FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. 0000806510-04-000005

(HTML Version on secdatabase.com)

FILER

CNL INCOME FUND II LTD

CIK:**806510**| IRS No.: **592733859** | State of Incorp.:**FL** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16824** | Film No.: **04967921**
SIC: **6500** Real estate

Mailing Address
450 S ORANGE AVE
450 S ORANGE AVE
ORLANDO FL 32801

Business Address
450 S ORANGE AVE
ORLANDO FL 32801
4075402131

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ____________________ to ______________________

Commission file number
0-16824

CNL Income Fund II, Ltd.

(Exact name of registrant as specified in its charter)

Florida	59-2733859
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 South Orange Avenue Orlando, Florida	32801
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number (including area code)	(407) 540-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 X No _____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes___ No X

CONTENTS

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>
<S> <C>

	June 30, 2004	December 31, 2003
ASSETS		
Real estate properties with operating leases, net	$ 5,919,690	$ 6,001,896
Real estate held for sale	510,305	563,242
Investment in joint ventures	3,218,837	3,621,892
Cash and cash equivalents	1,391,652	922,370
Certificate of deposit	60,174	60,483
Receivables, less allowance for doubtful accounts of $13,644 and $28,888, respectively	458	38,192
Accrued rental income	184,907	185,490
Other assets	8,581	6,537
	$ 11,294,604	$ 11,400,102
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable and accrued expenses	$ 81,905	$ 71,534
Real estate taxes payable	18,245	21,680
Distributions payable	334,380	459,380
Due to related parties	202,024	197,248
Rents paid in advance and deposits	74,036	84,961
Total liabilities	710,590	834,803
Partners' capital	10,584,014	10,565,299
	$ 11,294,604	$ 11,400,102

</TABLE>

See accompanying notes to condensed financial statements.

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
CONDENSED STATEMENTS OF INCOME

<TABLE>
<CAPTION>
<S> <C>

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues:				
Rental income from operating leases	$ 226,395	$ 227,308	$ 455,143	$ 453,897
Contingent rental income	--	11,070	9,062	13,326
Interest and other income	186	2,148	858	3,011
	226,581	240,526	465,063	470,234
Expenses:				
General operating and administrative	58,421	43,607	124,537	101,425
Property related	3,147	1,675	3,269	4,705
State and other taxes	767	2,112	18,401	8,275
Depreciation and amortization	43,156	41,232	84,697	82,464
	105,491	88,626	230,904	196,869
Income before equity in earnings of unconsolidated joint ventures	121,090	151,900	234,159	273,365
Equity in earnings of unconsolidated joint ventures	407,468	52,157	500,981	140,713
Income from continuing operations	528,558	204,057	735,140	414,078
Discontinued operations:				
Income (loss) from discontinued operations	(53,430)	17,411	(47,665)	29,184
Net income	$ 475,128	$ 221,468	$ 687,475	$ 443,262
Income (loss) per limited partner unit:				
Continuing operations	$ 10.57	$ 4.08	$ 14.70	$ 8.28
Discontinued operations	(1.07)	0.35	(0.95)	0.59
	$ 9.50	$ 4.43	$ 13.75	$ 8.87
Weighted average number of limited partner units outstanding	50,000	50,000	50,000	50,000

</TABLE>

See accompanying notes to condensed financial statements.

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
CONDENSED STATEMENTS OF PARTNERS' CAPITAL

<TABLE>
<CAPTION>
<S> <C>

	Six Months Ended June 30, 2004	Year Ended December 31, 2003
General partners:		
Beginning balance	$ 405,788	$ 405,788
Net income	--	--
	405,788	405,788
Limited partners:		
Beginning balance	10,159,511	10,642,841
Net income	687,475	979,190
Distributions ($13.38 and $29.25 per limited partner unit, respectively)	(668,760)	(1,462,520)
	10,178,226	10,159,511
Total partners' capital	$ 10,584,014	$ 10,565,299

</TABLE>

See accompanying notes to condensed financial statements.

