

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-09** | Period of Report: **2004-06-30**
SEC Accession No. **0000922981-04-000016**

([HTML Version](#) on secdatabase.com)

FILER

CNL RESTAURANT PROPERTIES INC

CIK: **922981** | IRS No.: **593239115** | State of Incorpor.: **MD** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-78790** | Film No.: **04960792**
SIC: **6519** Lessors of real property, nec

Mailing Address
450 S ORANGE AVE
STE 500
ORLANDO FL 32801

Business Address
450 S ORANGE AVE
STE 500
ORLANDO FL 32801
4075402000

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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 001-15581

CNL Restaurant Properties, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

59-3239115
(I.R.S. Employer Identification No.)

450 South Orange Avenue
Orlando, Florida 32801
(Address of principal executive offices, including 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 Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No ___

45,248,670 shares of common stock, \$0.01 par value, outstanding as of August 9, 2004.

CONTENTS

Part I	Page

Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income/ (Loss)	5
Condensed Consolidated Statements of Cash Flows	6-7
Notes to Condensed Consolidated Financial Statements	8-15
Item 2. Management's Discussion and Analysis of Financial	

Item 3. Quantitative and Qualitative Disclosures About
Market Risk

34

Item 4. Controls and Procedures

34-35

Part II

Other Information

36-39

Item 1. Financial Statements

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except for share data)

<TABLE>
<CAPTION>
<s> <c>

	June 30, 2004	December 31, 2003
ASSETS		
Real estate investment properties	\$ 540,373	\$ 532,138
Net investment in direct financing leases	102,129	103,662
Real estate and restaurant assets held for sale	196,628	142,143
Mortgage loans held for sale	537	1,490
Mortgage, equipment and other notes receivable, net of allowance of \$6,780 and \$13,964, respectively	308,842	320,900
Other investments	29,340	29,671
Cash and cash equivalents	11,512	36,955
Restricted cash	8,842	12,462
Receivables, net of allowance for doubtful accounts of \$1,376 and \$872, respectively	3,222	3,382
Accrued rental income	27,394	25,836
Goodwill	56,260	56,260
Other assets	30,240	33,217
	\$ 1,315,319	\$ 1,298,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolver	\$ 7,500	\$ 2,000
Note payable	168,536	182,560
Mortgage warehouse facilities	153,178	93,513
Subordinated note payable	33,750	43,750
Bonds payable	416,684	430,011
Due to related parties	34,779	25,038
Other payables	25,393	34,096
Total liabilities	839,820	810,968
Minority interests, including redeemable partnership interest	6,558	7,262
Stockholders' equity:		
Preferred stock, without par value. Authorized and unissued 3,000,000 shares	--	--
Excess shares, \$0.01 par value per share. Authorized and unissued 78,000,000 shares	--	--
Common stock, \$0.01 par value per share. Authorized 62,500,000 shares, issued 45,286,297 shares, outstanding 45,248,670 shares	452	452
Capital in excess of par value	826,627	826,627
Accumulated other comprehensive loss	(10,960)	(14,447)
Accumulated distributions in excess of net earnings	(347,178)	(332,746)
Total stockholders' equity	468,941	479,886
	\$ 1,315,319	\$ 1,298,116

</TABLE>

See accompanying notes to condensed consolidated financial statements.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands except for share data and per share data)

	Quarter ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenues:				
Rental income from operating leases	\$ 14,323	\$ 15,415	\$ 28,892	\$ 30,342
Earned income from direct financing leases	2,566	2,525	5,190	5,229
Interest income from mortgage, equipment and other notes receivable	6,674	7,513	13,327	15,519
Investment and interest income	979	1,229	2,170	2,334
Other income	1,146	1,771	2,502	4,172
Net decrease in value of mortgage loans held for sale, net of related hedge	--	(203)	--	(2,251)
	-----	-----	-----	-----
	25,688	28,250	52,081	55,345
	-----	-----	-----	-----
Expenses:				
General operating and administrative	6,756	6,964	13,181	14,505
Interest expense	11,994	13,136	23,824	25,570
Property expenses, state and other taxes	93	208	242	475
Depreciation and amortization	2,954	3,103	5,770	6,289
Loss on termination of cash flow hedge	585	--	940	--
Impairments and provisions on assets	1,010	2,496	1,557	4,802
	-----	-----	-----	-----
	23,392	25,907	45,514	51,641
	-----	-----	-----	-----
Income from continuing operations before minority interest in income of consolidated joint ventures, equity in earnings of unconsolidated joint ventures and gain/(loss) on sale of assets	2,296	2,343	6,567	3,704
Minority interest in income of consolidated joint ventures	(1,296)	(545)	(1,957)	(1,413)
Equity in earnings of unconsolidated joint ventures	31	29	65	59
Gain/(loss) on sale of assets	--	--	6	(6)
	-----	-----	-----	-----
Income from continuing operations, net	1,031	1,827	4,681	2,344
Income from discontinued operations, net of income tax provision	8,189	8,764	15,388	16,265
	-----	-----	-----	-----
Net income	\$ 9,220	\$ 10,591	\$ 20,069	\$ 18,609
	=====	=====	=====	=====
Income per share of common stock (basic and diluted):				
From continuing operations	\$ 0.02	\$ 0.04	\$ 0.10	\$ 0.05
From discontinued operations	0.18	0.19	0.34	0.36
	-----	-----	-----	-----
Net income	\$ 0.20	\$ 0.23	\$ 0.44	\$ 0.41
	=====	=====	=====	=====
Weighted average number of shares of common stock outstanding	45,248,670	45,248,670	45,248,670	45,248,670
	=====	=====	=====	=====

