, the Percentage Leases obligate the Company to fund periodic capital improvements (in addition to maintenance of underground utilities and structural elements) to the buildings and grounds comprising their respective Current Hotels, and the periodic repair, replacement and refurbishment of furniture, fixtures and equipment in their respective Current Hotels, up to an amount equal to 5% of room revenues (7% of room revenues and food and beverage revenue for one of its full-service hotels). These obligations will be carried forward to the extent that the lessees have not expended such amounts, and any unexpended amounts will remain the property of the Company upon termination of the Percentage Leases. Except for capital improvements and maintenance of structural elements and underground utilities, the lessees are required, at their expense, to maintain the Current Hotels in good order and repair, except for ordinary wear and tear, and to make non-structural, foreseen and unforeseen, and ordinary and extraordinary repairs which may be necessary and appropriate to keep the Current Hotels in good order and repair.

The lessees are not obligated to bear the cost of capital improvements to the Current Hotels. With the consent of the Company, however, the lessees, at their expense, may make non-capital and capital additions, modifications or improvements to the Current Hotels, provided that such action does not significantly alter the character or purposes of the Current Hotels or significantly detract from the value or operating efficiencies of the Current Hotels. All such alterations, replacements and improvements shall be subject to all the terms and provisions of the Percentage Leases and will become the property of the Company upon termination of the Percentage Leases. The Company owns or will own substantially all personal property not affixed to, or deemed a part of, the real estate or improvements thereon comprising the Current Hotels, except to the extent that ownership of such personal property would cause the rents under the Percentage Leases not to qualify as "rents from real property" for REIT income test purposes.

ITEM 3. LEGAL PROCEEDINGS

Other than the matter described below, the Company currently is not involved in any pending legal proceedings, other than ordinary routine litigation incidental to the business, nor are any such proceedings known to be contemplated by governmental authorities. The lessees have advised the Company that they currently are not involved in any material pending litigation, other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance.

On July 16, 1999, Walton Construction Company, Inc. ("Walton") filed a civil lawsuit in the State Court of Fulton County, Georgia naming the Partnership as defendant. The Partnership removed the action to the United States District Court for the Northern District of Georgia on August 30, 1999. The complaint alleges that the Partnership has not paid approximately \$2,800,000 due under a contract entered into by the parties in connection with the construction of the Partnership's Alpharetta, GA Homewood Suites Hotel. The Partnership's answer, counterclaim and third party complaint (against Walton's bonding company) were filed September 7, 1999. The Partnership disputes that such monies are due to Walton based upon Walton's alleged inability to complete construction on the hotel within the time set out in the construction contract. The Partnership's counterclaims against Walton arise out of the construction delays and construction deficiencies allegedly caused by Walton. On August 2, 1999, Walton initiated a virtually identical action in the United States District Court for the Eastern District of North Carolina. On February 29, 2000, the Partnership answered Walton's complaint and counterclaimed for recovery of damages due to the construction delays and construction deficiencies allegedly caused by Walton. Simultaneously, the Partnership also filed a third party action against Walton's bonding company for recovery on a performance bond. At present, the Partnership's aggregate claim is estimated to exceed \$2,100,000.

By order entered April 11, 2000, all proceedings in the Georgia action were stayed so that the claims arising out of the Alpharetta hotel dispute could be litigated in North Carolina.

Each party has served amended pleadings. Walton amended its complaint on June 30, 2000 to add the Project Architect, Godwin Associates, P.A., as a party defendant. The Partnership responded by agreeing to defend Godwin Associates, P.A. A joint defense and a Tolling Agreement were entered into. On July 12, 2000, the Partnership amended its third party complaint by adding a bad faith claim against the bonding company. A first round of reciprocal document productions was made in September, 2000. Supplemental productions by all parties were made in December, 2000 and early January, 2001. All discovery is to close by March 15, 2001. The case will be tried before the United States District Court of the Eastern District of North Carolina and is not expected to occur before July 20, 2001.

The Partnership believes that it has substantial and meritorious defenses against the claims alleged against it, and the Partnership intends to vigorously defend against these claims and pursue its own claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price of and Dividends on the Registrant's Common Equity

WHI's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "WXH." As of March 1, 2001, WHI had approximately 11,900 common shareholders based on the number of shareholders of record and an estimate of the number of participants represented by security position listings. The following table sets forth, for the indicated periods, the high and low closing prices for the Common Stock and the cash distributions declared per share:

		<u>Price Range</u>		<u>Cash Distributions Declared</u>
	<u>High</u>		<u>Low</u>	<u>Per Share</u>
2000				
First Quarter	\$ 8.50	\$	7.38	\$ 0.28
Second Quarter	8.12		7.37	0.28
Third Quarter	8.93		7.06	0.28
Fourth Quarter	8.18		7.12	0.28
1999				
First Quarter	\$ 9.75	\$	8.06	\$ 0.28
Second Quarter	10.50		8.18	0.28
Third Quarter	10.31		8.37	0.28
Fourth Quarter	8.68		7.75	0.28

Although the declaration of distributions is within the discretion of the Board of Directors and depends on the Company's results of operations, cash available for distribution, the financial condition of the Company, tax considerations (including those related to REITs) and other factors considered important by the Board of Directors, the Company's policy is to make regular quarterly distributions to its shareholders.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial information for the Company for the years ended December 31, 2000, 1999, 1998, 1997, and 1996, and selected historical balance sheet data as of December 31, 2000, 1999, 1998, 1997, and 1996. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this report.

WINSTON HOTELS, INC. **Selected Historical Financial and Other Data** **For the years ended December 31, 2000, 1999, 1998, 1997 and 1996** **(in thousands, except per share amounts)**

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Statements of Income:					
Revenue:					
Percentage lease revenue	\$ 62,430	\$ 62,237	\$ 54,945	\$ 35,868	\$ 26,611
Interest, joint venture and other income	1,289	433	249	234	97
Total revenue	<u>63,719</u>	<u>62,670</u>	<u>55,194</u>	<u>36,102</u>	<u>26,708</u>
Expenses:					
Real estate taxes and property and casualty insurance	6,630	6,356	5,262	2,702	1,647
General and administrative	4,323	4,236	3,889	2,095	2,061
Interest	13,491	12,513	8,314	2,648	2,368
Depreciation	21,092	20,565	16,389	10,064	6,476
Amortization	933	834	465	520	368
Total expenses	<u>46,469</u>	<u>44,504</u>	<u>34,319</u>	<u>18,029</u>	<u>12,920</u>
Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle	17,250	18,166	20,875	18,073	13,788
Loss on sale of properties	<u>850</u>	<u>239</u>	<u>--</u>	<u>--</u>	<u>--</u>
Income before allocation to minority interest and cumulative effect of change in accounting principle	16,400	17,927	20,875	18,073	13,788
Income allocation to minority interest	<u>677</u>	<u>1,026</u>	<u>1,349</u>	<u>1,329</u>	<u>786</u>
Income before cumulative effect of change in accounting principle	15,723	16,901	19,526	16,744	13,002
Cumulative effect of change in accounting principle - gross	(720)	--	--	--	--
Cumulative effect of change in accounting principle - allocation to minority interest	<u>52</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Cumulative effect of change in accounting principle - net	<u>(668)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income	15,055	16,901	19,526	16,744	13,002
Preferred stock distribution	<u>(6,938)</u>	<u>(6,938)</u>	<u>(6,938)</u>	<u>(2,100)</u>	<u>--</u>
Net income available to common shareholders	<u>\$ 8,117</u>	<u>\$ 9,963</u>	<u>\$ 12,588</u>	<u>\$ 14,644</u>	<u>\$ 13,002</u>
Earnings per share:					
Net income per common share	<u>\$ 0.48</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>	<u>\$ 0.92</u>	<u>\$ 1.01</u>
Net income per common share assuming dilution	<u>\$ 0.48</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>	<u>\$ 0.91</u>	<u>\$ 1.00</u>
Weighted average number of common shares	16,890	16,467	16,286	15,990	12,922
Weighted average number of common shares assuming dilution	18,188	18,108	18,040	17,555	13,768
Distributions per common share	\$ 1.12	\$ 1.12	\$ 1.09	\$ 1.08	\$ 1.01

Balance Sheet Data:

Cash	\$ 167	\$ 28	\$ 33	\$ 164	\$ 234
Investment in hotel properties	366,882	388,870	397,861	279,485	196,682
Total assets	394,310	406,071	412,156	287,827	203,502
Total debt	172,672	174,475	173,085	44,081	42,800
Shareholders' equity	198,716	209,078	213,425	217,490	141,813

Other Data:

Cash provided by (used in):

Operating activities	\$ 39,589	\$ 39,952	\$ 34,605	\$ 27,811	\$ 18,729
Investing activities	(10,231)	(12,658)	(135,398)	(82,349)	(74,614)
Financing activities	(29,219)	(27,299)	100,662	54,468	53,623
Lessees' room revenue	134,977	134,886	117,752	79,526	58,956
Funds from operations (1)	31,268	31,793	30,326	26,037	20,581
Cash available for distribution	23,483	24,735	24,093	21,809	17,557

(1) Funds from operations ("FFO"), as defined by the National Association of Real Estate Investment Trusts, is income (loss) before minority interest (determined in accordance with generally accepted accounting principles), excluding extraordinary items and gains (losses) from debt restructuring and sales of operating properties, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company further adjusts FFO by subtracting preferred share distributions and adding the change in deferred revenue during the period to eliminate the impact of Staff Accounting Bulletin No. 101 (see Note 2 to the Consolidated Financial Statements). The calculation of FFO may vary from entity to entity and as such the presentation of FFO by the Company may not be comparable to other similarly titled measures of other reporting companies. FFO is not intended to represent cash flows for the period. FFO has not been presented as an alternative to operating income, but as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

The following table sets forth selected financial information for CapStar Winston for the years ended December 31, 2000, 1999 and 1998. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included elsewhere in this report.

CAPSTAR WINSTON COMPANY, L.L.C.
Selected Historical Financial Data
For the years ended December 31, 2000, 1999 and 1998
(in thousands)

	<u>Year Ended December 31, 2000</u>	<u>Year Ended December 31, 1999</u>	<u>Year Ended December 31, 1998</u>
Room revenue	\$ 126,884	\$ 127,571	\$ 113,451
Other revenue	14,664	14,144	12,182
Total revenue	<u>141,548</u>	<u>141,715</u>	<u>125,633</u>
Rooms expense	29,202	29,037	25,573
Percentage lease expense	57,995	58,551	52,720
Other expenses	74,606	53,240	46,745
Total expenses	<u>161,803</u>	<u>140,828</u>	<u>125,038</u>
Net (loss) income	<u>\$ (20,255)</u>	<u>\$ 887</u>	<u>\$ 595</u>

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**
(\$ in thousands, except per share amounts)

Winston Hotels, Inc. ("WHI") operates so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. During 1994, WHI completed an initial public offering of its common stock ("Common Stock"), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the "Partnership"). The Partnership used a substantial portion of the proceeds to acquire nine additional hotel properties. These ten hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the "Company") began operations as a REIT on June 2, 1994. As of December 31, 2000, WHI's ownership in the Partnership was 92.86% (see Note 6 to the consolidated financial statements).

During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 additional hotel properties. The Company owned 31 hotels as of December 31, 1996 and acquired seven hotels in 1997 (collectively the "1997 Hotels"). During 1998, the Company added 13 additional properties to its portfolio, five of which were internally developed (the "1998 Hotels"). During 2000, the Company sold two hotels. As of December 31, 2000, the Company owned 49 hotel properties (the "Current Hotels"), in 12 states, having an aggregate of 6,723 rooms.

The Company also owns a 49% ownership interest in three joint ventures, two of which each own an operating hotel and a third which owns a hotel under development and expected to open in July 2001, collectively (the "Joint Venture Hotels"). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn, currently under construction, located in Evanston, IL. Additionally, the Company has provided mezzanine financing to two unrelated parties for two other hotels in which the Company will have no ownership interest.

As of December 31, 2000, the Company leased 47 of the 49 Current Hotels to CapStar Winston Company, L.L.C. ("CapStar Winston"), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"), one of the Current Hotels to Bristol Hotel Tenant Company, a wholly owned subsidiary of Bass PLC of London ("Bass") and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. ("Prime"). CapStar Winston also currently leases one Joint Venture Hotel located in Ponte Vedra, FL and has signed a lease agreement to lease the Joint Venture Hotel located in Evanston, IL, to be opened in July 2001. Bass also currently leases the Joint Venture Hotel located in Windsor, CT. All 49 of the Current Hotels were leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the "Percentage Leases"). Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rent or percentage rent ("Percentage Rent"). The Percentage Leases are designed to allow the Company to participate in the growth in revenues at the Current Hotels by requiring that a portion of each Current Hotel's room revenues in excess of specified amounts will be paid to the Company as Percentage Rent.

CapStar Winston is a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"). As of December 31, 2000, MeriStar, the nation's largest independent hotel management company, leased or managed 222 hotels with 48,054 rooms in 34 states, the District of Columbia, Canada, Puerto Rico and the U.S. Virgin Islands.

Results of Operations

For the periods ended December 31, 2000 and 1999, the differences in operating results are primarily attributable to the adoption of Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 was issued by the Securities and Exchange Commission in December 1999 and adopted by the Company effective January 1, 2000. SAB 101 requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessees. As a result of SAB 101, the Company recognized an additional \$221 of percentage lease revenue for the year 2000. Had the Company not adopted SAB 101, the Company would have reported percentage lease revenue totaling \$62,209 for 2000, a decrease of \$28 versus percentage lease revenue for 1999 totaling \$62,237. SAB 101 has no impact on the Company's Funds From Operations ("FFO"), or its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends. For the periods ended December 31, 1999 and 1998, the differences in operating results are primarily attributable to the full year of operations of the 1998 Hotels in 1999 versus the partial year of operations in 1998. The Company sold its Comfort Suites hotel in London, Kentucky in February 2000 and its Hampton Inn hotel in Duncanville, Texas in September 2000, resulting in a total net loss of \$850. The table below outlines the Company's hotel properties owned as of December 31, 2000, 1999 and 1998.