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
CONDENSED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>
<S> <C>

	Six Months Ended June 30, 2004	2003
Net cash provided by operating activities	$ 591,850	$ 659,209
Cash flows from investing activities:		
Liquidating distribution from joint venture	671,192	--
Net cash provided by investing activities	671,192	--
Cash flows from financing activities:		
Distributions to limited partners	(793,760)	(1,168,760)
Net cash used in financing activities	(793,760)	(1,168,760)
Net increase (decrease) in cash and cash equivalents	469,282	(509,551)
Cash and cash equivalents at beginning of period	922,370	1,193,910
Cash and cash equivalents at end of period	$ 1,391,652	$ 684,359

Supplemental schedule of non-cash financing activities:

Distributions declared and unpaid at end of period	$ 334,380	$ 334,380

</TABLE>

See accompanying notes to condensed financial statements.

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
NOTES TO CONDENSED FINANCIAL STATEMENTS
Quarters and Six Months Ended June 30, 2004 and 2003

1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. The financial statements reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of the general partners, necessary for a fair statement of the results for the interim periods presented. Operating results for the quarter and six months ended June 30, 2004, may not be indicative of the results that may be expected for the year ending December 31, 2004. Amounts as of December 31, 2003, included in the financial statements, have been derived from audited financial statements as of that date.

These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in Form 10-K of CNL Income Fund II, Ltd. (the "Partnership") for the year ended December 31, 2003.

In December 2003, the Financial Accounting Standards Board issued a revision to FASB Interpretation No. 46 (originally issued in January 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities" requiring existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries. Application of FIN 46R is required in financial statements of public entities that have interests in variable interest entities for periods ending after March 15, 2004. The Partnership adopted FIN 46R during the quarter ended March 31, 2004. The Partnership was not the primary beneficiary of a variable interest entity at the time of adoption of FIN 46R, therefore the adoption had no effect on the balance sheet, partner's capital or net income.

2. Reclassification

Certain items in the prior year's financial statements have been reclassified to conform to 2004 presentation. These reclassifications had no effect on total partners' capital or net income.

3. Investment in Joint Ventures

In April 2004, Holland Joint Venture, in which the Partnership owned a 49% interest, entered into an agreement with a third party to sell its property in Holland, Michigan. In June 2004, the joint venture sold this property, which resulted in a gain on disposal of discontinued operations of approximately $638,900. As a result of the sale of the property, the joint venture was dissolved and the Partnership received approximately $671,200 representing its pro-rata share of the liquidating distribution from the joint venture. The financial results for this property, along with the property previously owned by Show Low Joint Venture, are reflected as discontinued operations in the combined, condensed financial information presented below.

Kirkman Road Joint Venture owns one property. In addition, the Partnership and affiliates as tenants-in-common in six separate tenancy in common arrangements each own one property.

The following presents the combined, condensed financial information for the joint ventures and the properties held as tenants-in-common with affiliates at:

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
NOTES TO CONDENSED FINANCIAL STATEMENTS
Quarters and Six Months Ended June 30, 2004 and 2003

3. Investment in Joint Ventures - Continued

<TABLE>
<CAPTION>
<S> <C>

	June 30, 2004	December 31, 2003
Real estate properties with operating leases, net	$ 5,955,085	$ 6,024,001
Net investment in direct financing leases	2,138,674	2,151,112
Real estate held for sale	--	768,120
Cash	28,414	115,927
Receivables	725	--
Accrued rental income	421,334	403,513
Liabilities	22,075	66,581
Partners' capital	8,522,157	9,396,092

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues	$ 256,287	$ 258,231	$ 512,431	$ 517,476
Expenses	(37,984)	(37,475)	(76,065)	(74,446)
Income from continuing operations	218,303	220,756	436,366	443,030
Discontinued operations:				
Revenues	24,456	30,062	54,518	60,714
Expenses	--	(17,644)	(6,965)	(34,979)
Provision for write-down of assets	--	(55,500)	--	(55,500)
Gain on disposal of discontinued operations	638,919	--	638,919	--
	663,375	(43,082)	686,472	(29,765)
Net income	$ 881,678	$ 177,674	$ 1,122,838	$ 413,265

</TABLE>

The Partnership recognized income of $500,981 and $140,713 during the six months ended June 30, 2004 and 2003, respectively, $407,468 and $52,157 of which were earned during the second quarters of 2004 and 2003, respectively, from these joint ventures and tenants-in-common arrangements.

