FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
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FILER

CNL INCOME FUND LTD
CIK:**788338**| IRS No.: **592666264** | State of Incorp.:**FL** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-15666** | Film No.: **04967918**
SIC: **6500** Real estate

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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
0-15666

CNL Income Fund, Ltd.

(Exact name of registrant as specified in its charter)

Florida	59-2666264
(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, LTD.
(A Florida Limited Partnership)
CONDENSED BALANCE SHEETS

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	June 30, 2004	December 31, 2003
ASSETS		
Real estate properties with operating leases, net	$ 3,775,007	$ 3,835,891
Real estate held for sale	--	434,050
Investment in joint ventures	418,006	430,221
Cash and cash equivalents	652,309	325,603
Receivables, less allowance for doubtful accounts of $5,340 in 2004	4,356	24,353
Accrued rental income	35,135	29,034
Other assets	8,896	3,552
	$ 4,893,709	$ 5,082,704
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable and accrued expenses	$ 13,972	$ 2,652
Real estate taxes payable	8,835	3,700
Distributions payable	157,040	157,040
Due to related parties	205,308	173,369
Rents paid in advance and deposits	30,125	40,125
Total liabilities	415,280	376,886
Partners' capital	4,478,429	4,705,818
	$ 4,893,709	$ 5,082,704

</TABLE>

See accompanying notes to condensed financial statements.

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

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	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	$ 109,882	$ 123,359	$ 218,874	$ 247,105
Contingent rental income	1,362	387	6,115	2,486
Interest and other income	29	--	64	226
	111,273	123,746	225,053	249,817
Expenses:				
General operating and administrative	41,161	31,086	83,306	69,568
Property related	8,740	789	9,185	1,667
State and other taxes	--	--	5,412	7,599
Depreciation and amortization	40,891	27,492	64,287	54,984
	90,792	59,367	162,190	133,818
Income before equity in earnings of unconsolidated joint ventures	20,481	64,379	62,863	115,999
Equity in earnings of unconsolidated joint ventures	11,943	12,071	23,828	24,182
Income from continuing operations	32,424	76,450	86,691	140,181
Discontinued operations:				
Income from discontinued operations	--	10,681	--	23,609
Loss on disposal of discontinued operations	--	--	--	(1,392)
	--	10,681	--	22,217
Net income	$ 32,424	$ 87,131	$ 86,691	$ 162,398
Income per limited partner unit:				
Continuing operations	$ 1.08	$ 2.55	$ 2.89	$ 4.67
Discontinued operations	--	0.35	--	0.74
	$ 1.08	$ 2.90	$ 2.89	$ 5.41
Weighted average number of limited partner units outstanding	30,000	30,000	30,000	30,000

</TABLE>

See accompanying notes to condensed financial statements.

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

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	Six Months Ended June 30, 2004	Year Ended December 31, 2003
General partners:		
Beginning balance	$ 340,768	$ 340,768
Net income	--	--
	340,768	340,768
Limited partners:		
Beginning balance	4,365,050	4,905,695
Net income	86,691	337,515
Distributions ($10.47 and $29.27 per		

limited partner unit, respectively)	(314,080)	(878,160)
	4,137,661	4,365,050
Total partners' capital	$ 4,478,429	$ 4,705,818

</TABLE>

See accompanying notes to condensed financial statements.

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

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	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net cash provided by operating activities	$ 193,236	$ 235,341
Cash flows from investing activities:		
Proceeds from sale of assets	447,550	297,887
Net cash provided by investing activities	447,550	297,887
Cash flows from financing activities:		
Distributions to limited partners	(314,080)	(568,383)
Net cash used in financing activities	(314,080)	(568,383)
Net increase (decrease) in cash and cash equivalents	326,706	(35,155)
Cash and cash equivalents at beginning of period	325,603	419,385
Cash and cash equivalents at end of period	$ 652,309	$ 384,230
Supplemental schedule of non-cash investing and financing activities:		
Deferred real estate disposition fee incurred and unpaid at end of period	$ 13,500	$ 9,000
Distributions declared and unpaid at end of period	$ 157,040	$ 157,040

</TABLE>

See accompanying notes to condensed financial statements.