	December 31, 2000		December 31, 1999		December 31, 1998	
Type of Hotel	Acquisitions during the year	Properties owned at year end	Acquisitions during the year	Properties owned at year end	Acquisitions* during the year	Properties owned at year end
Limited-service hotels	--	29**	--	31	1	31
Extended-stay hotels	--	9	--	9	6	9
Full-service hotels	--	<u>11</u>	--	<u>11</u>	<u>6</u>	<u>11</u>
Total	--	<u>49</u>	--	<u>51</u>	<u>13</u>	<u>51</u>

* Five of the total 13 hotels added in 1998 were internally developed properties.

** The Company sold 2 hotels during 2000 as noted above.

In order to present a more meaningful comparison of operations, the following comparisons are presented:

The Company:

- actual operating results for the year ended December 31, 2000 versus actual operating results for the year ended December 31, 1999;
- actual operating results for the year ended December 31, 1999 versus actual operating results for the year ended December 31, 1998;
- actual operating results for the year ended December 31, 1999 versus pro forma operating results for the year ended December 31, 1998, as if the addition of the 1998 Hotels occurred on the later of January 1, 1998 or the hotel opening date (the Company made no acquisitions in 1999, therefore the pro forma 1999 results of operations would be identical to the actual 1999 results of operations);

CapStar Winston Company, L.L.C.:

- actual operating results for the year ended December 31, 2000 versus actual operating results for the year ended December 31, 1999;
- actual operating results for the year ended December 31, 1999 versus actual operating results for the year ended December 31, 1998.

The Company

Actual - Year ended December 31, 2000 versus Actual - Year ended December 31, 1999

The Company had revenues of \$63,719 in 2000, consisting of \$62,430 of percentage lease revenues and \$1,289 of interest, joint venture and other income. Percentage lease revenues increased \$193 in 2000 from \$62,237 in 1999. This increase was primarily attributable to an increase in lease revenue due to the Company's adoption of SAB 101 effective January 1, 2000, which resulted in additional lease revenue recognition of \$221. Had the Company not adopted SAB 101, lease revenue for 2000 would have been \$62,209, a decrease of \$28 from its 1999 lease revenue of \$62,237. This decrease was primarily due to a decrease of \$1,348 in percentage lease revenue generated from the 1997 Hotels due to competitive pressures resulting in lower occupancy rates. This decrease also included a decrease of \$421 in percentage lease revenue from the two hotels sold during 2000. This decrease was offset by an increase of \$1,741 in percentage lease revenue generated from the 1998 Hotels due to higher occupancy rates and average daily rates. Most of the 1998 Hotels are full service, up scale hotels, while the 1997 Hotels are mostly limited service hotels.

Real estate taxes and property and casualty insurance expenses incurred in 2000 were \$6,630, an increase of \$274 from \$6,356 in 1999. Real estate taxes increased \$131 due to increased rates and property values in 2000. Property insurance increased \$143 due primarily to property coverage premium increases. General and administrative expenses remained constant from \$4,236 in 1999 to \$4,323 in 2000. Interest expense increased \$978 to \$13,491 in 2000 from \$12,513 in 1999, primarily due to an increase in the annual weighted-average interest rate of 0.72% from 7.05% in 1999 to 7.77% in 2000 and a decrease in capitalized interest of \$137 from \$163 in 1999 to \$26 in 2000, offset by a decrease in weighted average borrowings from \$178,038 in 1999 to \$173,213 in 2000. Depreciation expense increased \$527 to \$21,092 in 2000 from \$20,565 in 1999, primarily due to depreciation related to renovations and capital additions completed during 2000 and the second half of 1999 offset by disposals of two hotels sold during 2000. Amortization expense increased \$99 to \$933 in 2000 from \$834 in 1999. The increase is primarily attributable to twelve months of amortization in 2000 of deferred financing costs associated with the Company's new \$140,000 line of credit, which originated in February 1999, versus eleven months of amortization in 1999.

Actual - Year ended December 31, 1999 versus Actual - Year ended December 31, 1998

The Company had revenues of \$62,670 in 1999, consisting of \$62,237 of percentage lease revenues and \$433 of interest and other income. Percentage lease revenues increased \$7,292, or 13.3%, in 1999 from \$54,945 in 1998. This increase was primarily attributable to an increase in lease revenues from the 1998 Hotels due to a full year of operations in 1999 versus a partial year of operations in 1998, partially offset by a decrease of \$1,160 in lease revenue generated from the 1997 Hotels, which decrease was primarily attributable to competitive pressures.

Real estate taxes and property and casualty insurance expenses incurred in 1999 were \$6,356, an increase of \$1,094 from \$5,262 in 1998. The increase was primarily attributable to a full year of operations for the 1998 Hotels in 1999 versus a partial year in 1998. General and administrative expenses increased \$347 to \$4,236 in 1999 from \$3,889 in 1998. The increase was primarily attributable to an increase in the number of employees and related compensation expense throughout the year, costs associated with efforts to form joint ventures and costs associated with efforts to sell certain hotels. Interest expense increased \$4,199 to \$12,513 in 1999 from \$8,314 in 1998, primarily due to an increase in weighted-average outstanding borrowings from \$127,776 in 1998 to \$178,038 in 1999, and a decrease of capitalized interest of \$1,350 from \$1,513 in 1998 to \$163 in 1999. Annual weighted-average interest rates decreased 0.58% from 7.63% in 1998 to 7.05% in 1999. Depreciation expense increased \$4,176 to \$20,565 in 1999 from \$16,389 in 1998, primarily due to depreciation related to the 1998 Hotels and renovations completed during 1999 and 1998. Amortization expense increased \$369 to \$834 in 1999 from \$465 in 1998. The increase is primarily attributable to an increase in amortization of deferred financing costs associated with the Company's new \$140,000 line of credit, which originated in February 1999, and the Company's \$71,000 GE Capital Corporation loan which originated in November 1998.

Actual - Year ended December 31, 1999 versus Pro Forma - Year ended December 31, 1998

The Company had revenues of \$62,670 for the year ended December 31, 1999, consisting of \$62,237 of percentage lease revenues and \$433 of interest and other income. Percentage lease revenues increased \$5,356, or 9.4%, to \$62,237 in 1999 from \$56,881 in 1998. This increase was primarily attributable to the opening of 10 hotel properties in 1998 (the "1998 New Hotels"), partially offset by a decrease of \$935 in lease revenue generated from the hotels owned as of December 31, 1997, which decrease was primarily attributable to competitive pressures.

Real estate taxes and property and casualty insurance expenses incurred in 1999 were \$6,356, an increase of \$722 from \$5,634 in 1998. The increase was primarily attributable to the 1998 New Hotels and an increase in tax rates and assessed values in 1999. General and administrative expenses increased \$338 to \$4,236 in 1999 from \$3,898 in 1998. The increase was primarily attributable to an increase in the number of employees and related compensation expense throughout the year, costs associated with efforts to form joint ventures and costs associated with efforts to sell certain hotels. Interest expense increased \$3,602 to \$12,513 in 1999 from \$8,911 in 1998. The increase was primarily due to an increase in weighted-average borrowings from \$137,932 in 1998 to \$178,038 in 1999, and a decrease of capitalized interest of \$1,350 from \$1,513 in 1998 to \$163 in 1999. Annual weighted-average interest rates decreased 0.58% from 7.63% in 1998 to 7.05% in 1999. Depreciation expense increased \$3,845 to \$20,565 in 1999 from \$16,720 in 1998, primarily due to additional depreciation related to the 1998 New Hotels and renovations completed during 1999 and 1998. Amortization expense increased \$372 to \$834 in 1999 from \$462 in 1998. The increase is primarily attributable to an increase in amortization of deferred financing costs associated with the Company's new \$140,000 line of credit, which originated in February 1999, and the Company's \$71,000 GE Capital Corporation loan, which originated in November 1998.

CapStar Winston Company, L.L.C.

Actual - Year ended December 31, 2000 versus Actual - Year ended December 31, 1999

CapStar Winston had room revenues of \$126,884 in 2000, a decrease of \$687 from \$127,571 in 1999. The decrease in room revenues was primarily due to the sale of the Comfort Suites in London, Kentucky by the Company in February 2000, the sale of the Hampton Inn in Duncanville, Texas in September 2000, and a decrease in occupancy rates from 71.0% to 68.6%. Although room revenues decreased, RevPar increased 0.3% due to a decrease in total rooms available. Food and beverage revenue increased \$176 to \$8,191 in 2000 from \$8,015 in 1999. This increase was due to a rise in room service, lounge, and banquet related revenues. Telephone and other operating departments revenue increased \$344 to \$6,473 in 2000 from \$6,129 in 1999 due to a rise in revenues from movies/videos and banquet production for limited service hotels.

CapStar Winston had total expenses in 2000 of \$161,803, an increase of \$20,975 from \$140,828 in 1999. The increase was primarily attributable to an asset impairment charge of \$21,658 to adjust goodwill from the purchase transaction with Winston. This charge is a non-cash adjustment to the carrying value of those assets. This increase is partially offset by a decrease in expenses attributable to the sale of the Comfort Suites in London, Kentucky in February 2000 and the sale of the Hampton Inn in Duncanville, Texas in September 2000.

Actual - Year ended December 31, 1999 versus Actual - Year ended December 31, 1998

Total revenue increased \$16,082 or 12.8%, to \$141,715 from \$125,633. This increase was primarily related to an increase in room revenues of \$14,120 or 12.4%, to \$127,571 from \$113,451. The increase in room revenues was due to an increase of \$14,058 for the 1998 Hotels and an increase of \$62 for all other hotels. Food and beverage revenue increased \$1,802 to \$8,015 in 1999 from \$6,213 in 1998, primarily due to increased revenue from the 1998 Hotels.

Total expenses increased \$15,790 or 12.6%, to \$140,828 from \$125,038. This increase was primarily related to increased expenses generated by the 1998 Hotels.

Net income increased \$292, to \$887 from \$595, primarily driven by the operating results of the 1998 Hotels.

Liquidity and Capital Resources

The Company finances its operations from operating cash flow, which is principally derived from Percentage Leases. For the year ended December 31, 2000, cash flow provided by operating activities was \$39,589 and funds from operations, which is equal to net income before allocation to minority interest (excluding gains/losses on sales of operating property), plus adjustments for unconsolidated joint ventures, plus depreciation, less preferred share distributions, plus the change in deferred revenue resulting from SAB 101, was \$31,268. Under federal income tax law provisions applicable to REITs prior to January 1, 2001, the Company was required to distribute at least 95% of its taxable income to maintain its tax status as a REIT. For taxable years beginning after December 31, 2000, the taxable income distribution requirement has been lowered to 90%. In 2000, the Company declared distributions of \$25,861 to its shareholders. The Company intends to fund cash distributions to shareholders out of cash flow from operating activities. The Company may incur, or cause the Partnership to incur, indebtedness to meet distribution requirements imposed on the Company under the Internal Revenue Code (including the requirement that a REIT distribute to its shareholders annually at least 90% of its taxable income) to the extent that available capital and cash flow from the Company's investments are insufficient to make such distributions.

The Company's net cash used in investing activities during the year ended December 31, 2000 totaled \$10,231, consisting of cash out flows for mezzanine financing, capital expenditures, renovation of hotels and investments in joint ventures, offset by proceeds from the sale of two hotels.

During 2000, the Company provided \$1,080 in mezzanine financing to Noble Investment Group, LLC ("Noble") to develop a Hilton Garden Inn in Atlanta (Sugarloaf), GA (the "Sugarloaf Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 7.36% until the earlier of (a) prepayment of the loan, (b) the initial maturity date of December 5, 2001, or (c) a period equal to the lesser of (1) the maturity date of the borrower's qualified refinancing less 60 days, or (2) five years from June 30, 2000, the date of the loan. In February 2001, the Company provided another mezzanine loan totaling \$2,186 to Noble to develop a Hilton Garden Inn in Tampa, FL (the "Tampa Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 8.44% until the earlier of (a) prepayment of the loan, (b) the initial maturity date of January 1, 2004, or (c) a period equal to the lesser of (1) the maturity date of the borrower's qualified refinancing less 60 days, or (2) five years from February 2, 2001, the date of the loan. Both loans are subject to prepayment penalties during the first three years. Once each hotel opens, the Company also earns interest equal to 2% of gross revenues, 25% of which is paid and the remainder is accrued ("Accrued Interest"). On the earlier of prepayment or the maturity date of each loan, the Company also shall receive the greater of the Accrued Interest or, with respect to the Sugarloaf Hotel, 15% of the appreciation in value, and with respect to the Tampa Hotel, 20% of the appreciation in value. In addition to earning interest income, the Company also provides development and purchasing services to Noble during the hotels' construction stage for additional fee income. The Company is co-developing the Sugarloaf Hotel and developing the Tampa Hotel. During 2000, these fees totaled \$137, all related to services provided for the Sugarloaf Hotel. Both the Sugarloaf Hotel and the Tampa Hotel are owned 100% by unaffiliated single purpose entities (the "Borrowers"). The Company holds collateral equal to 100% of the ownership interest in the Borrowers. The Borrowers are required to make initial equity investments equal to 20% of the total cost of the respective hotel, and there are certain default provisions under which the Company can step in and take control of the Borrowers.

During 2000, the Company spent \$7,373 or 5.5% of the lessees' room revenue, in connection with the renovation of its Current Hotels. Per the Percentage Leases, the Company is required to spend 5% of room revenues for its hotels (7% of room revenues and food and beverage revenues for one of its full service hotels) for periodic capital improvements and the refurbishment and replacement of furniture, fixtures and equipment at its Current Hotels. These capital expenditures are funded from operating cash flow, and possibly from borrowings under the Company's \$140,000 line of credit (the "Line"), sources which are expected to be adequate to fund such capital requirements. These capital expenditures are in addition to amounts spent on normal repairs and maintenance which have approximated 5.1% and 5.5% of room revenues in 2000 and 1999, respectively, and are paid by the lessees.