4. Discontinued Operations

In June 2004, the Partnership identified for sale the property in Nederland, Texas and reclassified the asset to real estate held for sale. During the quarter and six months ended June 30, 2004, the Partnership recorded a provision for the write-down of assets in anticipation of the sale of this property. The provision represented the difference between the carrying value of the property and its estimated fair value.

CNL INCOME FUND II, LTD.
(A Florida Limited Partnership)
NOTES TO CONDENSED FINANCIAL STATEMENTS
Quarters and Six Months Ended June 30, 2004 and 2003

4. Discontinued Operations - Continued

The following presents the operating results of the discontinued operations for this property.

<TABLE>
<CAPTION>
<S> <C>

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Rental revenues	$ --	$ 21,896	$ 11,075	$ 43,791
Expenses	(9,169)	(4,485)	(14,479)	(14,607)
Provision for write-down of assets	(44,261)	--	(44,261)	--
Income (loss) from discontinued operations	$ (53,430)	$ 17,411	$ (47,665)	$ 29,184

</TABLE>

5. Concentration of Credit Risk

The following schedule presents total rental revenues from individual lessees, each representing more than ten percent of total rental revenues (including the Partnership's share of total rental revenues from the unconsolidated joint ventures and the properties held as tenants-in-common with affiliates of the general partners), for each of the periods ended June 30:

<TABLE>
<CAPTION>
<S> <C>

	2004	2003
Wend Vail Partnership, Ltd.	$ 75,000	$ 75,000

</TABLE>

In addition, the following schedule presents total rental revenues from individual restaurant chains, each representing more than ten percent of total rental revenues (including the Partnership's share of total rental revenues from the unconsolidated joint ventures and the properties held as tenants-in-common with affiliates of the general partners), for each of the periods ended June 30:

<TABLE>
<CAPTION>
<S> <C>

	2004	2003
Wendy's Old Fashioned Hamburger Restaurants	$ 106,571	$ 106,596
Golden Corral Buffet and Grill	N/A	79,669

</TABLE>

The information denoted by N/A indicates that for each period presented, the chain did not represent more than ten percent of the Partnership's total rental revenues.

Although the properties have some geographical diversity in the United States and the lessees operate a variety of restaurant concepts, default by any of these lessees or restaurant chains could significantly impact the results of operations if the Partnership is not able to re-lease the properties in a timely manner.

6. Subsequent Event

On August 9, 2004, the Partnership entered into a definitive Agreement and Plan of Merger pursuant to which the Partnership will be merged with a subsidiary of U.S. Restaurant Properties, Inc. (NYSE: USV). The merger is one of multiple concurrent transactions pursuant to which 17 other affiliated limited partnerships also will be merged with a subsidiary of U.S. Restaurant Properties, Inc. and in which CNL Restaurant Properties, Inc., an affiliate, also will be merged with U.S. Restaurant Properties, Inc. CNL Restaurant Properties, Inc. currently provides property management and other services to the Partnership. The merger of the Partnership (and each of the 17 other affiliated mergers) is subject to certain conditions including approval by a majority of the limited partners, consummation of a minimum number of limited partnership mergers representing at least 75.0% in value (as measured by the value of the merger consideration) of all limited partnerships, consummation of the merger between U. S. Restaurant Properties, Inc. and CNL Restaurant Properties, Inc., approval of the shareholders of U.S. Restaurant Properties, Inc., and availability of financing. The transaction is expected to be consummated in the first quarter of 2005.

Under the terms of the transaction, the limited partners will receive total consideration of approximately $14.62 million, consisting of approximately $12.23 million in cash and approximately $2.39 million in U.S. Restaurant Properties, Inc. Series A Convertible Preferred Stock that is listed on the New York Stock Exchange. The general partners will receive total consideration of approximately $331,000 consisting of approximately $277,000 in cash and approximately $54,000 in preferred stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CNL Income Fund II, Ltd. (the "Partnership," which may be referred to as "we," "us," or "our") is a Florida limited partnership that was organized on November 13, 1986 to acquire for cash, either directly or through joint venture arrangements, both newly constructed and existing restaurant properties, as well as land upon which restaurants were to be constructed, which are leased primarily to operators of national and regional fast-food restaurant chains (collectively, the "Properties"). The leases generally are triple-net leases, with the lessees responsible for all repairs and maintenance, property taxes, insurance and utilities. We owned 17 Properties directly as of June 30, 2004 and 2003. We also owned seven and nine Properties indirectly through joint venture or tenancy in common arrangements as of June 30, 2004 and 2003, respectively.