CNL INCOME FUND, 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, 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, partners' 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. Discontinued Operations

During 2002, the Partnership identified for sale one property that was classified as discontinued operations in the accompanying financial statements. In January 2003, the Partnership sold the property in Angleton, Texas resulting in a loss on disposal of discontinued operations of approximately $1,400 during the six months ended June 30, 2003. The Partnership had recorded a provision for write-down of assets in a previous year related to this property. During 2003, the Partnership identified two additional Properties for sale. In February 2004, the Partnership sold the property in Oklahoma City, Oklahoma. Because the Partnership recorded a provision for write-down of assets in the previous year relating to this property, no gain or loss was recognized on the sale. In June 2004, the contract for the sale of the property in Camp Hill, Pennsylvania was terminated, and as a result, the Partnership reclassified the assets from real estate held for sale to real estate properties with operating leases. The Partnership recorded $13,275 of depreciation expense during the quarter and six months ended June 30, 2004 related to the period of time that the asset was classified as real estate held for sale.

3. Discontinued Operations - Continued

The operating results of the discontinued operations for the properties in Angleton, Texas and Oklahoma City, Oklahoma are as follows:

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	Quarter Ended June 30,	Six Months Ended June 30,

	2004	2003	2004	2003
Rental revenues	$ --	$ 14,161	$ --	$ 30,569
Expenses	--	(3,480)	--	(6,960)
Income from discontinued operations	$ --	$ 10,681	$ --	$ 23,609

</TABLE>

4. Concentration of Credit Risk

The following schedule presents total rental revenues from individual lessees, each representing more than 10% of the Partnership's total rental revenues (including the Partnership's share of total rental revenues from the joint venture and the property held as tenants-in-common with affiliates of the general partners) for each of the six months ended June 30:

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	2004	2003
AJZ, Inc.	$ 42,387	$ 42,387
Wendy's Old Fashioned Hamburgers of New York, Inc.	41,056	41,056
Wen-Atlanta, Inc.	40,267	40,267
Darrin Cobb	28,180	N/A
The Ground Round, Inc.	25,643	44,261

</TABLE>

In addition, the following schedule presents total rental revenues from individual restaurant chains, each representing more than 10% of the Partnership's total rental revenues (including the Partnership's share of total rental revenues from the joint venture and the property held as tenants-in-common with affiliates of the general partners) for each of the six months ended June 30:

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	2004	2003
Wendy's Old Fashioned Hamburger Restaurants	$ 97,723	$ 138,531
A.J. Gators Restaurant	42,387	42,387
D.C. Sportsbar and Steakhouse Restaurant	28,180	N/A
Ground Round	25,643	44,261

</TABLE>

4. Concentration of Credit Risk - Continued

The information denoted by N/A indicates that for each period presented, the tenant or chain did not represent more than 10% of the Partnership's total rental revenues.

Although the properties have some geographic diversity in the United States and the lessees operate a variety of restaurant concepts, default by any lessee or restaurant chain contributing more than 10% of the Partnership's revenues will significantly impact the results of operations if the Partnership is not able to re-lease the properties in a timely manner.

In February 2004, American Hospitality Concepts, Inc., the parent company of The Ground Round, Inc., filed for Chapter 11 bankruptcy protection, and rejected the lease relating to the property it leased from the Partnership. The Partnership will not recognize any rental income from the vacant property until a new tenant for the property is located, or until the property is sold.

5. Related Party Transactions

An affiliate of the Partnership is entitled to receive a deferred, subordinated real estate disposition fee, payable upon the sale of one or more properties based on the lesser of one-half of a competitive real estate commission or three percent of the sales price if the affiliate provides a substantial amount of services in connection with the sale. However, if the net sales proceeds are reinvested in a replacement property, no such real estate disposition fees will be incurred until such replacement property is sold and the net sales proceeds are distributed. The payment of the real estate disposition fee is subordinated to receipt by the limited partners of their aggregate 10% preferred return, plus their adjusted capital contributions. During the six months ended June 30, 2004 and 2003, the Partnership incurred deferred, subordinated real estate disposition fees of $13,500 and $9,000, respectively, as a result of the sale of one property during each period.

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 $5.54 million, consisting of approximately $4.63 million in cash and approximately $0.91 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 $243,000 consisting of approximately $203,000 in cash and approximately $40,000 in preferred stock.

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

CNL Income Fund, Ltd. (the "Partnership," which may be referred to as "we," "us," or "our") is a Florida limited partnership that was organized on November 26, 1985 to acquire for cash, either directly or through joint venture and tenancy in common 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. As of June 30, 2003 and 2004, we owned nine and eight Properties directly, respectively, one Property indirectly through a joint venture arrangement and one Property indirectly through a tenancy in common arrangement.

Capital Resources

For the six months ended June 30, 2004 and 2003, net cash provided by operating activities was $193,236 and $235,341, respectively. The decrease in cash from operating activities during the six months ended June 30, 2004, as compared to the previous year, was a result of changes in income and expenses, such as changes in rental revenues resulting from the sales of Properties and changes in operating and property related expenses.