During 1999, the Company entered into a joint venture agreement with Regent Partners, Inc. (the “Regent Joint Venture”) to jointly develop and own upscale hotel properties. The Regent Joint Venture consists of two separate joint ventures, each of which owns one hotel. The first hotel developed under the Regent Joint Venture was a full service 158-room Hilton Garden Inn in Windsor, CT, and was opened in September 2000. The second hotel, currently under development, is a 177-room Hilton Garden Inn in Evanston, IL, and is scheduled to open in July 2001. The Company has the right to acquire Regent’s interests in each project subject to the provisions of the Regent Joint Venture. The Company owns a 49% ownership interest in the Regent Joint Venture. Additionally, in April 2000, the Company entered into a joint venture agreement with Marsh Landing Investment, LLC to jointly develop an \$8.5 million, 118-room Hampton Inn in Ponte Vedra, FL. This hotel was opened in December 2000. The Company owns 49% of the joint venture, and Marsh Landing Investment, LLC, a company owned by Charles M. Winston and James H. Winston, owns the remaining 51%. Both Charles M. Winston and James H. Winston serve on the Company’s Board of Directors. The Company has the right to acquire Marsh Landing Investment, LLC’s interest subject to the provisions of the joint venture agreement.

During 2000, the Company invested \$6,999 in cash in the three joint ventures. Under the terms of the joint ventures, the Company has provided, and will continue to provide property development, purchasing and, upon opening of the hotel, on-going asset management services for additional fee income. 51% of such fee income is recognized as revenue, and 49% as a reduction of investment in the joint ventures. Such income earned during 2000 totaled \$308. Under the terms of the operating agreement for each joint venture, the Company must approve all major decisions, including refinancing or selling the respective hotels, making loans, changes in partners’ interests, entering into contracts of \$25,000 or more, and purchasing or acquiring assets.

The Company sold its Comfort Suites hotel in London, KY and its Hampton Inn hotel in Duncanville, TX during 2000. The total proceeds were \$5,461. The Company also is considering the sale of certain other non-core hotels that lie outside the Company’s upscale segment focus and plans to use the proceeds to reduce debt, invest in hotel properties, or provide mezzanine loans.

The Company's net cash used in financing activities during the year ended December 31, 2000 totaled \$29,219. This net use of cash was primarily due to the payment of distributions to shareholders of \$25,839 and the payment of distributions to the Partnership’s minority interest of \$1,454. This amount also includes principal payments totaling \$1,103 related to the Company’s \$71,000 fixed rate note, and a net decrease in amounts outstanding under the \$140,000 line of credit (the “Line”) of \$700. The Line is collateralized with 28 of the Current Hotels. As of December 31, 2000, total outstanding debt on the Line was \$103,800. In accordance with the provisions of the Line, the Company’s availability under the Line totaled approximately \$27,000. The Line requires the Company to maintain certain financial ratios including maximum leverage, minimum interest coverage and minimum fixed charge coverage, as well as certain levels of unsecured and secured debt and tangible net worth, all of which the Company was in compliance with as of December 31, 2000.

In August 2000, the Company announced that its Board of Directors authorized the Company to purchase up to 1,000,000 shares of its Common Stock. In making the determination of whether or not to buy shares of Common Stock, management thoroughly analyzes the yield on such a buyback versus the yield from alternative uses of capital. Management also considers that when borrowing under the Line to purchase Common Stock, the Company’s availability under the Line is permanently impaired. To date, the Company has determined that a Common Stock buyback is not in the best interest of its shareholders.

On December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. This transaction effectively replaced the Company’s variable interest rate based on 30-day LIBOR on \$50,000 of outstanding debt under the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line’s interest rate spread is currently 1.45%, equaling a fixed rate of 7.365% on \$50,000 until December 18, 2002.

The Company had \$68,872 in debt at December 31, 2000 that was subject to a fixed interest rate and fixed monthly payments with GE Capital Corporation. This debt, a ten-year loan with a 25-year amortization period carries an interest rate of 7.375% for the first 10 years. All unpaid principal and interest are due on December 1, 2008. The GE Capital loan is collateralized with 14 of the Company’s Current Hotels.

The Company intends to continue to seek additional mezzanine loan opportunities and to acquire and develop additional hotel properties that meet its investment criteria and is continually evaluating such opportunities. It is expected that future mezzanine loans and hotel acquisitions will be financed, in whole or in part, from additional follow-on offerings, from borrowings under the Line, from joint venture agreements, from the net sale proceeds of hotel properties and/or from the issuance of other debt or equity securities. There can be no assurances that the Company will make any further mezzanine loans or any investment in additional hotel properties, or that any hotel development will be undertaken, or if commenced, that it will be completed on schedule or on budget. Further, there can be no assurances that the Company will be able to obtain any additional financing.

Recently Issued Accounting Standard

In June 1998, Financial Accounting Standard Board issued SFAS No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, which is required to be adopted in years beginning after June 15, 2000. The Company adopted SFAS 133 effective January 1, 2001. SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value will be immediately recognized in earnings and any derivatives that are not hedges must be adjusted to fair value through earnings. Based on the Company's derivative positions at December 31, 2000, it will report a liability of \$245 for the fair value of its interest rate swap and a corresponding offset in other comprehensive income upon its adoption of SFAS 133 effective January 1, 2001. The Company will also, upon adoption, report a reduction in an asset of \$23 for the fair value of its interest rate cap and a corresponding offset in the Consolidated Statement of Income.

Seasonality

The Company's operations historically have been seasonal in nature, reflecting higher REVPAR during the second and third quarters. This seasonality and the structure of the Percentage Leases, which provide for a higher percentage of room revenues above the minimum equal quarterly levels to be paid as Percentage Rent, can be expected to cause fluctuations in the Company's receipt of quarterly lease revenue under the Percentage Leases. SAB 101, which requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessee, effectively defers recognition by the Company of a significant portion of percentage lease revenue from the first and second quarters, to the third and fourth quarters of the calendar year. SAB 101 has no impact on the Company's FFO, or its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends (see Note 2 to the Company's consolidated financial statements).

Forward Looking Statements

This report contains certain "forward looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by use of words like "may," "will," "expect," "anticipate," "estimate," or "continue" or similar expressions. These statements represent the Company's judgment and are subject to risks and uncertainties that could cause actual operating results to differ materially from those expressed or implied in the forward looking statements, including but not limited to the following risks: properties held for sale will not sell, financing risks, development risks including the risks of construction delays and cost overruns, lower than expected occupancy and average daily rates, non-issuance or delay of issuance of governmental permits, zoning restrictions, the increase of development costs in connection with projects that are not pursued to completion, non-payment of mezzanine loans, and other risk factors described in Exhibit 99.1 attached to this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2000, the Company's exposure to market risk for a change in interest rates related solely to debt outstanding under its \$140,000 line of credit (the "Line"). Debt outstanding under the Line totaled \$103,800 at December 31, 2000. The Line, which expires in February 2002, bears interest generally at rates from 30-day LIBOR plus 1.45% to 30-day LIBOR plus 1.70%, based, in part, on the Company's level of total indebtedness. The Company's current interest rate is 30-day LIBOR plus 1.45%. During 1999, the Company entered into an interest rate cap agreement to eliminate the exposure to increases in 30-day LIBOR over 7.50%, and therefore from its exposure to interest rate increases over 8.95% under the Line on a principal balance of \$25,000 for the period of March 23, 1999 through March 25, 2002. In addition, on December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. The agreement is a contract to exchange floating rate interest payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. This transaction effectively replaces the Company's variable interest rate based on 30-day LIBOR on \$50,000 of the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line's interest rate spread is currently 1.45%, equating to an effective fixed rate of 7.365% on \$50,000 until December 18, 2002. The differential paid or received on interest rate agreements is recognized as an adjustment to interest expense over the life of the swap. The weighted average interest rate on the Line for 2000 was 7.76%. (See Note 5 to the consolidated financial statements.) At December 31, 2000, the Company had \$53,800 of variable rate debt outstanding under the Line that was exposed to fluctuations in the market rate of interest.

The definitive extent of the Company's interest rate risk under the Line is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. If interest rates increased by 100 basis points, the Company's annual interest expense would have increased by approximately \$538, based on the amount of variable rate debt outstanding and exposed to fluctuations in the market rate of interest at December 31, 2000. The Company does not enter into derivative or interest rate transactions for speculative purposes.

The following table presents the aggregate maturities and historical cost amounts of the Company's GE Capital Corporation fixed rate debt principal and interest rates by maturity dates at December 31, 2000:

<u>Maturity Date</u>	<u>Fixed Rate Debt</u>	<u>Interest Rat</u>
2001	\$ 1,187	7.375%
2002	1,278	7.375%
2003	1,376	7.375%
2004	1,480	7.375%
2005	1,594	7.375%
Thereafter	61,957	7.375%
	<u>\$ 68,872</u>	<u>7.375%</u>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item 8 are filed with this report on Form 10-K immediately following the signature page and are listed in Item 14 of this report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information on the Company's directors is incorporated by reference from pages 5 and 6, "Proposal 1 - Election of Directors", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 8, 2001. Information on the Company's executive officers is included under the caption "Executive Officers of the Registrant" on page 8 of this report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference from pages 8 through 11, "Executive Compensation", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 8, 2001.

ITEM 12. SHARE OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

This information is incorporated by reference from pages 2 through 4, "Share Ownership of Management and Certain Beneficial Owners", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 8, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference from page 14, "Certain Relationships and Related Transactions", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 8, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) **Financial Statements and Schedules.** The financial statements and schedules listed below are included in this report.

Financial Statements and Schedules

Form 10-K Page

Winston Hotels, Inc.:

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CapStar Winston Company, L.L.C.:

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(b) **Reports on Form 8-K.** No reports on Form 8-K were filed during the fourth quarter of 2000.

- (c) **Exhibits.** The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans are filed as Exhibits 10.9, 10.12, 10.13 and 10.16.

<u>Exhibit</u>	<u>Description</u>
3.1(10)	Restated Articles of Incorporation
3.2	Amended and Restated Bylaws
4.1(1)	Specimen certificate for Common Stock, \$0.01 par value per share
4.2(4)	Specimen certificate for 9.25% Series A Cumulative Preferred Stock
4.3(10)	Restated Articles of Incorporation
4.4	Amended and Restated Bylaws (see Exhibit 3.2)
10.1(3)	Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.2(4)	Amendment No. 1 dated September 11, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.3(6)	Amendment No. 2 dated December 31, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.4(12)	Amendment No. 3 dated September 14, 1998 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.5(11)	Amendment No. 4 dated October 1, 1999 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.6(2)	Form of Percentage Leases
10.7(5)	First Amendment to Lease dated November 17, 1997 between WINN Limited Partnership and CapStar Winston Company, L.L.C.
10.8(5)	First Amendment to Lease dated November 24, 1997 between WINN Limited Partnership and CapStar Winston Company, L.L.C.
10.9(1)	Winston Hotels, Inc. Directors' Stock Incentive Plan
10.10(2)	Limitation of Future Hotel Ownership and Development Agreement
10.11(5)	Guaranty dated November 17, 1997 between CapStar Hotel Company, WINN Limited Partnership and Winston Hotels, Inc.
10.12(6)	Employment Agreement, dated July 31, 1997, by and between Kenneth R. Crockett and Winston Hotels, Inc.
10.13(7)	Winston Hotels, Inc. Stock Incentive Plan as amended May 1998
10.14(8)	Loan Agreement by and between Winston SPE LLC and CMF Capital Company LLC dated November 3, 1998
10.15(8)	Promissory note dated November 3, 1998 by and between Winston SPE LLC and CMF Capital Company, LLC

10.16(9)	Winston Hotels, Inc. Executive Deferred Compensation Plan
10.17(9)	Credit Agreement, dated as of January 15, 1999, among Wachovia Bank, N.A., Branch Banking and Trust Company, SouthTrust Bank, N.A., Centura Bank, Winston Hotels, Inc., WINN Limited Partnership and Wachovia Bank, N.A. as Agent (the "Credit Agreement")
10.18(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Wachovia Bank, N.A. for the principal sum of \$60,000,000 pursuant to the Credit Agreement
10.19(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Branch Banking and Trust Company for the principal sum of \$40,000,000 pursuant to the Credit Agreement
10.20(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to SouthTrust Bank, N.A. for the principal sum of \$25,000,000 pursuant to the Credit Agreement
10.21(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Centura Bank for the principal sum of \$15,000,000 pursuant to the Credit Agreement
10.22(9)	Form of Deed of Trust, Assignment of Rents, Security Agreement and Financing Statement used to secure certain obligations under the Credit Agreement (not including certain variations existing in the different states where the properties are located)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Accountants (PricewaterhouseCoopers LLP)
23.2	Accountants' Consent (KPMG LLP)
24.1	Powers of Attorney
99.1	Risk Factors

- (1) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-76602) effective May 25, 1994 and incorporated herein by reference.
- (2) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-91230) effective May 11, 1995 and incorporated herein by reference.
- (3) Exhibit to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on July 24, 1997 and incorporated herein by reference.
- (4) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on September 15, 1997 and incorporated herein by reference.
- (5) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on December 10, 1997 and incorporated herein by reference.
- (6) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 1998 and as amended by Form 10-K/A filed with the Securities and Exchange Commission on April 1, 1998.
- (7) Exhibit to the Company's Registration Statement on Form S-8 as filed with the Securities and Exchange Commission on July 29, 1998 (Registration No. 333-60079) and incorporated herein by reference.

- (8) Exhibits to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1998 and as amended on Form 10-Q/A filed with the Securities and Exchange Commission on February 23, 1999 and incorporated herein by reference.
- (9) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 25, 1999 and incorporated herein by reference.
- (10) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 4, 1999 and incorporated herein by reference.
- (11) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 13, 1999 and incorporated herein by reference.
- (12) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2000 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINSTON HOTELS, INC.