Capital Resources

Net cash provided by operating activities was $591,850 and $659,209 for the six months ended June 30, 2004 and 2003, respectively. The decrease in net cash provided by operating activities during the six months ended June 30, 2004, was a result of changes in our working capital, such as the timing of transactions relating to the collection of receivables and the payment of expenses, and changes in income and expenses, such as changes in rental revenues and changes in operating and property related expenses.

In June 2004, Holland Joint Venture, in which we owned a 49% interest, sold the Property in Holland, Michigan and received net sales proceeds of approximately $1,399,600, resulting in a gain on disposal of discontinued operations of approximately $638,900. As a result of the sale of the Property, the joint venture was dissolved and we received approximately $671,200 representing our pro-rata share of the liquidating distribution from the joint venture. We intend to use the liquidation proceeds to pay liabilities.

At June 30, 2004, we had $1,391,652 in cash and cash equivalents, as compared to $922,370 at December 31, 2003. At June 30, 2004, these funds were held in a demand deposit account at a commercial bank. The increase was primarily a result of holding the liquidation proceeds from the dissolution of Holland Joint Venture. The funds remaining at June 30, 2004, after the payment of distributions and other liabilities, will be used to meet our working capital needs.

Short-Term Liquidity

Our investment strategy of acquiring Properties for cash and leasing them under triple-net leases to operators who generally meet specified financial standards minimizes our operating expenses. The general partners believe that the leases will generate net cash flow in excess of operating expenses.

Our short-term liquidity requirements consist primarily of our operating expenses.

The general partners have the right, but not the obligation, to make additional capital contributions if they deem it appropriate in connection with our operations.

We generally distribute cash from operations remaining after the payment of operating expenses, to the extent that the general partners determine that such funds are available for distribution. Based on current and anticipated future cash from operations, we declared distributions to limited partners of $668,760 for the six months ended June 30, 2004 and 2003 ($334,380 for the quarters ended June 30, 2004 and 2003). This represents distributions of $13.38 per unit for each of the six months ended June 30, 2004 and 2003 ($6.69 for each applicable quarter). As a result of the sales of Properties in prior years, our total revenues have declined and are expected to remain reduced in subsequent periods, while the majority of our operating expenses have remained and are expected to remain fixed. Due to the sales of Properties, and due to current and anticipated cash from operations, distributions of net cash flow have been adjusted during the quarters ended September 30 and December 31, 2002. No distributions were made to the general partners for the quarters and six months ended June 30, 2004 and 2003. No amounts distributed to the limited partners for the six months ended June 30, 2004 and 2003 are required to be or have been treated as a return of capital for purposes of calculating the limited partners' return on their adjusted capital contributions. We intend to continue to make distributions of cash to the limited partners on a quarterly basis.

Total liabilities, including distributions payable, were $710,590 at June 30, 2004 as compared to $834,803 at December 31, 2003. The decrease was primarily a result of paying a special distribution to the limited partners that had been declared at December 31, 2003 as well as a decrease in rents paid in advance and deposits. The decrease was partially offset by an increase in accounts payable and accrued expenses. The general partners believe that we have sufficient cash on hand to meet our current working capital needs.

Long-Term Liquidity

We have no long-term debt or other long-term liquidity requirements.

Results of Operations

Rental revenues from continuing operations were $455,143 for the six months ended June 30, 2004 as compared to $453,897 in the same period in 2003, $226,395 and $227,308 of which were earned during the second quarters of 2004 and 2003, respectively. Rental revenues from continuing operations remained relatively constant because the changes in the leased Property portfolio related to the Property accounted for as discontinued operations.

We earned $9,062 in contingent rental income during the six months ended June 30, 2004, as compared to $13,326 during the same period of 2003, $11,070 of which was earned during the second quarter of 2003. The decrease in contingent rental income during 2004 was due to a decrease in reported gross sales of the restaurants with leases that require the payment of contingent rents.