</TABLE>
See accompanying notes to condensed consolidated financial statements.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME/ (LOSS)
Six months ended June 30, 2004 and year ended December 31, 2003
(In thousands except for share data and per share data)

<TABLE>

	Common stock Number of shares	Par value	Capital in excess of par value	Accumulated distributions in excess of net earnings	Accumulated other comprehensive loss	Total	Comprehensive Income
Balance at December 31, 2002	45,248,670	\$ 452	\$ 816,745	\$ (306,184)	\$ (16,862)	\$ 494,151	
Acquisition of minority interest	--	--	11,375	--	--	11,375	
Stock issuance costs	--	--	(1,493)	--	--	(1,493)	
Net income	--	--	--	42,440	--	42,440	\$ 42,440
Reclassification of market revaluation on available for sale securities to statement of income	--	--	--	--	(78)	(78)	(78)
Reclassification of cash flow hedge losses to statement of income	--	--	--	--	502	502	502
Current period adjustment to recognize change in fair value of cash flow hedges, net of \$1,750 in tax benefit	--	--	--	--	1,991	1,991	1,991
Total comprehensive income	--	--	--	--	--	--	\$ 44,855
Distributions declared and paid (\$1.52 per share)	--	--	--	(69,002)	--	(69,002)	
Balance at December 31, 2003	45,248,670	452	826,627	(332,746)	(14,447)	479,886	
Net income	--	--	--	20,069	--	20,069	\$ 20,069
Reclassification of cash flow hedge losses to statement of income	--	--	--	--	940	940	940
Current period adjustment to recognize change in fair value of cash flow hedges, net of \$2,036 in tax provision	--	--	--	--	2,547	2,547	2,547
Total comprehensive income	--	--	--	--	--	--	\$ 23,556
Distributions declared and paid (\$0.76 per share)	--	--	--	(34,501)	--	(34,501)	
Balance at June 30, 2004	45,248,670	\$ 452	\$ 826,627	\$ (347,178)	\$ (10,960)	\$ 468,941	

</TABLE>
See accompanying notes to condensed consolidated financial statements.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>
<s> <c>

Six months ended
June 30,
2004 2003

Cash flows from operating activities:

Net income	\$ 20,069	\$ 18,609
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	6,151	6,669
Amortization of deferred financing costs	2,685	2,321
Impairments and provisions on assets	2,261	7,978
Gain on sales of assets	(1,309)	(627)
Increase in income taxes payable	1,053	--
Investment in mortgage loans held for sale	--	(63)
Collection on mortgage loans held for sale	--	2,817
Changes in inventories of real estate held for sale	(72,672)	52,042
Changes in other operating assets and liabilities	(4,323)	(2,863)
	-----	-----
Net cash provided by/ (used in) operating activities	(46,085)	86,883
	-----	-----
Cash flows from investing activities:		
Additions to real estate investment properties	(12,081)	(287)
Proceeds from sale of assets	17,299	7,723
Decrease in restricted cash	3,620	266
Collection on mortgage, equipment and other notes receivable	12,284	9,774
	-----	-----
Net cash provided by investing activities	21,122	17,476
	-----	-----
Cash flows from financing activities:		
Payment of stock issuance costs	(1,493)	(1,493)
Proceeds from borrowing on revolver	24,000	19,892
Payment on revolver, note payable and subordinated note payable	(42,524)	(27,888)
Proceeds from borrowing on mortgage warehouse facilities	140,998	47,122
Payments on mortgage warehouse facilities	(81,333)	(93,803)
Proceeds from issuance of bonds	5,000	--
Retirement of bonds payable	(18,458)	(10,541)
Payment of bond issuance costs	(489)	(300)
Loans from stockholder	10,900	10,209
Distributions to minority interest	(1,822)	(1,284)
Distributions to stockholders	(35,259)	(34,501)
	-----	-----
Net cash used in financing activities	(480)	(92,587)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(25,443)	11,772
Cash and cash equivalents at beginning of period, as restated	36,955	16,579
	-----	-----
Cash and cash equivalents at end of period	\$ 11,512	\$ 28,351
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(In thousands)

<TABLE>

<CAPTION>

<s> <c>

	Six months ended June 30,	
	2004	2003
	-----	-----
Supplemental disclosures of cash flow information:		
Interest paid	\$ 22,268	\$ 24,427
	=====	=====
Interest capitalized	\$ 16	\$ 60
	=====	=====
Income taxes paid	\$ 2,180	\$ 3,960
	=====	=====
Supplemental disclosures of non-cash investing and financing activities:		
Redemption of minority interest in lieu of payment on accounts receivable	\$ 894	\$ 317
	=====	=====

Acquisition of minority interest	\$ --	\$ 11,375
	=====	=====
Foreclosure on mortgage notes receivable and acceptance of underlying real estate collateral	\$ 452	\$ --
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

1. Organization and Nature of Business:

Organization - CNL Restaurant Properties, Inc. ("the Company") formerly CNL American Properties Fund, Inc. was organized in Maryland in May of 1994, and is a self-administered real estate investment trust ("REIT"). The term "Company" includes, unless the context otherwise requires, CNL Restaurant Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include CNL Restaurant Investments, Inc. and CNL Restaurant Capital Corp. The Company's operations are divided into two business segments. The real estate segment, operated principally through CNL Restaurant Investments, Inc. ("CNL-Investments"), owns and manages a portfolio of primarily long-term triple-net lease properties. CNL-Investments provides portfolio management, property management and dispositions, and opportunistically acquires real estate investments for sale. In addition, CNL-Investments services approximately \$503 million in affiliate real estate portfolios and earns management fees related thereto. The specialty finance segment is operated through the Company's wholly-owned subsidiary CNL Restaurant Capital Corp. ("CNL-Capital"), a partnership with Bank of America, N.A. (the "Bank") and CNL/CAS Corp., an affiliate of the Company's Chairman. CNL-Capital offers real estate financing, advisory and other services to national and larger regional restaurant operators. It acquires restaurant real estate properties, which are subject to triple-net lease, utilizing short-term debt and generally sells the properties at a profit.