By: /s/ Robert W. Winston, III

Robert W. Winston, III

Chief Executive Officer

Date: March 19, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>*</u> Charles M. Winston	Chairman of the Board of Directors	March 19, 2001
<u>/s/ Robert W. Winston, III</u> Robert W. Winston, III	Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2001
<u>/s/ James D. Rosenberg</u> James D. Rosenberg	President, Chief Operating Officer and Secretary	March 19, 2001
<u>/s/ Joseph V. Green</u> Joseph V. Green	Executive Vice President and Chief Financial Officer	March 19, 2001
<u>/s/ Brent V. West</u> Brent V. West	Vice President of Finance and Controller	March 19, 2001
<u>*</u> Edwin B. Borden	Director	March 19, 2001
<u>*</u> Thomas F. Darden, II	Director	March 19, 2001
<u>*</u> Richard L. Daugherty	Director	March 19, 2001
<u>*</u> James H. Winston	Director	March 19, 2001
<u>*</u> David C. Sullivan	Director	March 19, 2001

*By /s/ Robert W. Winston, III

Robert W. Winston, III, Attorney-in-Fact

*By /s/ James D. Rosenberg

James D. Rosenberg, Attorney-in-Fact

Report of Independent Accountants

The Board of Directors and Shareholders
Winston Hotels, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the consolidated financial position of Winston Hotels, Inc. at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule of Winston Hotels, Inc. as listed on the index and included in this Form 10-K, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in 2000 the Company changed its method of accounting for recognizing contingent rental income.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Raleigh, North Carolina

January 19, 2001

WINSTON HOTELS, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2000 and 1999
(\$ in thousands, except per share amounts)

ASSETS		
	<u>2000</u>	<u>1999</u>
Investment in hotel properties:		
Land	\$ 41,948	\$ 42,704
Buildings and improvements	361,768	364,481
Furniture and equipment	40,539	38,348
Operating properties	444,255	445,533
Less accumulated depreciation	<u>77,609</u>	<u>58,366</u>
	366,646	387,167
Properties under development	<u>236</u>	<u>1,703</u>
Net investment in hotel properties	366,882	388,870
Corporate FF&E, net	1,285	871
Cash	167	28
Lease revenue receivable	7,127	7,611
Note receivable	1,080	--
Investment in joint ventures	8,700	183
Deferred expenses, net	3,375	4,072
Prepaid expenses and other assets	<u>5,694</u>	<u>4,436</u>
Total assets	<u>\$ 394,310</u>	<u>\$ 406,071</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	\$ 68,872	\$ 69,975
Due to banks	103,800	104,500
Deferred percentage lease revenue	499	--
Accounts payable and accrued expenses	6,220	5,490
Distributions payable	6,829	6,806
Minority interest in Partnership	<u>9,374</u>	<u>10,222</u>
Total liabilities	<u>195,594</u>	<u>196,993</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, 3,000,000 shares issued and outstanding (liquidation preference of \$76,734)	30	30
Common stock, \$.01 par value, 50,000,000 shares authorized, 16,897,028 and 16,813,823 shares issued and outstanding	169	168
Additional paid-in capital	229,796	229,106
Unearned compensation	(771)	(524)
Distributions in excess of earnings	<u>(30,508)</u>	<u>(19,702)</u>
Total shareholders' equity	<u>198,716</u>	<u>209,078</u>
Total liabilities and shareholders' equity	<u>\$ 394,310</u>	<u>\$ 406,071</u>

The accompanying notes are an integral part of the financial statements.

WINSTON HOTELS, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2000, 1999 and 1998
(in thousands, except per share amounts)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenue:			
Percentage lease revenue	\$ 62,430	\$ 62,237	\$ 54,945
Interest, joint venture and other income	<u>1,289</u>	<u>433</u>	<u>249</u>
Total revenue	<u>63,719</u>	<u>62,670</u>	<u>55,194</u>
Expenses:			
Real estate taxes and property and casualty insurance	6,630	6,356	5,262
General and administrative	4,323	4,236	3,889
Interest	13,491	12,513	8,314
Depreciation	21,092	20,565	16,389
Amortization	<u>933</u>	<u>834</u>	<u>465</u>
Total expenses	<u>46,469</u>	<u>44,504</u>	<u>34,319</u>
Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle	17,250	18,166	20,875
Loss on sale of properties	<u>850</u>	<u>239</u>	<u>--</u>
Income before allocation to minority interest and cumulative effect of change in accounting principle	16,400	17,927	20,875
Income allocation to minority interest	<u>677</u>	<u>1,026</u>	<u>1,349</u>
Income before cumulative effect of change in accounting principle	<u>15,723</u>	<u>16,901</u>	<u>19,526</u>
Cumulative effect of change in accounting principle - gross	(720)	--	--
Cumulative effect of change in accounting principle - allocation to minority interest	<u>52</u>	<u>--</u>	<u>--</u>
Cumulative effect of change in accounting principle - net	<u>(668)</u>	<u>--</u>	<u>--</u>
Net income	15,055	16,901	19,526
Preferred stock distribution	<u>(6,938)</u>	<u>(6,938)</u>	<u>(6,938)</u>
Net income applicable to common shareholders	<u>\$ 8,117</u>	<u>\$ 9,963</u>	<u>\$ 12,588</u>
Earnings per share:			
Income before cumulative effect of change in accounting principle per common share	<u>\$ 0.52</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>
Income before cumulative effect of change in accounting principle per common share assuming dilution	<u>\$ 0.52</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>
Net income per common share	<u>\$ 0.48</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>
Net income per common share assuming dilution	<u>\$ 0.48</u>	<u>\$ 0.61</u>	<u>\$ 0.77</u>
Weighted average number of common shares	<u>16,890</u>	<u>16,467</u>	<u>16,286</u>
Weighted average number of common shares assuming dilution	<u>18,188</u>	<u>18,108</u>	<u>18,040</u>

The accompanying notes are an integral part of the financial statements.

WINSTON HOTELS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2000, 1999 and 1998
(in thousands, except per share amounts)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Unearned</u>	<u>Distributions</u>	<u>Total</u>
	<u>Shares</u>	<u>Dollars</u>	<u>Shares</u>	<u>Dollars</u>	<u>Paid-in</u>	<u>Compensation</u>	<u>in Excess of</u>	<u>Shareholders'</u>
					<u>Capital</u>		<u>Earnings</u>	<u>Equity</u>
Balances at December 31, 1997	3,000	\$ 30	16,194	\$ 162	\$ 223,427	\$ (106)	\$ (6,023)	\$ 217,490
Issuance of shares	--	--	120	1	1,330	(401)	--	930
Distributions (\$1.09 per common share)	--	--	--	--	--	--	(17,780)	(17,780)
Distributions (\$2.31 per preferred share)	--	--	--	--	--	--	(6,938)	(6,938)
Unearned compensation amortization	--	--	--	--	--	197	--	197
Net income	--	--	--	--	--	--	19,526	19,526
Balances at December 31, 1998	<u>3,000</u>	<u>30</u>	<u>16,314</u>	<u>163</u>	<u>224,757</u>	<u>(310)</u>	<u>(11,215)</u>	<u>213,425</u>
Issuance of shares primarily for redemption of partnership units	--	--	500	5	4,398	(535)	--	3,868
Stock registration fees	--	--	--	--	(49)	--	--	(49)
Distributions (\$1.12 per common share)	--	--	--	--	--	--	(18,450)	(18,450)
Distributions (\$2.31 per preferred share)	--	--	--	--	--	--	(6,938)	(6,938)
Unearned compensation amortization	--	--	--	--	--	321	--	321
Net income	--	--	--	--	--	--	16,901	16,901
Balances at December 31, 1999	<u>3,000</u>	<u>30</u>	<u>16,814</u>	<u>168</u>	<u>229,106</u>	<u>(524)</u>	<u>(19,702)</u>	<u>209,078</u>
Issuance of shares	--	--	83	1	722	(705)	--	18
Stock registration fees	--	--	--	--	(32)	--	--	(32)
Distributions (\$1.12 per common share)	--	--	--	--	--	--	(18,923)	(18,923)
Distributions (\$2.31 per preferred share)	--	--	--	--	--	--	(6,938)	(6,938)
Unearned compensation amortization	--	--	--	--	--	458	--	458
Net income	--	--	--	--	--	--	15,055	15,055
Balances at December 31, 2000	<u>3,000</u>	<u>\$ 30</u>	<u>16,897</u>	<u>\$ 169</u>	<u>\$ 229,796</u>	<u>\$ (771)</u>	<u>\$ (30,508)</u>	<u>\$ 198,716</u>

The accompanying notes are an integral part of the financial statements.

WINSTON HOTELS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2000, 1999 and 1998
(\$ in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:			
Net income	\$ 15,055	\$ 16,901	\$ 19,526
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	625	1,026	1,349
Depreciation	21,092	20,565	16,389
Amortization	933	834	465
Unearned compensation amortization	458	321	197
Loss of sale on properties	850	239	--
Changes in assets and liabilities:			
Lease revenue receivable	484	42	(1,971)
Prepaid expenses and other assets	(1,137)	(1,497)	(1,792)
Deferred lease revenue	499	--	--
Accounts payable and accrued expenses	<u>730</u>	<u>1,521</u>	<u>442</u>
Net cash provided by operating activities	<u>39,589</u>	<u>39,952</u>	<u>34,605</u>
Cash flows from investing activities:			
Note receivable	(1,080)	--	--
Investment in joint ventures	(6,999)	(183)	--
Deferred acquisition costs	(240)	(85)	(448)
Sale of hotel properties and land parcel	5,461	3,789	445
Investment in hotel properties	<u>(7,373)</u>	<u>(16,179)</u>	<u>(135,395)</u>
Net cash used in investing activities	<u>(10,231)</u>	<u>(12,658)</u>	<u>(135,398)</u>
Cash flows from financing activities:			
Purchase of interest rate cap agreement	--	(57)	--
Fees paid to register additional common shares	(32)	(49)	(45)
Fees paid in connection with new financing facilities	(91)	(1,388)	(2,125)
Proceeds from GE Capital Corporation loan	--	--	71,000
Proceeds from various demand notes	--	--	34,385
Net proceeds from issuance of common stock	--	--	600
Payment of distributions to shareholders	(25,839)	(25,248)	(24,886)
Payment of distributions to minority interest	(1,454)	(1,947)	(1,886)
Long term debt payments	(1,103)	(1,025)	--
Net increase (decrease) in line of credit borrowing	<u>(700)</u>	<u>2,415</u>	<u>23,619</u>
Net cash provided by (used in) financing activities	<u>(29,219)</u>	<u>(27,299)</u>	<u>100,662</u>
Net increase (decrease) in cash	139	(5)	(131)
Cash at beginning of period	<u>28</u>	<u>33</u>	<u>164</u>
Cash at end of period	<u>\$ 167</u>	<u>\$ 28</u>	<u>\$ 33</u>
Supplemental disclosure:			
Cash paid for interest	<u>\$ 12,896</u>	<u>\$ 12,339</u>	<u>\$ 9,575</u>
Summary of non-cash investing and financing activities:			
Contribution of land parcel to joint venture	\$ 1,518	\$ --	\$ --
Distributions declared but not paid	6,828	6,806	6,789
Issuance of shares in exchange for partnership units	--	3,868	151
Adjustment to minority interest due to issuance of common stock and conversion of minority interest units to common stock	(19)	1,426	193
Deferred equity compensation	705	535	401

The accompanying notes are an integral part of the financial statements.

WINSTON HOTELS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(\$ in thousands, except per share amounts)

1. Organization:

Winston Hotels, Inc. ("WHI") operates so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. During 1994, WHI completed an initial public offering of \$0.01 par value common stock ("Common Stock"), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the "Partnership"). The Partnership used a substantial portion of the proceeds to acquire an additional nine hotel properties. These 10 hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the "Company") began operations as a REIT on June 2, 1994. As of December 31, 2000, WHI's ownership in the Partnership was 92.86% (see Note 6).

During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 additional hotel properties. During 1998, the Company added 13 additional hotels to its portfolio, five of which were internally developed. During 2000, the Company sold two hotels. As of December 31, 2000, the Company owned 49 hotel properties (the "Current Hotels"), in 12 states, having an aggregate of 6,723 rooms.

The Company also owns a 49% ownership interest in three joint ventures, two of which each own an operating hotel and a third which owns a hotel under development and expected to open in July 2001, collectively (the "Joint Venture Hotels"). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn, currently under construction, located in Evanston, IL. Additionally, the Company has provided mezzanine financing to two unrelated parties for two other hotels in which the Company will have no ownership interest.

As of December 31, 2000, the Company leased 47 of the 49 Current Hotels to CapStar Winston Company, L.L.C. ("CapStar Winston"), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"), one of the Current Hotels to Bristol Hotel Tenant Company, a wholly owned subsidiary of Bass PLC of London ("Bass") and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. ("Prime"). CapStar Winston also currently leases one Joint Venture Hotel located in Ponte Vedra, FL and has signed a lease agreement to lease the Joint Venture Hotel located in Evanston, IL, to be opened in July 2001. Bass also currently leases the Joint Venture Hotel located in Windsor, CT. All 49 of the Current Hotels were leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the "Percentage Leases").

2. Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of WHI and the Partnership. All significant inter-company balances and transactions have been eliminated.

Investment in Hotel Properties. Hotel properties are recorded at cost and are depreciated using the straight-line method over estimated useful lives of the assets of 5 and 30 years for furniture, fixtures and equipment, and buildings and improvements, respectively. Upon disposition, both the assets and accumulated depreciation accounts are relieved and the related gain or loss is credited or charged to the income statement. Repairs and maintenance costs of hotel properties are paid by the lessees.

The Company evaluates long-lived assets for potential impairment by analyzing the operating results, trends and prospects for the Company and considering any other events and circumstances that might indicate potential impairment.