We earned $500,981 attributable to net income earned by unconsolidated joint ventures during the six months ended June 30, 2004, as compared to $140,713 during the same period of 2003, $407,468 and $52,157 of which were earned during the second quarters of 2004 and 2003, respectively. The increase in net income earned by unconsolidated joint ventures was primarily due to the gain of approximately $638,900 on the sale of the Property owned by Holland Joint Venture in June 2004, in which we owned a 49% interest. As a result of this sale, the Joint Venture was dissolved in the same month. The increase, in 2004 as compared to 2003, was partially offset by a provision for write-down of assets of $55,500 recorded by Show Low Joint Venture, in which we owned a 64% interest.

During the six months ended June 30, 2004, one of our lessees, Wend Vail Partnership, Ltd., contributed more than 10% of our total rental revenues (including our share of total rental revenues from the Properties owned by the unconsolidated joint ventures and Properties owned with affiliates of the general partners as tenants-in-common). It is anticipated that based on the minimum annual rental payments required by the lease, this lessee will continue to contribute more than 10% of our total rental revenues. In addition, during the six months ended June 30, 2004, one restaurant chain, Wendy's Old Fashioned Hamburger Restaurants accounted for more than 10% of our total rental revenues (including our share of total rental revenues from the Properties owned by the unconsolidated joint ventures and Properties owned with affiliates of the general partners as tenants-in-common). It is anticipated that this restaurant chain will continue to account for more than 10% of the total rental revenues to which we are entitled under the terms of its lease. Any failure of this lessee or this restaurant chain will materially affect our operating results if we are not able to re-lease the Properties in a timely manner.

Operating expenses, including depreciation and amortization expense, were $230,904 during the six months ended June 30, 2004, as compared to $196,869 during the same period of 2003, $105,491 and $88,626 of which were incurred during the second quarters of 2004 and 2003, respectively. Operating expenses were higher during the quarter and six months ended June 30, 2004, as compared to the same periods in 2003, because we incurred additional general operating and administrative expenses, including legal fees. The increase in operating expenses during the six months ended June 30, 2004, was also due to an increase in the amount of state tax expense relating to several states in which we conduct business.

We recognized income from discontinued operations (rental revenues less property related expenses) of $17,411 and $29,184 during the quarter and six months ended June 30, 2003, respectively, and losses from discontinued

operations of $53,430 and $47,665 for the quarter and six months ended June 30, 2004, respectively, relating to the vacant Property in Nederland, Texas. During the quarter and six months ended June 30, 2004, we recorded a provision for write-down of assets of approximately $44,300 in anticipation of the sale of this Property. The provision represented the difference between the carrying value of the Property and the estimated fair value. As of August 9, 2004, the sale of this Property had not occurred.

In June 2004, Holland Joint Venture, in which we owned a 49% interest, sold its Property in Holland, Michigan, as described above. The financial results relating to this Property were classified as Discontinued Operations in the combined, condensed financial information for the unconsolidated joint ventures and the properties held as tenants-in-common with affiliates reported in the footnotes to the accompanying financial statements. Our pro-rata shares of these amounts were included in equity in earnings of the unconsolidated joint ventures in the accompanying financial statements.

In December 2003, the Financial Accounting Standards Board issued a revision to FASB Interpretation No. 46 (originally issued in January 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities" requiring existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries. Application of FIN 46R is required in financial statements of public entities that have interests in variable interest entities for periods ending after March 15, 2004. We adopted FIN 46R during the quarter ended March 31, 2004. We were not the primary beneficiary of a variable interest entity at the time of adoption of FIN 46R, therefore the adoption had no effect on the balance sheet, partner's capital or net income.

The general partners believe their primary objective is to maintain current operations with restaurant operators as successfully as possible, while evaluating strategic alternatives, including alternatives that may provide liquidity to the limited partners. Real estate markets are strong throughout much of the nation, and the performance of restaurants has generally improved after several challenging years. As a result, the general partners believe that this is an attractive period for a strategic event to monetize the interests of the limited partners.