During the six months ended June 30, 2004, we sold the Property in Oklahoma City, Oklahoma to the tenant and received net sales proceeds of approximately $447,600. Because we recorded a provision for write-down of assets in the previous year relating to this Property, no gain or loss was recognized on the sale. In connection with the sale, we incurred a deferred, subordinated disposition fee of $13,500. Payment of the real estate disposition fee is subordinated to the receipt by the limited partners of their aggregate, cumulative 10% Preferred Return, plus their adjusted capital contributions. The general partners intend to distribute the net sales proceeds to the limited partners or use the proceeds to meet working capital needs.

At June 30, 2004, we had $652,309 in cash and cash equivalents, as compared to $325,603 at December 31, 2003. At June 30, 2004, these funds were held in a demand deposit account at a commercial bank. The increase at June 30, 2004 was primarily the result of holding the net sales proceeds received from the sale of the Property in Oklahoma City, Oklahoma. The funds remaining at June 30, 2004, after 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 continue to generate 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 or loans 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 the general partners determine that such funds are available for distribution. Based on current cash from operations and net proceeds from the sale of a Property in 2003, we declared distributions to limited partners of $314,080 and $564,080 for the six months ended June 30, 2004 and 2003, respectively, ($157,040 for each of the quarters ended June 30, 2004 and 2003). This represents distributions of $10.47 and $18.80 per unit for the six months ended June 30, 2004 and 2003, respectively, ($5.23 per unit for each applicable quarter). The distribution for the six months ended June 30, 2003, included $250,000 of net sales proceeds from the 2003 sale of the Property in Angleton, Texas. The special distribution in 2003 was effectively a return of a portion of the limited partners' investment, although in accordance with the Partnership agreement, it was applied to the limited partners' unpaid cumulative 10% Preferred Return. As a result of the sales of the Properties in previous

years and the current year, our total revenues have declined and are expected to remain reduced in subsequent periods, while the majority of our operating expenses remained and are expected to remain fixed. Due to these sales and to current and anticipated future cash from operations, distributions of net cash flow were adjusted commencing during the quarter ended March 31, 2003. No distributions were made to the general partners for the six months ended June 30, 2004 and 2003. We intend to continue to make distributions of cash to the limited partners on a quarterly basis.

Total liabilities, including distributions payable, were $415,280 at June 30, 2004, as compared to $376,886 at December 31, 2003. The increase was primarily due to an increase in accounts payable and accrued expenses and amounts due to related parties. The increase was partially offset by a decrease in rents paid in advance and deposits. 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 $218,874 during the six months ended June 30, 2004, as compared to $247,105 during the same period of 2003, $109,882 and $123,359 of which were earned during the second quarters of 2004 and 2003, respectively. The decrease in rental revenues from continuing operations was a result of the fact that in February 2004, American Hospitality Concepts, Inc., the parent company of The Ground Round, Inc., filed for Chapter 11 bankruptcy protection. As a result, we stopped recording rental revenues relating to the one lease The Ground Round, Inc. had with us. In April 2004, the tenant rejected the lease. The lost revenues will continue to have an adverse effect on the results of our operations if we are not able to re-lease or sell the Property in a timely manner.

We earned $6,115 in contingent rental income for the six months ended June 30, 2004, as compared to $2,486 for the same period of 2003, $1,362 and $387 of which were earned during the quarters ended June 30, 2004 and 2003, respectively. The increase in contingent rental income during 2004 was due to an increase in gross sales of certain restaurant Properties, the leases of which require the payment of contingent rent.

We earned $23,828 attributable to net income earned by unconsolidated joint ventures during the six months ended June 30, 2004, as compared to $24,182 during the same period of 2003, $11,943 and $12,071 of which were earned during the quarters ended June 30, 2004 and 2003, respectively. Net income earned by unconsolidated joint ventures during 2004, as compared to the same period of 2003, remained relatively constant, as the leased property portfolio did not change.

In October 2003, Chevy's, Inc., the tenant of the Property in Vancouver, Washington, which we own as tenants-in-common with affiliates of the general partners, filed for Chapter 11 bankruptcy protection. We own a 12.17% interest in this Property. While the tenant has neither rejected nor affirmed the one lease it has with us, there can be no assurance that the lease will not be rejected in the future. The lost revenues that would result if the tenant were to reject this lease will have an adverse effect on the equity in earnings of unconsolidated joint ventures if the tenancy in common is not able to re-lease the Property in a timely manner.