Investment in Joint Venture Properties. Investment in joint venture properties consists of the Company's direct cash or land contributions to the joint ventures as well as capitalized internal costs of services provided by the Company during the development stage. These internal costs are capitalized at 49%, which represents the Company's ownership interest in each joint venture, with the remaining 51% expensed. The Company provides development, purchasing and, upon opening of the hotel, on-going asset management services to the joint ventures. The Company receives fees for these services, 49% of which are recognized as a reduction in the investment in joint venture properties, and 51% of which are recognized as revenue.

Revenue Recognition and Impact of SAB 101. Staff Accounting Bulletin No. 101 ("SAB 101") was issued by the Securities and Exchange Commission in December 1999 and adopted by the Company effective January 1, 2000. SAB 101 requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessee. During 1999 and prior years, consistent with industry practice, the Company recognized contingent rentals throughout the year since it was considered probable that the lessee would exceed the annual specified hurdles. SAB 101 materially impacts the Company's revenue recognition on an interim

basis, effectively deferring the recognition of revenues from its leases from the first and second quarters of the calendar year to the third and fourth quarters. SAB 101 also impacts the Company's revenue recognition on an annual basis, but to a much less degree as seven of the leases of the Company's current 49 hotels have fiscal year ends which differ from the Company's fiscal year end of December 31. The Company accounted for SAB 101 as a change in accounting principle effective January 1, 2000, and recognized the related deferred revenue during 2000. SAB 101 has no impact on the Company's interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends. In accordance with the provisions of SAB 101, the Company has not restated the 1999 or prior years' financial statements.

Recently Issued Accounting Standards. In June 1998, Financial Accounting Standard Board issued SFAS No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, which is required to be adopted in years beginning after June 15, 2000. The Company adopted SFAS 133 effective January 1, 2001. SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value will be immediately recognized in earnings and any derivatives that are not hedges must be adjusted to fair value through earnings. Based on the Company's derivative positions at December 31, 2000, it will report a liability of \$245 for the fair value of its interest rate swap and a corresponding offset in other comprehensive income upon its adoption of SFAS 133 effective January 1, 2001. The Company will also, upon adoption, report a reduction in an asset of \$23 for the fair value of its interest rate cap and a corresponding offset in the Consolidated Statements of Income.

Earnings from Joint Ventures. The Company uses the equity method to recognize its share of net income or loss of the joint ventures it has invested in.

Deferred Expenses. Included in deferred expenses are franchise fees, loan costs, acquisition costs and disposition costs which are recorded at cost. Amortization of franchise fees is computed using the straight-line method over ten years. Amortization of loan costs is computed using the straight-line method over the period of the related debt facility. Acquisition costs are either capitalized to properties when purchased, or expensed. Disposition costs are netted against the proceeds from the sale of properties to determine gain or loss on the sale.

Minority Interest in Partnership. Certain hotel properties have been acquired, in part, by the Partnership, through the issuance of limited partnership units of the Partnership. The equity interest in the Partnership created by these transactions represents the Company's minority interest liability. The Company's minority interest liability is: (i) increased or decreased by its pro-rata share of the net income or net loss, respectively, of the Partnership; (ii) decreased by distributions; (iii) decreased by redemption of partnership units for WHI's Common Stock; and (iv) adjusted to equal the net equity of the Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of units of the Partnership and/or Common Stock of the Company through an adjustment to additional paid-in capital.

Earnings Per Share. Net income per common share is computed by dividing net income applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Net income per common share assuming dilution is computed by dividing net income applicable to common shareholders plus income allocated to minority interest by the weighted-average number of common shares assuming dilution during the period. Weighted average number of common shares assuming dilution includes common shares and dilutive common share equivalents, primarily redeemable limited partnership units and stock options (see Notes 6 and 8).

Distributions. WHI's ability to pay regular quarterly distributions is dependent upon receipt of distributions from the Partnership, which in turn is dependent upon the results of operations of the Company's properties. Distributions declared on WHI's Common Stock in 2000, 1999, and 1998 are considered to be approximately 20%, 10%, and 2% return of capital, respectively, for federal income tax purposes.

Income Taxes. The Company qualifies as a REIT under Sections 856 to 860 of the Internal Revenue Code and therefore no provision for federal income taxes has been reflected in the financial statements.

Earnings and profits, which determine the taxability of distributions to shareholders, differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives used to compute depreciation and the carrying value (basis) of the investment in hotel properties. Additionally, certain costs associated with the Company's equity offerings are treated differently for federal tax purposes than for financial reporting purposes. At December 31, 2000, the net tax basis of the Company's assets and liabilities was approximately \$7,338 less than the amounts reported in the accompanying consolidated financial statements.

For federal income tax purposes, 2000 distributions amounted to \$1.12 per common share, 20% of which is considered a return of capital.

Note Receivable. During 2000, the Company provided \$1,080 in mezzanine financing to Noble Investment Group, Ltd. (“Noble”) to develop a Hilton Garden Inn in Atlanta (Sugarloaf), GA. The Company receives monthly interest income at annual rates based on 30-day LIBOR plus 7.36% until the earlier of (a) prepayment of the loan, (b) the initial maturity date of December 5, 2001, or (c) a period equal to the lesser of (1) the maturity date of the borrower’s qualified refinancing less 60 days, or (2) five years from June 30, 2000, the date of the loan.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, lease revenue receivable and note receivable. The Company places cash deposits at federally insured depository institutions. At December 31, 2000, bank account balances exceeded federal depository insurance limits by approximately \$2,209.

Estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet dates and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

Reclassifications. Certain reclassifications have been made to the 1999 and 1998 financial statements to conform with the 2000 presentation. These reclassifications have no effect on net income or shareholders’ equity previously reported.

3. Disclosures about Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash:	the carrying amount equals fair value.
Interest rate swap agreement:	the fair value is estimated by obtaining quotes from brokers.
Interest rate cap agreement:	the fair value is estimated by obtaining quotes from brokers.
Long-term debt:	the fair value is estimated based on current rates offered to the Company for debt of the same remaining maturities.

The estimated fair values of the Company’s financial instruments are as follows:

	<u>2000</u>		<u>1999</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Assets:				
Cash	\$ 167	\$ 167	\$ 28	\$ 28
Interest rate cap in a net asset position	24	1	43	112
Liabilities:				
Long-term debt	68,872	65,601	69,975	64,433
Due to banks	103,800	103,800	104,500	104,500
Interest rate swap in a net liability position	--	245	--	--

4. Deferred Expenses:

At December 31, 2000 and 1999 deferred expenses consisted of:

	<u>2000</u>	<u>1999</u>
Franchise fees	\$ 1,824	\$ 1,679
Debt facility fees	3,604	3,513
Interest rate caps	58	58
Acquisition costs	16	27
Disposition costs	--	25
	<u>5,502</u>	<u>5,302</u>
Less accumulated amortization	<u>2,127</u>	<u>1,230</u>
Deferred expenses, net	<u>\$ 3,375</u>	<u>\$ 4,072</u>

5. Debt:

The Company's outstanding debt balance as of December 31, 2000 consisted of amounts due under two debt facilities.

On February 1, 1999, the Company entered into a three-year \$140,000 line of credit agreement (the "Line") with a group of banks led by Wachovia Bank, N.A. The Line replaced the Company's previous \$125,000 line of credit (the "Previous Line"). The Line bears interest at rates from LIBOR plus 1.45% to 1.70%, based on the Company's level of total indebtedness. The Company's current rate is LIBOR plus 1.45%. A commitment fee of 0.05% is also payable quarterly on the unused portion of the Line. The Company used the proceeds from the Line primarily to pay off the outstanding balances under the Previous Line. The Company has collateralized the Line with 28 of its Current Hotels, with a carrying value of \$ 210,694 as of December 31, 2000. The Line requires the Company to maintain certain financial ratios including maximum leverage, minimum interest coverage and minimum fixed charge coverage, as well as certain levels of unsecured and secured debt and tangible net worth, all of which the Company was in compliance with as of December 31, 2000.

On December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. This transaction effectively replaces the Company's variable interest rate based on 30-day LIBOR on \$50,000 of the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line's interest rate spread is currently 1.45%, equating to an effective fixed rate of 7.365% on \$50,000 until December 18, 2002.

On November 3, 1998, the Company closed a \$71,000 loan with GE Capital Corporation. The ten-year loan, with a 25-year amortization period, bears interest at a fixed rate of 7.375%. Fourteen of the Company's Current Hotels, with a carrying value of \$120,201 as of December 31, 2000, serve as collateral for the loan. The Company used the net proceeds from the loan to pay down the then existing line of credit balance. As of December 31, 2000, \$68,872 was outstanding. All unpaid principal and interest are due on December 1, 2008. The loan agreement with GE Capital Corporation requires monthly principle and interest payments of \$519 and requires the Company to establish escrow reserves for the purposes of debt service, capital improvements and property taxes and insurance. These reserves, which are held by GE Capital Corporation, totaled \$3,038 as of December 31, 2000 and are included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

As of December 31, 2000 and 1999 the Company's outstanding debt balance under its Line totaled \$103,800 and \$104,500, respectively. From January 1, 1999 through December 18, 2000, interest rates on borrowings were LIBOR plus 1.45%. From December 18, 2000 through December 31, 2000, interest rates on \$50,000 of outstanding debt under the Line were at 5.915% plus 1.45%, with the remainder at LIBOR plus 1.45%. Interest costs were payable monthly in arrears. As of December 31, 2000 and 1999 the weighted average interest rates on the outstanding balance under the Line were 7.76% and 6.84%, respectively. During the years ended December 31, 2000, 1999 and 1998, the Company capitalized interest of \$26, \$163 and \$1,513 respectively, related to hotels under development or major renovation.

During 1999, the Company entered into an interest rate cap agreement to eliminate the exposure to increases in 30-day LIBOR over 7.50%, and therefore from its exposure to interest rate increases over 8.95% under its \$140,000 line of credit on a principal balance of \$25,000 for the period of March 23, 1999 through March 25, 2002.

6. Capital Stock:

On September 11, 1997, WHI issued 3,000,000 shares of 9.25% Series A Cumulative Preferred Stock. Except in the event of certain occurrences, the preferred shares are not redeemable prior to September 28, 2001. On and after such date, the preferred shares will be redeemable for cash at the option of the Company, in whole or in part, at a redemption price of \$25 per share, plus unpaid cumulative distributions.

Pursuant to the Partnership Agreement of the Partnership, the holders of limited partnership units have certain redemption rights (the "Redemption Rights") which enable them to cause the Partnership to redeem their units in the Partnership in exchange for shares of Common Stock on a one-for-one basis or, at the option of the Company, for an equivalent amount of cash. The number of shares issuable upon exercise of the Redemption Rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the shareholders of WHI.

7. Earnings Per Share:

The following is a reconciliation of the net income applicable to common shareholders used in the net income per common share calculation to the net income assuming dilution used in the net income per common share – assuming dilution calculation:

	Year Ended December 31,		
	2000	1999	1998
Net income	\$ 15,055	\$ 16,901	\$ 19,526
Less: preferred shares distribution	6,938	6,938	6,938
Net income applicable to common shareholders	8,117	9,963	12,588
Plus: income allocation to minority interest	625	1,026	1,349
Net income assuming dilution	\$ 8,742	\$ 10,989	\$ 13,937

The following is a reconciliation of the weighted average shares used in net income per common share to the weighted average shares used in net income per common share – assuming dilution:

	Year Ended December 31,		
	2000	1999	1998
Weighted average number of common shares	16,890	16,467	16,286
Weighted average units with redemption rights	1,298	1,629	1,747
Stock options	--	12	7
Weighted average number of common shares assuming dilution	18,188	18,108	18,040

8. Stock Incentive Plan:

During 1998, the Company amended the Winston Hotels, Inc. Stock Incentive Plan (the “Plan”). The amendment increased the number of shares of Common Stock that may be issued under the Plan to 1,600,000 shares plus an annual increase to be added as of January 1 of each year, beginning January 1, 1999, equal to the lesser of (i) 500,000 shares; (ii) 8.5% of any increase in the number of authorized and issued shares (on a fully diluted basis) since the immediately preceding January 1; or (iii) a lesser number determined by the Board of Directors. The Plan permits the grant of incentive or nonqualified stock options, stock appreciation rights, stock awards and performance shares to participants. Under the Plan, the exercise price of an option is determined by the Compensation Committee of the Company. In the case of incentive stock options, the exercise price is no less than the market price of the Company’s Common Stock on the date of grant and the maximum term of an incentive stock option is ten years. Stock options and stock awards are granted upon approval of the Compensation Committee and generally are subject to vesting over a period of years.

During 2000 and 1999, the Company granted awards of Common Stock to certain executive officers and Vice Presidents. The total numbers of shares granted were 81,000 and 20,000, respectively. These shares vest 20% immediately and 20% on the anniversary date over each of the next four years.

On May 18, 1999, WHI issued 42,000 shares, 7,000 shares each, to six of its Directors. These shares vested 20% on both May 18, 1999 and 2000 and will vest 20% on the anniversary date over each of the next three years. Any unvested shares are subject to forfeiture if the director does not remain a director of WHI. Each director is entitled to vote and receive distributions paid on such shares prior to vesting. On May 18, 1999, WHI also issued options to purchase 2,000 shares of WHI Common Stock to six of its Directors. These options were 100% vested on May 18, 1999.

On January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, “Accounting for Stock Based Compensation” (“SFAS 123”). As permitted by SFAS 123, no compensation cost has been recognized for options granted under the Plan. Had the fair value method been used to determine compensation cost, the impact on the Company’s 2000, 1999 and 1998 net income would have been a decrease of \$150, \$181, and \$171, and a corresponding decrease in net income per Common Share of \$0.01, \$0.01 and \$0.01, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2000, 1999 and 1998: dividend of \$1.12, \$1.12 and \$1.09; expected volatility of 26.1%, 27.8% and 26.2%; risk-free interest rate of 5.5%, 6.5% and 5.5%, respectively, and an expected life of five years for all options. The estimated weighted average fair value per share of the options granted in 2000, 1999 and 1998 were \$0.24, \$0.31 and \$1.21, respectively.