In furtherance of this, on August 9, 2004, we entered into a definitive Agreement and Plan of Merger pursuant to which we will be merged with a subsidiary of U.S. Restaurant Properties, Inc. (NYSE: USV). The merger is one of multiple concurrent transactions pursuant to which 17 other affiliated limited partnerships also will be merged with a subsidiary of U.S. Restaurant Properties, Inc. and in which CNL Restaurant Properties, Inc., an affiliate, also will be merged with U.S. Restaurant Properties, Inc. Our merger (and each of the 17 other affiliated mergers) is subject to certain conditions including approval by a majority of the limited partners, consummation of a minimum number of limited partnership mergers representing at least 75.0% in value (as measured by the value of the merger consideration) of all limited partnerships, consummation of the merger between U. S. Restaurant Properties, Inc. and CNL Restaurant Properties, Inc., approval of the shareholders of U.S. Restaurant Properties, Inc., and availability of financing. U.S. Restaurant Properties, Inc. is a real estate investment trust (REIT) that focuses primarily on acquiring, owning and leasing restaurant properties. The transaction is expected to be consummated in the first quarter of 2005.

Under the terms of the transaction, our limited partners will receive total consideration of approximately $14.62 million, consisting of approximately $12.23 million in cash and approximately $2.39 million in U.S. Restaurant Properties, Inc. Series A Convertible Preferred Stock that is listed on the New York Stock Exchange. The general partners will receive total consideration of approximately $331,000 consisting of approximately $277,000 in cash and approximately $54,000 in preferred stock.

We received an opinion from Wachovia Capital Markets, LLC that as of August 9, 2004 the merger consideration to be received by the holders of our general and limited partnership interests is fair, from a financial point of view, to such holders.

As reflected above, the contemplated transactions are complex, and contingent upon certain conditions. The restaurant marketplace, the real estate industry, and the equities markets, all individually or taken as a whole, could impact the economics of this transaction. As a result, there is no assurance that we will be successful in completing the contemplated transaction.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

The general partners maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The principal executive and financial officers of the corporate general partner have evaluated our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on

Form 10-Q and have determined that such disclosure controls and procedures are effective.

There was no change in internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Inapplicable.

Item 2. Changes in Securities. Inapplicable.

Item 3. Defaults upon Senior Securities. Inapplicable.

Item 4. Submission of Matters to a Vote of Security Holders. Inapplicable.

Item 5. Other Information. Inapplicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

3.1 Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.1 to Amendment No. 1 to Registration Statement No. 33-10351 on Form S-11 and incorporated herein by reference.)

3.2 Amended and Restated Agreement and Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

4.1 Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 4.1 to Amendment No. 1 to Registration Statement No. 33-10351 on Form S-11 and incorporated herein by reference.)

4.2 Amended and Restated Agreement and Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

10.1 Property Management Agreement (Included as Exhibit 10.1 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

10.2 Assignment of Property Management Agreement from CNL Investment Company to CNL Income Fund Advisors, Inc. (Included as Exhibit 10.2 to Form 10-K filed with the Securities and Exchange Commission on March 30, 1995, and incorporated herein by reference.)

10.3 Assignment of Property Management Agreement from CNL Income Fund Advisors, Inc. to CNL Fund Advisors, Inc. (Included as Exhibit 10.3 to Form 10-K filed with the Securities and Exchange Commission on April 1, 1996 and incorporated herein by reference.)

10.4 Assignment of Management Agreement from CNL Fund Advisors, Inc. to CNL APF Partners, LP. (Included as Exhibit 10.4 to Form 10-Q filed with the Securities and Exchange Commission on August 13, 2001, and incorporated herein be reference.)

10.5 Assignment of Management Agreement from CNL APF Partners, LP to CNL Restaurants XVIII, Inc. (Included as Exhibit 10.5 to Form 10-Q filed with the Securities and Exchange Commission on August 14, 2002, and incorporated herein by reference.)

31.1 Certification of Chief Executive Officer of Corporate General Partner Pursuant to Rule 13a-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

31.2 Certification of Chief Financial Officer of Corporate General Partner Pursuant to Rule 13a-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

32.1 Certification of Chief Executive Officer of Corporate General Partner Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

32.2 Certification of Chief Financial Officer of Corporate General Partner Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED this 9th day of August 2004.