Effective January 1, 2004, the Bank redeemed a portion of its ownership interest in CNL-Capital in lieu of payment of referral fees to the Company. As a result, the Company's ownership interest in CNL-Capital increased from 96.26 percent to 96.97 percent.

2. Basis of Presentation:

The accompanying unaudited condensed consolidated 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, in the opinion of management, are necessary to 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 the Company's Form 10-K for the year ended December 31, 2003. Certain items in the prior year's financial statements have been reclassified to conform with the 2004 presentation. These reclassifications had no effect on stockholders' equity or net income.

3. Real estate investment properties:

During the six months ended June 30, 2004 and 2003, the Company recorded provisions for impairment of \$0.7 million and \$1.8 million, respectively. The tenants of these properties experienced financial difficulties and/or ceased payments of rents under the terms of their lease agreements. The provisions represent the amount necessary to reduce the carrying value to the estimated fair value of the properties.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Real estate and restaurant assets held for sale:

Real estate and restaurant assets held for sale consists of the following:

	(In thousands)	
	June 30, 2004	December 31, 2003
Land and buildings	\$ 195,365	\$ 140,530
Restaurant assets	1,263	1,613
	\$ 196,628	\$ 142,143

CNL-Capital actively acquires real estate assets subject to leases with the intent to sell. In accordance with Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the properties' operating results and the gains or losses resulting from the disposition of properties are recorded as discontinued operations.

In addition to its business of investing in new restaurant properties subject to triple-net leases, CNL-Investments will divest properties from time to time when it is strategic to the Company's longer-term goals. When CNL-Investments establishes its intent to sell a property, all operating results relating to the properties and the ultimate gain or loss on disposition of the properties are treated as discontinued operations for all periods presented. During 2002, the Company purchased the operations of certain restaurants. In December 2003, the Company decided to dispose of these restaurant operations. As a result, all operating results relating to these restaurant operations are recorded as discontinued operations.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

4. Real estate and restaurant assets held for sale - Continued:

Operating results of discontinued operations are as follows:

<TABLE>
<CAPTION>
<s> <c>

	(In thousands)			
	Quarters ended June 30, 2004	2003	Six months ended June 30, 2004	2003
Rental income	\$ 2,747	\$ 3,347	\$ 5,395	\$ 7,457
Food and beverage income	3,739	3,513	7,557	6,933
Food and beverage expenses	(3,717)	(3,415)	(7,725)	(6,736)
Other property related expenses	(91)	(430)	(334)	(1,075)
Interest expense	(774)	(483)	(1,491)	(1,220)
Impairment and provisions on assets	(705)	(1,072)	(705)	(3,176)
Earnings from discontinued operations	1,199	1,460	2,697	2,183
Sales of real estate	75,566	59,524	127,742	115,857
Cost of real estate sold	(66,577)	(52,220)	(111,818)	(101,775)
Gain on disposal of discontinued operations	8,989	7,304	15,924	14,082
Income tax provision	(1,999)	--	(3,233)	--
Income from discontinued operations, net	\$ 8,189	\$ 8,764	\$ 15,388	\$ 16,265

</TABLE>

5. Borrowings:

In January 2004, the Company amended its subordinated note payable agreement with the Bank, made a \$10 million prepayment, reduced the balance to \$33.75 million, reduced the interest rate from 8.50 percent to 7.00 percent per annum and reduced the Bank's ownership from the conversion feature in CNL-Capital from 13.1 percent to 10.11 percent. In addition, the Company agreed to make a mandatory prepayment of \$11.88 million prior to or on December 31, 2004. The subordinated note will amortize over five years with a balloon payment due on December 31, 2008.

As of December 31, 2003, the Company, through CNL-Capital maintained a \$100 million and a \$160 million mortgage warehouse facility. In March 2004, the \$160 million mortgage warehouse facility was renewed with similar terms until March 2005. Under this facility the Bank finances property acquisitions at an advance rate of up to 97% of the real estate purchase value. In May 2004, the \$100 million warehouse facility was renewed until June 2005. The amended agreement increased the facility advance rate for real estate acquisitions from 90 percent to 92 percent of the real estate purchase value. Advances under this mortgage warehouse facility continue to bear interest at the rate of LIBOR plus a 0.90 percent price differential.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Quarters and six months ended June 30, 2004 and 2003

5. Borrowings- Continued:

In May 2004, the Company issued an additional \$5 million note from its Series 2003 offering that had closed in December 2003. The note is collateralized by a pool of mortgage notes, bears interest at LIBOR plus 600 basis points and matures in 2011.