A summary of the status of stock options granted under the Plan as of December 31, 2000, 1999 and 1998, and changes during the years ended on those dates, is presented below:

	2000		1999		1998	
	Weighted Average		Weighted Average		Weighted Average	
	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Outstanding at beginning of year	1,100,000	\$ 11.25	798,000	\$ 12.40	436,000	\$ 11.34
Granted	25,000	8.50	402,000	8.77	450,000	13.10
Exercised	--	--	--	--	(58,000)	10.33
Forfeited	(25,000)	13.88	(100,000)	10.50	(30,000)	11.38
Outstanding at end of year	<u>1,100,000</u>	<u>\$ 11.13</u>	<u>1,100,000</u>	<u>\$ 11.25</u>	<u>798,000</u>	<u>\$ 12.40</u>
Options exercisable at year-end	<u>638,500</u>		<u>439,250</u>		<u>309,250</u>	

The following table summarizes information about the Plan at December 31, 2000:

Exercise Price	Options Outstanding At 12/31/00	Options Exercisable at 12/31/00	Average Remaining Contractual Life (years)
\$ 8.50	25,000	--	9.1
\$ 8.75	390,000	156,000	8.0
\$ 9.38	12,000	12,000	8.4
\$10.00	28,000	28,000	3.4
\$11.31	50,000	50,000	4.8
\$11.38	90,000	90,000	5.0
\$12.38	50,000	30,000	7.4
\$12.88	25,000	25,000	5.8
\$13.19	400,000	225,000	7.0
\$13.88	30,000	22,500	6.8

9. Commitments:

The Company leases its corporate office under a non-cancelable lease. Under the terms of the lease, the Company makes lease payments through February 2005. Commitments for minimum rental payments are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2001	\$ 344
2002	352
2003	361
2004	370
2005	62
Total	<u>\$ 1,489</u>

Rental expense for the years ended December 31, 2000, 1999 and 1998 was \$193, \$177 and \$102 respectively.

The Company has future lease commitments from the lessees through 2013. Minimum future rental payments contractually due to the Company under these non-cancelable operating leases are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2001	\$ 35,038
2002	35,038
2003	35,038
2004	35,038
2005	35,038
Thereafter	233,805
Total	<u>\$ 408,995</u>

Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rents or percentage rents. The Company earned minimum base rents of \$34,405, \$32,355 and \$28,278 for the years ended December 31, 2000, 1999 and 1998, respectively, and percentage rents of \$28,025, \$29,882, and \$26,667 for the years ended December 31, 2000, 1999, and 1998, respectively. The percentage rents are based on percentages of gross room revenue and certain food and beverage revenues of the lessees. MeriStar Hospitality Corporation, an affiliate of CapStar Winston, has guaranteed amounts due and payable to the Company under the 47 properties leased by CapStar Winston up to \$20,000. The lessees operate the hotel properties pursuant to franchise agreements, which require the payment of fees based on a percentage of hotel revenue. These fees are paid by the lessees.

Pursuant to the Percentage Leases, the Company is obligated to pay 5% of room revenues (7% of gross room, food and beverage revenues from one of its full-service hotels) to fund periodic improvements to the buildings and grounds, and the periodic replacement and refurbishment of furniture, fixtures and equipment.

For one of the Current Hotels, the Company leases the land under an operating lease which expires on December 31, 2062. Expenses incurred in 2000 and 1999 related to this land lease totaled \$454 and \$360, respectively. Minimum future rental payments contractually due by the Company under this lease are as follows: 2001 - \$110, 2002 - \$110, 2003 - \$110, 2004 - \$110, 2005 - \$110, 2006 and thereafter - \$6,820.

During 2000, the Company signed a mezzanine financing agreement with Noble Investment Group, Ltd. to partially finance and develop two hotels subject to the Company's due diligence efforts. In July, the Company provided \$1,080 in mezzanine financing to Noble Investment Group, LLC ("Noble") to develop a Hilton Garden Inn in Atlanta (Sugarloaf), GA (the "Sugarloaf Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 7.36% until the earlier of (a) prepayment of the loan, (b) the initial maturity date of December 5, 2001, or (c) a period equal to the lesser of (1) the maturity date of the borrower's qualified refinancing less 60 days, or (2) five years from June 30, 2000, the date of the loan. In February 2001, the Company provided another mezzanine loan totaling \$2,186 to Noble to develop a Hilton Garden Inn in Tampa, FL (the "Tampa Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 8.44% until the earlier part of (a) prepayment of the loan, (b) the initial maturity date of January 1, 2004, or (c) a period equal to the lesser of (1) the maturity date of the borrower's qualified refinancing less 60 days, or (2) five years from February 2, 2001, the date of the loan. Both loans are subject to prepayment penalties during the first three years. Once each hotel opens, the Company also earns interest equal to 2% of gross revenues, 25% of which is paid and the remainder is accrued ("Accrued Interest"). On the earlier of prepayment or the maturity date of each loan, the Company also shall receive the greater of the Accrued Interest or, with regard to the Sugarloaf Hotel, 15% of the appreciation in value and with respect to the Tampa Hotel, 20% of the appreciation in value. In addition to earning interest income, the Company also provides development and purchasing services to Noble during the hotels' construction stage for additional fee income. The Company is co-developing the Sugarloaf Hotel and developing the Tampa Hotel. During 2000, these fees totaled \$137, all of which related to services provided for the Sugarloaf Hotel. Both the Sugarloaf Hotel and the Tampa Hotel are owned 100% by unaffiliated single purpose entities (the "Borrowers"). The Company holds collateral equal to 100% of the ownership interest in the Borrowers. The Borrowers are required to make initial equity investments equal to 20% of the total cost, and there are certain default provisions under which the Company can step in and take control of the Borrowers.

During 1999, the Company entered into a joint venture agreement with Regent Partners, Inc. (the "Regent Joint Venture") to jointly develop and own upscale hotel properties. The Regent Joint Venture consists of two separate joint ventures, each of which owns one hotel. The first hotel developed, a full-service Hilton Garden Inn in Windsor, CT, opened in September 2000. The Company is committed to provide on-going asset management services for additional fee income from the Regent Joint Venture. The second hotel, currently under development, is a Hilton Garden Inn in Evanston, IL. The Company has received and will continue to receive monthly interest income from its cash investment in the hotel at an annual rate of 10% until the scheduled hotel opening date in July 2001. In addition, the Company is committed to provide development and asset purchasing services during the construction of the hotel for fees, and ongoing asset management services to generate additional fee income once the hotel is opened. The Company owns 49% of the Regent Joint Venture.

During 2000, the Company entered a joint venture agreement with Marsh Landing Investment, LLC to jointly develop an \$8.5 million, 118-room Hampton Inn in Ponte Vedra, FL. This hotel was opened in December 2000. The Company owns 49% of the joint venture, and Marsh Landing Investment, LLC, a company owned by Charles M. Winston and James H. Winston, owns the remaining 51%. Both Charles M. Winston and James H. Winston serve on the Company's Board of Directors. The Company has the right to acquire Marsh Landing Investment, LLC's interest subject to the provisions of the joint venture agreement. The Company is committed to provide on-going asset management services to the joint venture for additional fee income.

Under the terms of the operating agreement for each joint venture, the Company must approve all major decisions, including refinancing or selling the respective hotels, making loans, changes in partners' interests, entering into contracts of \$25,000 or more, and purchasing or acquiring assets.

As of December 31, 2000, the total assets of the three joint ventures were \$32,203, total liabilities were \$17,980, and total equity was \$14,223. For the year ended December 31, 2000, the total revenue of the three joint ventures was \$414, and total expenses were \$478, resulting in a net loss of \$64.

10. Quarterly Financial Data (Unaudited):

Summarized unaudited quarterly results of operations for the years ended December 31, 2000 and 1999 are as follows:

2000	First	Second	Third	Fourth
Total revenue	\$ 9,808	\$ 10,765	\$ 19,213	\$ 23,933
Total expenses	<u>11,977</u>	<u>11,820</u>	<u>11,601</u>	<u>11,071</u>
Income (loss) before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle	(2,169)	(1,055)	7,612	12,862
Loss on sale of properties	<u>262</u>	<u>--</u>	<u>588</u>	<u>--</u>
Income (loss) before allocation to minority interest and cumulative effect of change in accounting principle	(2,431)	(1,055)	7,024	12,862
Income (loss) allocation to minority interest	<u>(297)</u>	<u>(199)</u>	<u>379</u>	<u>794</u>
Income (loss) before cumulative effect of change in accounting principle	(2,134)	(856)	6,645	12,068
Cumulative effect of change in accounting principle – gross	(720)	--	--	--
Cumulative effect of change in accounting principle – allocation to minority interest	<u>52</u>	<u>--</u>	<u>--</u>	<u>--</u>
Cumulative effect of change in accounting principle – net	<u>(668)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income (loss)	(2,802)	(856)	6,645	12,068
Preferred share distribution	<u>1,734</u>	<u>1,734</u>	<u>1,734</u>	<u>1,736</u>
Net income (loss) applicable to common shareholders	<u>\$ (4,536)</u>	<u>\$ (2,590)</u>	<u>\$ 4,911</u>	<u>\$ 10,334</u>
Earnings per share:				
Net income (loss) per common share	<u>\$ (0.27)</u>	<u>\$ (0.15)</u>	<u>\$ 0.29</u>	<u>\$ 0.61</u>
Net income (loss) per common share assuming dilution	<u>\$ (0.27)</u>	<u>\$ (0.15)</u>	<u>\$ 0.29</u>	<u>\$ 0.61</u>
1999	First	Second	Third	Fourth
Total revenue	\$ 14,807	\$ 17,426	\$ 16,585	\$ 13,852
Total expenses	<u>11,356</u>	<u>11,528</u>	<u>10,722</u>	<u>10,898</u>
Income before loss on sale of properties and allocation to minority interest	3,451	5,898	5,863	2,954
Loss on sale of properties	<u>--</u>	<u>--</u>	<u>239</u>	<u>--</u>
Income before minority interest	3,451	5,898	5,624	2,954
Income allocation to minority interest	<u>165</u>	<u>400</u>	<u>373</u>	<u>88</u>
Income after minority interest	3,286	5,498	5,251	2,866
Preferred share distribution	<u>1,734</u>	<u>1,734</u>	<u>1,734</u>	<u>1,736</u>
Net income applicable to common shareholders	<u>\$ 1,552</u>	<u>\$ 3,764</u>	<u>\$ 3,517</u>	<u>\$ 1,130</u>
Earnings per share:				
Net income per common share	<u>\$ 0.10</u>	<u>\$ 0.23</u>	<u>\$ 0.21</u>	<u>\$ 0.07</u>
Net income per common share assuming dilution	<u>\$ 0.10</u>	<u>\$ 0.23</u>	<u>\$ 0.21</u>	<u>\$ 0.07</u>

WINSTON HOTELS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
as of December 31, 2000
(\$ in thousands)

Description	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amounts Carried at Close of Period			Accumulated Depreciation Buildings and Improvements	Net Book Value Land, Buildings and Improvements	Date of Acquisition	Life Upon Which Depreciation in Latest Income Statement is Computed
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total				
Hampton Inn Boone, NC	*	\$ 264	\$ 2,750	\$77	\$ 558	\$ 341	\$ 3,308	\$ 3,649	\$ 913	\$ 2,736	6/2/94	30
Hampton Inn Brunswick, GA	*	716	3,887	--	625	716	4,512	5,228	1,095	4,133	6/2/94	30
Hampton Inn Cary, NC	*	613	4,596	--	769	613	5,365	5,978	1,353	4,625	6/2/94	30
Hampton Inn Charlotte, NC	#	833	3,609	34	247	867	3,856	4,723	911	3,812	6/2/94	30
Hampton Inn Chester, VA	*	461	2,238	--	147	461	2,385	2,846	480	2,366	11/29/94	30
Hampton Inn Durham, NC		634	4,582	--	892	634	5,474	6,108	1,359	4,749	6/2/94	30
Hampton Inn & Suites Gwinnett, GA	#	557	6,959	21	39	578	6,998	7,576	1,034	6,542	7/18/96	30
Hampton Inn Hilton Head, SC	*	310	3,969	--	813	310	4,782	5,092	1,110	3,982	11/29/94	30
Hampton Inn Jacksonville, NC	*	473	4,140	2	370	475	4,510	4,985	1,139	3,846	6/2/94	30
Hampton Inn Las Vegas, NV	*	856	7,945	--	74	856	8,019	8,875	690	8,185	5/20/98	30
Hampton Inn Perimeter, GA	#	914	6,293	3	122	917	6,415	7,332	935	6,397	7/19/96	30
Hampton Inn Raleigh, NC	#	697	5,955	--	1,180	697	7,135	7,832	1,541	6,291	5/18/95	30
Hampton Inn Southern Pines, NC	*	614	4,280	--	830	614	5,110	5,724	1,289	4,435	6/2/94	30
Hampton Inn Southlake, GA	*	680	4,065	15	599	695	4,664	5,359	1,179	4,180	6/2/94	30
Hampton Inn W. Springfield, MA	#	916	5,253	5	611	921	5,864	6,785	707	6,078	7/14/97	30
Hampton Inn White Plains, NY	#	1,382	10,763	21	364	1,403	11,127	12,530	1,175	11,355	10/29/97	30
Hampton Inn Wilmington, NC	*	460	3,208	2	484	462	3,692	4,154	983	3,171	6/2/94	30
Comfort Inn Augusta, GA		404	3,541	--	338	404	3,879	4,283	853	3,430	5/18/95	30
Comfort Inn Charleston, SC	#	438	5,853	11	1,425	449	7,278	7,727	1,400	6,327	5/18/95	30
Comfort Inn Chester, VA	*	661	6,447	--	361	661	6,808	7,469	1,475	5,994	11/29/94	30
Comfort Inn Clearwater, FL	*	532	3,436	30	911	562	4,347	4,909	936	3,973	5/18/95	30