CNL INCOME FUND II, LTD.

By: CNL REALTY CORPORATION
General Partner

By: /s/ James M. Seneff, Jr.

JAMES M. SENEFF, JR.
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Robert A. Bourne

ROBERT A. BOURNE
President and Treasurer
(Principal Financial and
Accounting Officer)

EXHIBIT INDEX

Exhibit Number

(c) Exhibits

3.1 Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.1 to Amendment No. 1 to Registration Statement No. 33-10351 on Form S-11 and incorporated herein by reference.)

3.2 Amended and Restated Agreement and Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

4.1 Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 4.1 to Amendment No. 1 to Registration Statement No. 33-10351 on Form S-11 and incorporated herein by reference.)

4.2 Amended and Restated Agreement and Certificate of Limited Partnership of CNL Income Fund II, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

10.1 Property Management Agreement (Included as Exhibit 10.1 to Form 10-K filed with the Securities and Exchange Commission on April 2, 1993, and incorporated herein by reference.)

10.2 Assignment of Property Management Agreement from CNL Investment Company to CNL Income Fund Advisors, Inc. (Included as Exhibit 10.2 to Form 10-K filed with the Securities and Exchange Commission on March 30, 1995, and incorporated herein by reference.)

10.3 Assignment of Property Management Agreement from CNL Income Fund Advisors, Inc. to CNL Fund Advisors, Inc. (Included as Exhibit 10.3 to Form 10-K filed with the Securities and Exchange Commission on April 1, 1996 and incorporated herein by reference.)

10.4 Assignment of Management Agreement from CNL Fund Advisors, Inc. to CNL APF Partners, LP. (Included as Exhibit 10.4 to Form 10-Q filed with the Securities and Exchange Commission on August 13, 2001, and incorporated herein be reference.)

10.5 Assignment of Management Agreement from CNL APF Partners, LP to CNL Restaurants XVIII, Inc. (Included as Exhibit 10.5 to Form 10-Q filed with the Securities and Exchange Commission on August 14, 2002, and incorporated herein by reference.)

31.1 Certification of Chief Executive Officer of Corporate General Partner Pursuant to Rule 13a-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of

2002. (Filed herewith.)

31.2 Certification of Chief Financial Officer of Corporate General Partner Pursuant to Rule 13a-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

32.1 Certification of Chief Executive Officer of Corporate General Partner Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

32.2 Certification of Chief Financial Officer of Corporate General Partner Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
OF CORPORATE GENERAL PARTNER

PURSUANT TO RULE 13a-14 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James M. Seneff, Jr., the Chief Executive Officer of CNL Realty Corporation, the corporate general partner of CNL Income Fund II, Ltd. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ James M. Seneff, Jr.

James M. Seneff, Jr.
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF CORPORATE GENERAL PARTNER

PURSUANT TO RULE 13a-14 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert A. Bourne, the President and Treasurer of CNL Realty Corporation, the corporate general partner of CNL Income Fund II, Ltd. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ Robert A. Bourne

Robert A. Bourne
President and Treasurer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
OF CORPORATE GENERAL PARTNER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, James M. Seneff, Jr., the Chief Executive Officer of CNL Realty Corporation, the corporate general partner of CNL Income Fund II, Ltd. (the "Partnership"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Partnership's Quarterly Report on Form 10-Q for the period ending June 30, 2004 (the "Report"). The undersigned hereby certifies that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 9, 2004

/s/ James M. Seneff, Jr.

Name: James M. Seneff, Jr.
Title: Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to CNL Income Fund II, Ltd. and will be retained by CNL Income Fund II, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF CORPORATE GENERAL PARTNER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Robert A. Bourne, the President and Treasurer of CNL Realty Corporation, the corporate general partner of CNL Income Fund II, Ltd. (the "Partnership"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Partnership's Quarterly Report on Form 10-Q for the period ending June 30, 2004 (the "Report"). The undersigned hereby certifies that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 9, 2004

/s/ Robert A. Bourne

Name: Robert A. Bourne
Title: President and Treasurer

A signed original of this written statement required by Section 906 has been provided to CNL Income Fund II, Ltd. and will be retained by CNL Income Fund II, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.