6. Related Party Transactions:

During the six months ended June 30, 2004, CNL Financial Group, Inc., an affiliate, advanced an aggregate of approximately \$10.9 million to the Company in the form of demand balloon promissory notes. The notes are uncollateralized, bear interest at LIBOR plus 2.5 percent with interest payments and outstanding principal due upon demand. At June 30, 2004, \$34.9 million in total demand loans, including accrued interest, are outstanding and included in the due to related parties caption on the condensed consolidated balance sheet.

7. Segment Information:

The following tables summarize the operating results for the Company's two lines of business. Consolidating eliminations and other results of the parent of CNL-Investments and CNL-Capital are reflected in the "other" column.

<TABLE>
<CAPTION>
<s> <c>

Quarter ended June 30, 2004
(In thousands)

	CNL- Investments	CNL-Capital	Other	Consolidated Totals
Revenues	\$ 19,462	\$ 6,888	\$ (662)	\$ 25,688
General operating and administrative	2,198	5,023	(465)	6,756
Interest expense	7,187	4,727	80	11,994
Property expenses, state and other taxes	93	--	--	93
Depreciation and amortization	2,714	240	--	2,954
Loss on termination of cash flow hedge	--	585	--	585
Impairments and provisions on assets	925	85	--	1,010
Minority interest net of equity in earnings	23	1,242	--	1,265
	13,140	11,902	(385)	24,657
Discontinued operations:				
Income/(loss) from discontinued operations, net of income tax	(2)	8,191	--	8,189

Net income	\$ 6,320	\$ 3,177	\$ (277)	\$ 9,220
------------	----------	----------	-----------	----------

</TABLE>

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

7. Segment Information - Continued:

	Quarter ended June 30, 2003 (In thousands)			
	CNL- Investments	CNL-Capital	Other	Consolidated Totals
Revenues	\$ 21,199	\$ 7,753	\$ (702)	\$ 28,250
General operating and administrative	2,516	4,955	(507)	6,964
Interest expense	6,928	6,429	(221)	13,136
Property expenses, state and other taxes	230	(22)	--	208
Depreciation and amortization	2,927	176	--	3,103
Impairments and provisions on assets	--	2,496	--	2,496
Minority interest net of equity in earnings	28	488	--	516
	12,629	14,522	(728)	26,423
Discontinued operations:				
Income from discontinued operations, net of income tax	274	8,490	--	8,764
Net income	\$ 8,844	\$ 1,721	\$ 26	\$ 10,591

</TABLE>

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

7. Segment Information - Continued:

	Six months ended June 30, 2004 (In thousands)			
	CNL- Investments	CNL-Capital	Other	Consolidated Totals
Revenues	\$ 39,567	\$ 13,928	\$ (1,414)	\$ 52,081
General operating and administrative	4,374	9,848	(1,041)	13,181
Interest expense	14,363	9,410	51	23,824
Property expenses, state and other taxes	242	--	--	242
Depreciation and amortization	5,399	371	--	5,770
Loss on termination of cash flow hedge	--	940	--	940
Impairments and provisions on assets	1,199	358	--	1,557
Minority interest net of equity in earnings	30	1,862	--	1,892

Gain on sale of assets	(6)	--	--	(6)
	25,601	22,789	(990)	47,400
Discontinued operations: Income from discontinued operations, net of income tax	1,388	14,000	--	15,388
Net income	\$ 15,354	\$ 5,139	\$ (424)	\$ 20,069
Assets at June 30, 2004	\$ 805,256	\$ 516,002	\$ (5,939)	\$ 1,315,319
Investments accounted for under the equity method at June 30, 2004	\$ 1,017	\$ --	--	\$ 1,017

</TABLE>

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

7. Segment Information - Continued:

	Six months ended June 30, 2003 (In thousands)			
	CNL- Investments	CNL-Capital	Other	Consolidated Totals
Revenues	\$ 42,492	\$ 14,425	\$ (1,572)	\$ 55,345
General operating and administrative	5,912	9,775	(1,182)	14,505
Interest expense	13,854	12,086	(370)	25,570
Property expenses, state and other taxes	487	(12)	--	475
Depreciation and amortization	5,804	485	--	6,289
Impairments and provisions on assets	1,758	3,044	--	4,802
Minority interest net of equity in earnings	55	1,299	--	1,354
Loss on sale of assets	2	4	--	6
	27,872	26,681	(1,552)	53,001
Discontinued operations: Income/(loss) from discontinued operations, net of income tax	(116)	16,381	--	16,265
Net income	\$ 14,504	\$ 4,125	\$ (20)	\$ 18,609
Assets at June 30, 2003	\$ 812,771	\$ 502,675	\$ (3,905)	\$ 1,311,541
Investments accounted for under the equity method at June 30, 2003	\$ 1,107	\$ --	\$ --	\$ 1,107

</TABLE>

8. Income Tax:

The Company elected to be taxed as a REIT under the Internal Revenue Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a current requirement that it distribute at least 90 percent of its taxable income to its stockholders. As a REIT, the Company generally is not subject to corporate level federal income tax on net income it distributes to its stockholders, except for taxes applicable to its taxable REIT subsidiaries ("TRSs").

The Company has two TRSs for income tax purposes, in which activities of

CNL-Capital and select activities of CNL-Investments are conducted. The CNL-Capital TRS recorded a current income tax provision of \$2.0 million and \$3.2 million during the quarter and six months ended June 30, 2004, respectively, all of which was allocated to discontinued operations. The effective tax rate used by CNL-Capital approximated the statutory rate. No income tax provision was recorded during the quarter and six months ended June 30, 2003 as a result of recognition of deferred tax assets previously subject to valuation allowances.