Description	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amounts Carried at Close of Period			Accumulated Depreciation Buildings and Improvements	Net Book Value Land, Buildings and Improvements	Date of Acquisition	Life Upon Which Depreciation in Latest Income Statement is Computed
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total				
Comfort Inn Durham, NC	*	947	6,208	35	484	982	6,692	7,674	1,460	6,214	11/29/94	30
Comfort Inn Fayetteville, NC		1,223	8,047	4	719	1,227	8,766	9,993	1,992	8,001	11/29/94	30
Comfort Inn Greenville, SC		871	3,551	20	1,368	891	4,919	5,810	930	4,880	5/6/96	30
Comfort Inn Raleigh, NC		459	4,075	8	783	467	4,858	5,325	1,117	4,208	8/16/94	30
Comfort Inn Wilmington, NC		532	5,889	20	771	552	6,660	7,212	1,669	5,543	6/2/94	30
Comfort Suites Orlando, FL	#	1,357	10,180	7	541	1,364	10,721	12,085	1,321	10,764	5/1/97	30
Homewood Suites Alpharetta, GA	*	985	6,621	27	780	1,012	7,401	8,413	693	7,720	5/22/98	30
Homewood Suites Cary, NC	#	1,010	12,367	16	239	1,026	12,606	13,632	1,915	11,717	7/9/96	30
Homewood Suites Clear Lake, TX	#	879	5,978	--	67	879	6,045	6,924	874	6,050	9/13/96	30
Homewood Suites Durham, NC	*	1,074	6,136	(133)	639	941	6,775	7,716	489	7,227	11/14/98	30
Homewood Suites Lake Mary, FL	*	871	6,987	4	278	875	7,265	8,140	628	7,512	11/4/98	30
Homewood Suites Phoenix, AZ	*	1,402	9,763	11	35	1,413	9,798	11,211	850	10,361	6/1/98	30
Homewood Suites Raleigh, NC	*	1,008	10,076	5	423	1,013	10,499	11,512	974	10,538	3/9/98	30
Holiday Inn Express Abingdon, VA		918	2,263	--	434	918	2,697	3,615	380	3,235	5/7/96	30
Holiday Inn Express Clearwater, FL	*	510	5,854	2	878	512	6,732	7,244	787	6,457	8/6/97	30
Holiday Inn Select Dallas, TX	*	1,060	13,615	26	2,885	1,086	16,500	17,586	2,677	14,909	5/7/96	30
Holiday Inn Secaucus, NJ	*	--	13,699	--	1,151	--	14,850	14,850	1,354	13,496	5/27/98	30
Holiday Inn Tinton Falls, NJ	*	1,261	4,337	3	2,451	1,264	6,788	8,052	615	7,437	4/21/98	30
Courtyard by Marriott Ann Arbor, MI	#	902	9,850	11	1,007	913	10,857	11,770	1,252	10,518	9/30/97	30
Courtyard by Marriott Houston, TX	*	1,211	9,154	22	1,922	1,233	11,076	12,309	1,372	10,937	7/14/97	30
Courtyard by Marriott Wilmington, NC	#	742	5,907	5	68	747	5,975	6,722	793	5,929	12/19/96	30
Courtyard by Marriott Winston-Salem, NC	*	915	5,202	--	506	915	5,708	6,623	357	6,266	10/3/98	30

Description	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amounts Carried at Close of Period			Accumulated Depreciation Buildings and Improvements	Net Book Value Land, Buildings and Improvements	Date of Acquisition	Life Upon Which Depreciation in Latest Income Statement is Computed
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total				
Hilton Garden Inn Albany, NY	*	1,168	11,236	--	11	1,168	11,247	12,415	1,000	11,415	5/8/98	30
Hilton Garden Inn Alpharetta, GA	*	1,425	11,719	--	11	1,425	11,730	13,155	1,107	12,048	3/17/98	30
Hilton Garden Inn Raleigh, NC	*	1,901	9,209	--	2	1,901	9,211	11,112	793	10,319	5/8/98	30
Quality Suites Charleston, SC	#	912	11,224	--	750	912	11,974	12,886	2,493	10,393	5/18/95	30
Residence Inn Phoenix, AZ	#	2,076	13,311	33	279	2,109	13,590	15,699	1,299	14,400	3/3/98	30
Fairfield Inn Ann Arbor, MI	*	542	3,743	25	557	567	4,300	4,867	488	4,379	9/30/97	30
		<u>\$ 41,576</u>	<u>\$ 329,970</u>	<u>\$372</u>	<u>\$ 31,798</u>	<u>\$41,948</u>	<u>\$ 361,768</u>	<u>\$ 403,716</u>	<u>\$ 54,236</u>	<u>\$ 349,480</u>		

*Property serves as collateral for the \$140,000 line of credit which closed on February 1, 1999 (see Note 5).

Property serves as collateral for the \$71,000 note through GE Capital Corporation (see Note 5).

WINSTON HOTELS, INC.
NOTES TO SCHEDULE III

	2000	1999
(a) Reconciliation of Real Estate:		
Balance at beginning of period	\$ 407,185	\$ 398,256
Acquisitions during period	--	--
Dispositions during period	7,411	--
Additions during period	3,942	8,929
Balance at end of period	<u>\$ 403,716</u>	<u>\$ 407,185</u>
(b) Reconciliation of Accumulated Depreciation:		
Balance at beginning of period	41,429	27,774
Depreciation for period	13,834	13,655
Dispositions during period	1,027	--
Balance at end of period	<u>\$ 54,236</u>	<u>\$ 41,429</u>
(c) The aggregate cost of land, buildings and improvements for federal income tax purposes is approximately \$399,250.		

INDEPENDENT AUDITORS' REPORT

The Members
CapStar Winston Company, L.L.C.:

We have audited the accompanying balance sheets of CapStar Winston Company, L.L.C. (the "Company") as of December 31, 2000 and 1999 and the related statements of operations, members' capital, and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CapStar Winston Company, L.L.C. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Washington, D.C.
March 2, 2001

CAPSTAR WINSTON COMPANY, L.L.C.
BALANCE SHEETS
As of December 31, 2000 and 1999
(in thousands)

ASSETS

	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents	\$ 762	\$ 1,051
Accounts receivable, net of allowance for doubtful accounts of \$112 and \$98	2,275	2,773
Due from affiliate	11,005	8,667
Deposits and other assets	1,114	455
Total current assets	<u>15,156</u>	<u>12,946</u>
 Furniture, fixtures and equipment, net of accumulated depreciation of \$209 and \$136	 221	 240
Intangible assets, net of accumulated amortization of \$716 and \$1,942	9,851	32,433
Deferred franchise costs, net of accumulated amortization of \$178 and \$128	498	559
Restricted cash	61	38
	<u>\$ 25,787</u>	<u>\$ 46,216</u>

LIABILITIES AND MEMBERS' CAPITAL

Current liabilities:		
Accounts payable	\$ 1,147	\$ 1,222
Accrued expenses	4,146	3,828
Percentage lease payable to Winston Hotels, Inc.	7,129	7,573
Advance deposits	178	151
Total current liabilities	<u>12,600</u>	<u>12,774</u>
 Commitments		
 Members' capital	 <u>13,187</u>	 <u>33,442</u>
	<u>\$ 25,787</u>	<u>\$ 46,216</u>

See accompanying notes to financial statements.

CAPSTAR WINSTON COMPANY, L.L.C.
STATEMENTS OF OPERATIONS
Years ended December 31, 2000, 1999 and 1998
(in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenue:			
Rooms	\$ 126,884	\$ 127,571	\$ 113,451
Food and beverage	8,191	8,015	6,213
Telephone and other operating departments	6,473	6,129	5,969
Total revenue	<u>141,548</u>	<u>141,715</u>	<u>125,633</u>
Operating costs and expenses:			
Rooms	29,202	29,037	25,573
Food and beverage	5,877	6,091	4,984
Telephone and other operating departments	3,768	3,300	2,779
Undistributed expenses:			
Lease expense	57,995	58,551	52,720
Administrative and general	13,259	13,887	12,345
Sales and marketing	6,567	6,450	5,129
Franchise fees	9,087	9,048	8,009
Repairs and maintenance	6,280	6,433	5,846
Energy	5,781	5,686	5,069
Other	1,282	1,293	1,534
Depreciation and amortization	1,047	1,052	1,050
Loss on asset impairment	21,658	--	--
Total expenses	<u>161,803</u>	<u>140,828</u>	<u>125,038</u>
Net (loss) income	<u>\$ (20,255)</u>	<u>\$ 887</u>	<u>\$ 595</u>

See accompanying notes to financial statements.

CAPSTAR WINSTON COMPANY, L.L.C.
STATEMENTS OF MEMBERS' CAPITAL
Years ended December 31, 2000, 1999 and 1998
(in thousands)

	CapStar Management Company, L.P.	EquiStar Acquisition Corporation	MeriStar H&R Operating Company, L.P.	MeriStar Hotels and Resorts, Inc.	Total
Balance, January 1, 1998	\$ 31,961	\$ (1)	\$ --	\$ --	\$ 31,960
Net income through August 2, 1998	695	7	--	--	702
Transfer of members' capital	(32,656)	(6)	32,656	6	--
Net loss from August 3, 1998 through December 31, 1998	<u>--</u>	<u>--</u>	<u>(106)</u>	<u>(1)</u>	<u>(107)</u>
Balance, December 31, 1998	--	--	32,550	5	32,555
Net income	<u>--</u>	<u>--</u>	<u>878</u>	<u>9</u>	<u>887</u>
Balance, December 31, 1999	<u>--</u>	<u>--</u>	<u>33,428</u>	<u>14</u>	<u>33,442</u>
Net loss	<u>--</u>	<u>--</u>	<u>(20,052)</u>	<u>(203)</u>	<u>(20,255)</u>
Balance, December 31, 2000	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 13,376</u>	<u>\$ (189)</u>	<u>\$ 13,187</u>

See accompanying notes to financial statements.

CAPSTAR WINSTON COMPANY, L.L.C.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2000, 1999 and 1998
(\$ in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:			
Net (loss) income	\$ (20,255)	\$ 887	\$ 595
Adjustments to reconcile net (loss) income to net cash used in provided by operating activities:			
Depreciation and amortization	1,047	1,052	1,050
Other	11	--	3
Loss on asset impairment	21,658	--	--
Change in operating assets and liabilities:			
Accounts receivable, net	498	456	(1,616)
Due from Winston Hospitality, Inc.	--	--	1,636
Due from affiliates	(2,338)	(3,275)	(5,008)
Deposits and other assets	(659)	(100)	(157)
Restricted cash	(23)	166	(204)
Accounts payable and accrued expenses	243	54	617
Percentage lease payable to Winston Hotels, Inc.	(444)	(28)	1,919
Advance deposits	27	(32)	49
Net cash used in provided by operating activities	<u>(235)</u>	<u>(820)</u>	<u>(1,116)</u>
Cash flows from investing activities:			
Additions of furniture, fixtures and equipment	(54)	(21)	(131)
Proceeds from sale of fixed assets	--	3	16
Additions to intangible assets	--	(107)	(87)
Additions to deferred franchise costs	--	(79)	--
Net cash used in investing activities	<u>(54)</u>	<u>(204)</u>	<u>(202)</u>
Net decrease in cash and cash equivalents	(289)	(1,024)	(1,318)
Cash and cash equivalents, beginning of period	<u>1,051</u>	<u>2,075</u>	<u>3,393</u>
Cash and cash equivalents, end of period	<u>\$ 762</u>	<u>\$ 1,051</u>	<u>\$ 2,075</u>

See accompanying notes to financial statements.

CAPSTAR WINSTON COMPANY, L.L.C.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)

1. Organization:

CapStar Winston Company, L.L.C. (the “Company”) was formed on October 15, 1997, pursuant to a limited liability company agreement (“Agreement”), subject to the Limited Liability Act of the State of Delaware, between CapStar Management Company, L.P. (“CMC”) and EquiStar Acquisition Corporation (“EquiStar”), both wholly-owned subsidiaries of CapStar Hotel Company (“CapStar”), to lease and operate certain hotels owned by WINN Limited Partnership and Winston Hotels, Inc. (collectively, “Winston”). Generally, members of a limited liability company are not personally responsible for debts, obligations and other liabilities of the company. The Agreement provides for the termination of the Company upon the consent of the members.

In November 1997, CMC purchased substantially all of the assets and assumed certain liabilities of Winston Hospitality, Inc. (“WHI”), including 38 hotel leases, certain operating assets and liabilities, and goodwill and other intangible assets. Concurrent with the purchase, CMC contributed the assets purchased and liabilities assumed in the transaction to the Company.

On August 3, 1998, MeriStar Hotels & Resorts, Inc. (“MeriStar”) was spun off from CapStar (the “Spin-Off”) to become the lessee, manager and operator of various hotel assets, including those previously owned, leased and managed by CapStar and certain of its affiliates. Pursuant to the Spin-Off, CMC and Equistar transferred their capital and interests in the Company to MeriStar H&R Operating Company, L.P. (“MHOC”) and MeriStar, respectively. The transfer was recorded at its net book value.

As of December 11, 2000, MeriStar signed a merger agreement with American Skiing Company (“Ski”), a company that owns, develops and operates ski resort properties. Under the agreement, MeriStar will become a wholly-owned subsidiary of Ski. The merger is expected to close during the first quarter of 2001.

As of December 31, 2000, the Company leased 47 Winston-owned hotels and one hotel owned by Marsh Landing Hotel Associates LLC (“Marsh Landing”), a limited liability company of which Winston owns 49%. These hotels included 30 limited-service hotels, 9 extended-stay hotels and 9 full-service hotels. The hotels have 6,510 rooms, are operated under various franchise agreements, and are located in Arizona, Florida, Georgia, Massachusetts, Michigan, North Carolina, New Jersey, New York, South Carolina, Texas and Virginia.