During the six months ended June 30, 2004, five of our lessees, AJZ, Inc., Wendy's Old Fashioned Hamburgers of New York, Inc., Wen-Atlanta, Inc., Darrin Cobb, and The Ground Round, Inc. each contributed more than 10% of our total rental revenues (including our share of total rental revenues from the Property owned by a joint venture and a Property owned with affiliates of the general partners as tenants-in-common). In February 2004, the parent company of The Ground Round, Inc. filed for bankruptcy, as described above. We anticipate that based on the minimum rental payments required by the leases, four of these lessees will each continue to contribute more than 10% of our total rental revenues. In addition, during the six months ended June 30, 2004, four restaurant chains, Wendy's Old Fashioned Hamburger Restaurants, A.J. Gators Restaurant, D.C. Sportsbar and Steakhouse Restaurant and Ground Round, each accounted for more than 10% of our total rental revenues (including our share of total rental revenues from the Property owned by a joint venture and a Property owned with affiliates as tenants-in-common). We anticipate that three of these restaurant chains will each continue to account for more than 10% of the total rental revenues to which we are entitled under the terms of the leases. Any failure of these lessees or restaurant chains 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 $162,190 during the six months ended June 30, 2004, as compared to $133,818 during the same period of 2003, $90,792 and $59,367 of which were incurred during the quarters ended June 30, 2004 and 2003, respectively. The increase in operating expenses during the quarter and six months ended June 30, 2004, was primarily the result of incurring additional general operating and administrative expenses, including legal fees. In June 2004, the contract for the sale of our Property in Camp Hill, Pennsylvania was terminated. Therefore, the increase in operating expenses during 2004 was also attributable to an increase in depreciation expense of $10,325 and $5,900 during the quarter and six months ended June 30, 2004, respectively, related to this Property as a result of the reclassification of the related assets from real estate held for sale to real estate properties with operating leases, and property related expenses such as insurance, repairs and maintenance, legal fees and real estate taxes relating to this vacant Property, as described above. We will continue to incur these expenses until we are able to re-lease or sell the Property.

We recognized income from discontinued operations (rental revenues less property related expenses) of $10,681 and $23,609, respectively, during the quarter and six months ended June 30, 2003, relating to the Properties in Angleton, Texas and Oklahoma City, Oklahoma. We sold the Property in Angleton, Texas in January 2003 and recognized a loss on disposal of discontinued operations of approximately $1,400. We sold the Property in Oklahoma City, Oklahoma in February 2004. Because we had recorded a provision for write-down of assets in 2003, no gain or loss was recognized on the disposal of discontinued operations.

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, partners' 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 $5.54 million, consisting of approximately $4.63 million in cash and approximately $0.91 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 $243,000 consisting of approximately $203,000 in cash and approximately $40,000 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, Ltd., as amended. (Included as Exhibit 3.1 to Amendment No. 1 to Registration Statement No. 33-2850 on Form S-11 and incorporated herein by reference.)

3.2 Amended and Restated Certificate and Agreement of Limited Partnership of CNL Income Fund, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, and incorporated herein by reference.)

4.1 Certificate of Limited Partnership of CNL Income Fund, Ltd., as amended. (Included as Exhibit 4.1 to Amendment No. 1 to Registration Statement No. 33-2850 on Form S-11 and incorporated herein by reference.)

4.2 Amended and Restated Certificate and Agreement of Limited Partnership of CNL Income Fund, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, and incorporated herein by reference.)

10.1 Property Management Agreement between CNL Income Fund, Ltd. and CNL Investment Company. (Included as Exhibit 10.1 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, 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 March 29, 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 9, 2001, and incorporated herein by 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 13, 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, 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, Ltd., as amended. (Included as Exhibit 3.1 to Amendment No. 1 to Registration Statement No. 33-2850 on Form S-11 and incorporated herein by reference.)

3.2 Amended and Restated Certificate and Agreement of Limited Partnership of CNL Income Fund, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, and incorporated herein by reference.)

4.1 Certificate of Limited Partnership of CNL Income Fund, Ltd., as amended. (Included as Exhibit 4.1 to Amendment No. 1 to Registration Statement No. 33-2850 on Form S-11 and incorporated herein by reference.)

4.2 Amended and Restated Certificate and Agreement of Limited Partnership of CNL Income Fund, Ltd. (Included as Exhibit 3.2 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, and incorporated herein by reference.)

10.1 Property Management Agreement between CNL Income Fund, Ltd. and CNL Investment Company. (Included as Exhibit 10.1 to Form 10-K filed with the Securities and Exchange Commission on March 27, 1998, 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 March 29, 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 11, 2001, and incorporated herein by 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 13, 2002, and incorporated herein 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, 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 I, 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, Ltd. and will be retained by CNL Income Fund, 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, 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, Ltd. and will be retained by CNL Income Fund, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.