CNL RESTAURANT PROPERTIES, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and six months ended June 30, 2004 and 2003

8. Income Tax: - Continued:

As of June 30, 2004, the CNL-Investments TRS had a deferred tax asset of \$0.8 million. This TRS has not yet generated any taxable income. Therefore, CNL-Investments has established a valuation allowance to completely offset the deferred tax asset.

9. Subsequent Event

On August 9, 2004, the Company announced that it had entered into a definitive Agreement and Plan of Merger with U.S. Restaurant Properties, Inc. ("USRP"), a publicly traded real estate investment trust, which owns or finances 789 freestanding, net lease properties located in 48 states (the "Merger"). In the Merger, each share of Company common stock will be converted into 0.7742 shares of USRP common stock and 0.16 newly issued shares of USRP's 7.5% Series C Redeemable Convertible Preferred Stock (\$25 liquidation preference). The exchange ratio is not subject to change and there is no "collar" or minimum trading price for the shares of the Company's common stock or USRP's common stock. The Merger is structured to be tax-free to the stockholders of the Company and USRP.

The Merger is subject to certain conditions including approval by a majority of the stockholders of the Company and USRP, and the consummation of a minimum number of mergers between USRP and 18 affiliated limited partnerships representing at least 75% of the aggregate purchase price for all of the limited partnerships. The general partners of the 18 affiliated limited partnerships are directors of the Company. The transaction is expected to be consummated in the first quarter of 2005, but there can be no assurance that the merger will be consummated by such time or at all.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information, including, without limitation, the Quantitative and Qualitative Disclosures About Market Risk that are not historical facts, may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements generally are characterized by the use of terms such as "believe," "expect" and "may." Although the Company (as defined below) believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. Factors that might cause such a difference include: changes in general economic conditions, changes in real estate conditions, availability of capital from borrowings under the Company's credit facilities, the availability of other debt and equity financing alternatives, changes in interest rates under the Company's current credit facilities and under any additional variable rate debt arrangements that the Company may enter into in the future, the ability of the Company to refinance amounts outstanding under its credit facilities at maturity on terms favorable to the Company, the ability of the Company to locate suitable tenants for its restaurant properties and borrowers for its mortgage loans, the ability of tenants and borrowers to make payments under their respective leases, secured equipment leases or mortgage loans, the ability of the Company to re-lease properties that are currently vacant or that may become vacant and the ability of the Company to sell mortgage loans or net lease properties on a favorable and timely basis. Given these uncertainties, readers are cautioned not to place undue reliance on such statements.

Organization and Business

CNL Restaurant Properties, Inc. (the "Company"), formerly CNL American Properties Fund, Inc., is the nation's largest self-advised real estate investment trust ("REIT") focused on the restaurant industry. The Company has two primary subsidiary operating companies, CNL Restaurant Investments, Inc. and CNL Restaurant Capital Corp. The Company was founded in 1994 and at June 30, 2004, had financial interests in approximately 1,000 properties diversified among more than 116 restaurant concepts in 43 states. The Company's total real estate holdings subject to lease (including properties classified as held for sale) include over 668 properties. At June 30, 2004, the servicing portfolio of net lease properties and mortgages consists of approximately 2,100 units, of which over 1,100 are serviced on behalf of third parties.

The Company operates two business segments - real estate and specialty finance

- o The real estate segment ("CNL-Investments"), operated through the Company's wholly-owned subsidiary CNL Restaurant Investments, Inc., manages a portfolio of primarily long-term triple-net lease properties. CNL-Investments provides portfolio management, property management and dispositions, and opportunistically acquires real estate investments for sale. In addition, CNL-Investments services approximately \$503 million in affiliate real estate portfolios and earns management fees related thereto. Revenues from CNL-Investments represented approximately 76 percent and 77 percent of the Company's total revenues for the six months ended June 30, 2004 and 2003, respectively.
- o The specialty finance segment consists of CNL Restaurant Capital, LP ("CNL-Capital"), which is operated through a partnership with the Company's wholly-owned subsidiary CNL Restaurant Capital Corp., CNL/CAS Corp., an affiliate of the Company's Chairman, and Bank of America ("the Bank"). CNL-Capital offers real estate financing, advisory and other services to national and larger regional restaurant operators. It does this primarily by acquiring restaurant real estate properties, which are subject to a triple-net lease, utilizing short-term debt and generally selling such properties at a profit. Revenues from CNL-Capital represented approximately 24 percent and 23 percent of the Company's total revenues for the six months ended June 30, 2004 and 2003, respectively.

When the Company was created in 1994, the intent was to provide stockholders with liquidity by December 31, 2005 through either listing on a national exchange, merging with another public company or liquidating its assets. In furtherance of this goal, on August 9, 2004, the Company announced that it had entered into a definitive Agreement and Plan of Merger with U.S. Restaurant Properties, Inc. ("USRP"), a publicly traded real estate investment trust, which owns 789 freestanding, net lease properties located in 48 states (the "Merger"). In the Merger, each share of Company common stock will be converted into 0.7742 shares of USRP common stock and 0.16 newly issued shares of USRP's 7.5% Series C Redeemable Convertible Preferred Stock (\$25 liquidation preference). The exchange ratio is not subject to change and there is no "collar" or minimum trading price for the shares of the Company's common stock or USRP's common stock. The Merger is expected to be tax-free to the stockholders of the Company and USRP.