2. Summary of Significant Accounting Policies:

Cash Equivalents. The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Restricted Cash. Restricted cash represents amounts required to be maintained in escrow to comply with terms of certain state beverage licensing agreements.

Furniture, Fixtures and Equipment. Furniture, fixtures and equipment are recorded at cost and are depreciated using the straight-line method over estimated useful lives ranging from five to seven years.

Intangible Assets. Intangible assets consist of goodwill and hotel lease contracts purchased and beverage licensing costs incurred.

Hotel lease contracts represent the estimated present value of net cash flows expected to be received from the hotel leases originally acquired. Hotel lease contracts are amortized on a straight-line basis over 30 years.

Goodwill represents the excess of the cost over the net tangible and identifiable intangible assets originally acquired. Goodwill is amortized on a straight-line basis over 40 years.

Licensing costs represent the cost of beverage licenses mandated by state statutes. Licensing costs are amortized on a straight-line basis over five years.

The carrying values of long-lived intangible assets, including goodwill, are evaluated periodically in relation to the operating performance and expected future undiscounted cash flows of the underlying assets. Adjustments are made if the sum of expected future undiscounted net cash flows are less than net book value. The impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. During 2000, an impairment loss of \$21,658 was recorded to adjust goodwill from the purchase transaction with Winston.

Deferred Franchise Costs. Franchise costs are deferred and amortized on a straight-line basis over the terms of the franchise agreements, which range from 18 months to 20 years.

Members' Capital and Allocation of Profits and Losses. Prior to the Spin-Off, CMC had a 99% ownership interest and EquiStar had a 1% ownership interest in the Company. Subsequent to the Spin-Off, MHOC has a 99% ownership interest and MeriStar has a 1% ownership interest in the Company. In general, the allocation of income and losses and contributions and distributions are made to the members in proportion to their respective ownership interest.

Income Taxes. No provision has been made for income taxes since any such amount is the liability of the individual members.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain 1999 and 1998 amounts have been reclassified to conform with the presentation in 2000.

3. Intangible Assets:

Intangible assets consist of the following:

	<u>2000</u>	<u>1999</u>
Hotel lease contracts	\$ 6,576	\$ 6,576
Goodwill	3,904	27,712
Licensing costs	87	87
	<u>10,567</u>	<u>34,375</u>
Less: accumulated amortization	<u>(716)</u>	<u>(1,942)</u>
	<u>\$ 9,851</u>	<u>\$ 32,433</u>

During 2000, the Company conducted a review of each of its hotel's performance and anticipated future performance and our expected future income from those hotels. As a result of this review, expected future performance of the hotels has been moderated. This process triggered an impairment review of certain of the Company's long-lived intangible assets. The review included an analysis of the Company's expected future undiscounted cash flows in comparison to the net book value of the long-lived intangible assets. This review indicated that the long-lived intangible assets were impaired. The Company estimated the fair value of the long-lived intangible assets using the discounted expected future cash flows generated by the underlying assets. Accordingly, the Company recorded an impairment loss of \$21,658 to adjust goodwill from the purchase transaction with Winston.

4. Management Agreements:

The Company manages 39 of the 48 hotels leased from Winston and Marsh Landing and has separate management agreements with third parties to manage the remaining nine hotels. The terms of these third-party management agreements provide for management fees to be paid on a monthly basis based on budgeted gross operating profit, as defined in the agreements, with year-end adjustments, for actual operating results. The terms of nine management agreements extend to 2012. The agreements are cancelable before expiration under certain circumstances. Management fees incurred during 2000, 1999 and 1998 were \$745, \$886 and \$1,001, respectively, and are included in other expenses.

5. Transactions with Related Parties:

The Company and MHOC advanced amounts to each other in the normal course of business. At December 31, 2000 and 1999, MHOC owed the Company \$11,005 and \$8,667, respectively.

6. Commitments:

Each of the Company's hotels is leased under a separate participating lease agreement. The leases expire on various dates ranging from December 2010 to December 2013. The leases require monthly minimum base rental payments to Winston and Marsh Landing and additional monthly or quarterly payments of percentage rent, based on revenues generated by the hotels in excess of specified amounts. The leases are non-cancelable except upon sale of a hotel. Winston or Marsh Landing is required to make a termination payment to the Company, as defined in the lease agreements, upon cancellation of a lease. MeriStar Hospitality Corporation has guaranteed amounts due and payable by the Company under the leases up to \$20 million.

Future minimum base rental payments under these non-cancelable operating leases as of December 31, 2000 are as follows:

2001	\$ 32,368
2002	32,368
2003	32,368
2004	32,368
2005	32,368
Thereafter	<u>228,888</u>
	<u>\$ 390,728</u>

The Company incurred minimum base rents of \$31,329, \$30,676 and \$26,378, and additional percentage rents of \$26,666, \$27,875 and \$26,342 during 2000, 1999 and 1998, respectively.

7. Business Concentration:

Winston owns 100% of 47 of the Company's leased hotels and 49% of one of the Company's leased hotels. Therefore, the Company's financial position and results of operations would be adversely and materially impacted if Winston sells the hotels and terminates the leases. Management believes that Winston has no intention of selling hotels which would, individually or in the aggregate, have a material impact on the operations of the Company.

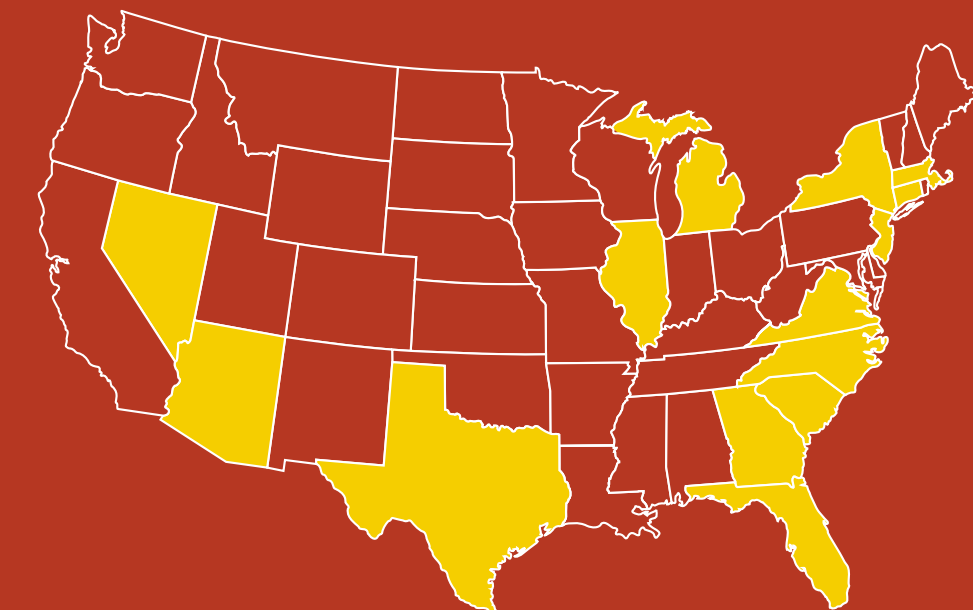
INDEX TO EXHIBITS

<u>Exhibit</u>	<u>Description</u>
3.1(10)	Restated Articles of Incorporation
3.2	Amended and Restated Bylaws
4.1(1)	Specimen certificate for Common Stock, \$0.01 par value per share
4.2(4)	Specimen certificate for 9.25% Series A Cumulative Preferred Stock
4.3(10)	Restated Articles of Incorporation
4.4	Amended and Restated Bylaws
10.1(3)	Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.2(4)	Amendment No. 1 dated September 11, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.3(6)	Amendment No. 2 dated December 31, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.4(12)	Amendment No. 3 dated September 14, 1998 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.5(11)	Amendment No. 4 dated October 1, 1999 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.6(2)	Form of Percentage Leases
10.7(5)	First Amendment to Lease dated November 17, 1997 between WINN Limited Partnership and CapStar Winston Company, L.L.C.
10.8(5)	First Amendment to Lease dated November 24, 1997 between WINN Limited Partnership and CapStar Winston Company, L.L.C.
10.9(1)	Winston Hotels, Inc. Directors' Stock Incentive Plan
10.10(2)	Limitation of Future Hotel Ownership and Development Agreement
10.11(5)	Guaranty dated November 17, 1997 between CapStar Hotel Company, WINN Limited Partnership and Winston Hotels, Inc.
10.12(6)	Employment Agreement, dated July 31, 1997, by and between Kenneth R. Crockett and Winston Hotels, Inc.
10.13(7)	Winston Hotels, Inc. Stock Incentive Plan as amended May 1998
10.14(8)	Loan Agreement by and between Winston SPE LLC and CMF Capital Company LLC dated November 3, 1998
10.15(8)	Promissory note dated November 3, 1998 by and between Winston SPE LLC and CMF Capital Company, LLC
10.16(9)	Winston Hotels, Inc. Executive Deferred Compensation Plan

10.17(9)	Credit Agreement, dated as of January 15, 1999, among Wachovia Bank, N.A., Branch Banking and Trust Company, SouthTrust Bank, N.A., Centura Bank, Winston Hotels, Inc., WINN Limited Partnership and Wachovia Bank, N.A. as Agent (the "Credit Agreement")
10.18(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Wachovia Bank, N.A. for the principal sum of \$60,000,000 pursuant to the Credit Agreement
10.19(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Branch Banking and Trust Company for the principal sum of \$40,000,000 pursuant to the Credit Agreement
10.20(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to SouthTrust Bank, N.A. for the principal sum of \$25,000,000 pursuant to the Credit Agreement
10.21(9)	Promissory Note, dated as of January 15, 1999, from Winston Hotels, Inc. and WINN Limited Partnership to Centura Bank for the principal sum of \$15,000,000 pursuant to the Credit Agreement
10.22(9)	Form of Deed of Trust, Assignment of Rents, Security Agreement and Financing Statement used to secure certain obligations under the Credit Agreement (not including certain variations existing in the different states where the properties are located)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Accountants (PricewaterhouseCoopers LLP)
23.2	Accountants' Consent (KPMG LLP)
24.1	Powers of Attorney
99.1	Risk Factors

- (1) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-76602) effective May 25, 1994 and incorporated herein by reference.
- (2) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-91230) effective May 11, 1995 and incorporated herein by reference.
- (3) Exhibit to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on July 24, 1997 and incorporated herein by reference.
- (4) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on September 15, 1997 and incorporated herein by reference.
- (5) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on December 10, 1997 and incorporated herein by reference.
- (6) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 1998 and as amended by Form 10-K/A filed with the Securities and Exchange Commission on April 1, 1998.
- (7) Exhibit to the Company's Registration Statement on Form S-8 as filed with the Securities and Exchange Commission on July 29, 1998. (Registration No. 333-60079) and incorporated herein by reference.
- (8) Exhibits to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1998 and as amended on Form 10-Q/A filed with the Securities and Exchange Commission on February 23, 1999 and incorporated herein by reference.

- (9) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 25, 1999 and incorporated herein by reference.
- (10) Exhibit to the Company's Quarterly Report on Form 10-Q or filed with the Securities and Exchange Commission on August 4, 1999 and incorporated herein by reference.
- (11) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 12, 1999 and incorporated herein by reference.
- (12) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2000 and incorporated herein by reference.



FORESIGHT & FUTURESITE

Winston's growing presence: The geographic distribution of our assets, while still weighted in the Southern Atlantic states, increasingly has become diversified as management looks to initiate a greater number of projects in the United States' North Eastern, Middle Atlantic and Pacific regions.

DIRECTORS

Charles M. Winston
Chairman of the Board

Robert W. Winston
Chief Executive Officer and Director

Thomas F. Darden, II ⁽¹⁾ ⁽²⁾
Chairman
Cherokee Investment Partners
A private equity investment fund

Richard L. Daugherty ⁽²⁾
Executive Director
North Carolina State University
Research Corporation

James H. Winston
President
Omega Insurance Company
A property and casualty insurance company

Edwin B. Borden ⁽¹⁾ ⁽²⁾
President and Chief Executive Officer
The Borden Manufacturing Company, Inc.
A textile manufacturing company

David C. Sullivan ⁽¹⁾
Chairman
Sullivan's Development Group
A real estate development consulting company

⁽¹⁾ Audit Committee
⁽²⁾ Compensation Committee

SENIOR MANAGEMENT

Charles M. Winston
Chairman of the Board

Robert W. Winston
Chief Executive Officer and Director

James D. Rosenberg
President, Chief Operating Officer
and Secretary

Kenneth R. Crockett
Executive Vice President of Development

Joseph V. Green
Executive Vice President and
Chief Financial Officer



2626 Glenwood Avenue
Suite 200
Raleigh, NC 27608
ph 919.510.6010
fax 919.510.6832
www.winstonhotels.com

SHAREHOLDER INFORMATION

Independent Auditors

PricewaterhouseCoopers, LLP
150 Fayetteville Street Mall, #2300
Raleigh, NC 27601

General Counsel

Smith, Anderson, Blount, Dorsett,
Mitchell & Jernigan, L.L.P.
P.O. Box 2611
Raleigh, NC 27602-2611
ph 919.821.1220

Transfer Agent

Branch Banking and Trust Company
Corporate Trust Services
Post Office Box 2887
Wilson, NC 27894-2887
ph 800.213.4314

For address and registration changes, shareowners may
contact their own stock brokers or Transfer Agent.

Annual Meeting of Shareholders

Raleigh Homewood Suites
5400 Homewood Banks Drive
Raleigh, NC 27612

Exchange Listing

Shares of Winston Hotels' Common Stock are
listed on the New York Stock Exchange under the
symbol "WXH" and the Company's Series A
Cumulative Preferred Shares are listed under
the symbol "WXHPRA."

www.winstonhotels.com