The Merger is subject to certain conditions including approval by a majority of the stockholders of the Company and USRP, and the consummation of a minimum number of mergers between USRP and 18 affiliated limited partnerships representing at least 75% of the aggregate purchase price for all of the limited partnerships. The general partners of the 18 affiliated limited partnership are directors of the Company. The transaction is expected to be consummated in the first quarter of 2005, but there can be no assurance that the merger will be consummated by such time or at all.

The Company has received opinions from Bank of America Securities and Legg Mason Wood Walker, Incorporated that, as of August 9, 2004, the merger consideration to be received by the stockholders of the Company is fair from a financial point of view.

Liquidity and Capital Resources

General. Historically, the Company's demand for funds has been for payment of operating expenses and dividends, for payment of principal and interest on its outstanding indebtedness and for acquisitions of properties with the intent to sell. The Company's management expects to continue meeting short-term and long-term liquidity requirements through distributions from CNL-Investments and CNL-Capital, issuance of debt and sales of common and/or preferred stock.

Dividends. The Company's ability to internally fund capital needs is limited since it must distribute at least 90 percent of its net taxable income (excluding net capital gains) to stockholders to qualify as a REIT. The Company is a self-advised real estate investment trust that reflects the earnings of its two primary segment subsidiaries, CNL-Investments and CNL-Capital. Through March 31, 2004, distributions had been primarily funded by CNL-Investments' activities because the Company had elected to reinvest the earnings of CNL-Capital as

contemplated by the agreement with the partners of CNL-Capital. CNL-Capital made its first distribution to the Company in June 2004. The remainder of the distributions to date have been partially funded by sales of the Company's common stock to the Company's Chairman through a private company affiliate, CNL Financial Group, Inc. ("CFG"), and loans from CFG.

The Company has elected to distribute amounts in excess of that necessary to qualify as a REIT. The Company declared distributions of \$34.5 million or \$0.76 per share to its stockholders for each of the six months ended June 30, 2004 and 2003. The Company's cash used in operations for the six months ended June 30, 2004 was \$46.1 million and cash provided by operations for the six months ended June 30, 2003 was \$86.9 million. Because increases in assets held for sale are funded through warehouse facilities, management believes that a better indicator of liquidity generated from operations would exclude the changes in the held for sale loans and real estate portfolio. Net cash provided by operating activities excluding changes in mortgage loans and inventories of real estate held for sale was \$26.6 million and \$32.1 million for the six months ended June 30, 2004 and 2003, respectively.

In order to ensure that the Company maintained its historical level of distributions to its stockholders, the Company's Chairman, through CFG, made advances to the Company in the amount of \$10.9 million and \$10.2 million during the six months ended June 30, 2004 and 2003, respectively, in the form of demand balloon promissory notes. The notes are non-collateralized, bear interest at LIBOR plus 2.5 percent or at the Base Rate, as defined in the loan agreement, with interest payments and outstanding principal due upon demand. The principal amount including accrued interest at June 30, 2004 was \$34.9 million relating to various advances received from December 2002 through June 30, 2004. As of June 30, 2004, the Chairman, through CFG, had received 1,753,076 shares of the Company's stock in exchange for \$29.8 million in cash, including the conversion of amounts previously treated as advances. This provided capital that allowed the Company to reinvest the earnings generated by CNL-Capital. The Company's Chairman is under no obligation to purchase additional shares or make advances to the Company. Should the Company's Chairman determine not to purchase additional shares or loan additional funds to the Company, and the Company does not generate adequate cash flow from other sources, the Company may have to reduce its distribution rate.

In connection with maintaining its historical distribution level, the Company may sell additional shares of its common stock to CFG or to third party purchasers. The Company's Chairman is under no obligation to purchase additional shares or loan additional funds to the Company in order to guarantee that the Company maintains its historical distribution level to stockholders. Selling additional shares may dilute a shareholder's investment and may reduce the value a shareholder would receive in a future liquidity event.

CNL-Capital

CNL-Capital's current demand for funds includes (i) payment of operating expenses, (ii) funds necessary for net lease originations to be sold in its Investment Property Sales Program (as defined below) and (iii) payment of principal and interest on its outstanding indebtedness. Demand for funds increased during 2004 to cover the \$165.0 million of new originations of real estate properties that exceeded the \$107.6 million received from the sales of properties. In addition, CNL-Capital utilized \$10 million in January 2004 to pay down a portion of the Subordinated Note Payable (as defined below) and modify the existing terms. CNL-Capital also paid margin calls of \$5.8 million during the six months ended June 30, 2004 to reduce the level of debt financing as required by the lenders due to delinquency levels or restructures of mortgage loan payments from borrowers.

During the six months ended June 30, 2004 and 2003, CNL-Capital derived its primary cash flows from lease and interest income earned in excess of interest expense paid ("net spread"), net gains from the Investment Property Sales Program, advisory services and servicing revenues. Significant cash outflows consist of operating expenses, real property purchases and capital enhancements in the loan portfolio (excess of investment over related borrowings). CNL-Capital had cash and cash equivalents of \$9.7 million and \$31.9 million at June 30, 2004 and December 31, 2003, respectively.

CNL-Capital's long-term liquidity requirements (beyond one year) are expected to be met through successful renewal of its warehouse credit facilities and gains from the Company's Investment Property Sales Program. In addition, management believes CNL-Capital's long-term liquidity requirements will be satisfied in part by operating cash flows provided by servicing and advisory services. CNL-Capital may also seek additional debt or equity financing. Any decision to pursue additional debt or equity capital will depend on a number of factors, such as compliance with the terms of existing credit agreements, the Company's financial performance, industry or market trends and the general availability of attractive financing transactions.

Investment Property Sales Program

The Company's Investment Property Sales Program came into being as a reaction to uncertainty in the franchise asset-backed securitization market. CNL-Capital was

formed in June of 2000 through an alliance between the Company and the Bank. The original vision of CNL-Capital was centered on securitization. This business model was predicated upon the origination of pools of loans or triple-net leases and the subsequent issuance of bonds collateralized by real estate and other restaurant assets underlying the loan or lease. The securitization market experienced considerable volatility in late 2000 that has continued to date severely limiting the securitization financing channel for the franchise asset class. Rising delinquencies in securitized loan pools, falling treasury rates, macroeconomic uncertainties combined with sluggish restaurant sales within certain concepts all contributed to the volatility. Investors required higher interest rates on securities issued in securitizations while rating agencies downgraded the quality of many of the loans underlying the securities. While many of the Company's competitors experienced downgrades or ratings actions on bonds previously issued, the Company's prior loan and lease securitizations to date have not been subject to any such ratings action.

As a result of the volatility in the securitization market beginning in 2000, CNL-Capital changed its business focus in 2001 and halted the origination of new loans. Uncertainty in the franchise asset-backed securitization market led management to focus originations on its traditional core product of long-term, triple-net leases on real estate with the intent of selling these properties to third parties. In 2001, CNL-Capital began selling investment properties to third parties (the "Investment Property Sales Program") adding diversity to its original securitization model. These leased properties may qualify the buyer for special tax treatment under Section 1031 of the Internal Revenue Code (a "Section 1031 Exchange"). Generally, Section 1031 Exchanges allow an investor who realizes a gain from selling appreciated real estate to defer paying taxes on such gain by reinvesting the sales proceeds in like-kind real estate. The success of this program is dependent upon achieving an optimal balance of cash flows from lease income earned in excess of borrowing costs, combined with a maximum gain on the sale.

Management believes that the Investment Property Sales Program will continue to be successful, but not without risks. Management believes that the recent tax law changes decreasing, but not eliminating capital gains taxes, are not significant enough to dissuade demand created by property buyers seeking continued tax deferrals. However, any sweeping new proposal to eliminate the capital gains tax could negatively impact demand. Restaurant properties acquired in anticipation of sales through the Investment Property Sales program typically are leased to tenants at a rate that exceeds the rate a buyer is willing to accept. However, the Company could experience lower average gains or even losses on future sales due to declining tenant performance prior to the sale of one of more properties, a shift in the demand for real estate properties in a particular region or nationwide or because of other factors that alter the perceived value of a given property between the time the Company purchases the property and the time of actual sale. An unexpected rise in interest rates could increase the yields available on alternative non-real estate investments and may cause real estate investors to require higher lease rates from tenants. If the Company is holding a large inventory of properties for sale at such time, the value of these properties may be impacted. Such a reduction in value could cause the Company's mortgage warehouse facilities to require more equity enhancement from the Company. This additional capital requirement along with lower than expected gains from property sales could adversely affect the Company's liquidity.

The chart below illustrates cash flows from Investment Property Sales proceeds and the cost of properties sold as follows:

<TABLE>
<CAPTION>
<s> <c>

	(In millions)	
	For the six months ended June 30, 2004	2003
	-----	-----
Proceeds from Investment Property Sales	\$ 107.5	\$ 111.5
	=====	=====
Cost of properties sold under the Investment Property Sales program	\$ 93.5	\$ 98.3
	=====	=====

</TABLE>

Generally accepted accounting principles require that investment properties held for sale be accounted for as discontinued operations. A significant element of the ongoing activities of CNL-Capital is the Investment Property Sales Program that consists of the origination of new triple-net lease financing on properties and the subsequent disposition of those properties. The following table shows the combined results of the Investment Property Sales Program and the rest of the operations of CNL-Capital (without treating the Investment Property Sales Program as discontinued operations) for each of the periods presented:

<TABLE>

<CAPTION>
<s> <c>

	(In millions)			
	For the quarters ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Revenues:				
Sale of real estate	\$ 67.5	\$ 55.2	\$ 107.5	\$ 111.5
Rental income	2.7	2.6	5.2	6.0
Other revenue items	7.0	7.8	14.1	14.4
	-----	-----	-----	-----
	77.2	65.6	126.8	131.9
	-----	-----	-----	-----
Expenses:				
Cost of real estate sold	58.9	48.5	93.5	98.3
Interest expense	5.5	6.9	10.9	13.3
Depreciation and amortization	0.3	0.2	0.5	0.5
Other expenses	7.3	8.3	13.6	15.7
	-----	-----	-----	-----
	72.0	63.9	118.5	127.8
	-----	-----	-----	-----
Pre-tax income	5.2	1.7	8.3	4.1
Income tax provision	(2.0)	--	(3.2)	--
	-----	-----	-----	-----
Net income	\$ 3.2	\$ 1.7	\$ 5.1	\$ 4.1
	=====	=====	=====	=====

</TABLE>

Management expects continued demand for the Investment Property Sales Program but continues to study other sales channels to market net lease assets. Despite selling 56 properties versus 91 properties during the six months ended June 30, 2004 and 2003, respectively, gains per property were higher in 2004 versus 2003. The success of the Investment Property Sales business is dependent on successfully originating new triple-net leases and the continued liquidity of the 1031 exchange marketplace. For the six months ended June 30, 2004 and 2003, CNL-Capital originated \$165.0 million and \$45.9 million in net leases respectively. Management expects strengthening demand for its core triple-net lease financing during the rest of 2004 but acknowledges that the demand is impacted by low interest rates and the following factors:

- o Identified lease transactions have been lost to competitors offering mortgage debt financing. With low prevailing interest rates, large national and regional banks have offered less expensive mortgage financing that many restaurant operators find more attractive than leases. CNL-Capital does not currently originate debt financing due to the volatility and high cost of capital currently associated with the securitization market. CNL-Capital instead provides referrals of mortgage debt transactions to the Bank and earns a fee for these referrals. Management continues to monitor the potential re-emergence of a mortgage loan product, but does not expect this market to be viable in the near term.
- o Various real estate brokerage firms compete against CNL-Capital and receive a brokerage fee upon the sale of the restaurant properties. Generally the brokers serve as an intermediary and do not have capital to ensure certainty of close for the restaurant operator. CNL-Capital, through its warehouse facilities, is able to provide that assurance which to date has mitigated this competitive threat, particularly on the larger transactions. The threat exists more in the market for smaller transaction sizes than the typical CNL-Capital prospect.

Management has responded to this slow-down by adjusting net lease rates, identifying larger transactions and identifying new areas within the selling process to reduce costs. Net lease originations provide inventory necessary to execute the Investment Property Sales Program and CNL-Capital typically profits from the leases while holding them. At June 30, 2004, CNL-Capital was involved in several opportunities for net lease originations with \$85 million approved for funding and accepted by the client, and an additional \$144 million approved with client acceptance pending. CNL-Capital's warehouse facilities provide advances for up to 97 percent of the real estate purchase value. The Company is reinvesting its operating profits to fund the amounts not advanced by the mortgage warehouse facilities.

Indebtedness

During the six months ended June 30, 2004, CNL-Capital used its "net spread" to pay operating expenses and used borrowings on its warehouse facilities to fund new real estate originations. CNL-Capital may be subject to margin calls on its

warehouse credit facilities. The Bank and the other lenders monitor delinquency assumptions and may require one or more margin calls to reduce the level of warehouse financing. During the six months ended June 30, 2004 and 2003, CNL-Capital made \$5.8 million and \$2.6 million in margin calls, respectively. Of the \$5.8 million payment in 2004, \$5.3 million was required by a lender when CNL-Capital provided debt service relief to a borrower/tenant who was experiencing financial difficulties, as described below in "Liquidity Risks."

CNL-Capital has the following borrowing sources at June 30, 2004, with the stated total capacity and interest rate:

<TABLE>

<CAPTION>

<s> <c>

	In thousands		Maturity	Interest rate (3)
	Amount used	Capacity		
Note payable (1)	\$ 167,931	\$ 167,931	Jun 2007	2.35%
Mortgage warehouse facilities	153,178	260,000	Annual	2.58%
Subordinated note payable	33,750	33,750	Dec 2008	7.00%
Series 2001-4 bonds payable (2)	35,520	35,520	2009 - 2013	8.90%
	-----	-----		
	\$ 390,379	\$ 497,201		
	=====	=====		

</TABLE>

- (1) Average rate excludes the impact of hedge transactions that bring the total average rate to 5.75 percent.
- (2) Includes \$5,157 in bonds held by CNL-Investments eliminated upon consolidation in Company's condensed consolidated financial statements.
- (3) Excludes debt issuance and other related costs.

Note Payable. This five-year term financing carries a variable interest rate tied to the weighted average rate of commercial paper plus 1.25 percent with a portion of such interest fixed through the initiation of a hedge transaction. Amounts outstanding were \$167.9 million and \$182.0 million as of June 30, 2004 and December 31, 2003, respectively. The decrease was partially due to payments of principal in accordance with the debt agreement. The decrease was also due to the lender requiring the payment of \$5.8 million in the form of margin calls to reduce the level of financing as a result of delinquency levels or restructures of payments due from borrowers. In accordance with the terms of the Note Payable and related hedging agreements, CNL-Capital unwound portions of the hedge instrument as a result of the pay downs from the margin calls, resulting in losses on termination of cash flow hedge of \$0.9 million during 2004.

Mortgage Warehouse Facilities. CNL-Capital management maintains regular contact with its mortgage warehouse facility lenders and believes that the relatively low-cost, high-advance rate financing they provide has been integral to CNL-Capital's success. As is typical of revolving debt facilities, these facilities carry a 364-day maturity and accordingly CNL-Capital is vulnerable to any changes in the terms of these facilities. The warehouse facilities currently advance an average of 93 percent of the original real estate cost. As of June 30, 2004, CNL-Capital has two warehouse facilities. The first warehouse facility is for \$160 million with the Bank and matures in March 2005 (the "Warehouse Credit Facility"). The second mortgage warehouse facility of \$100 million with another lender, matures in June 2005. At June 30, 2004, CNL-Capital had approximately \$12.0 million in capital supporting its loan and lease portfolio financed through its mortgage warehouse facilities. Amounts outstanding under the mortgage warehouse facilities were \$153.2 million and \$93.5 million as of June 30, 2004 and December 31, 2003, respectively. The increase in the balance outstanding resulted from the \$165.0 million in new net lease originations funded by these facilities.

Subordinated Note Payable. During 2000, the Bank provided CNL-Capital with a \$43.75 million subordinated note payable (the "Subordinated Note Payable"). Amounts outstanding were \$33.75 million and \$43.75 million at June 30, 2004 and December 31, 2003, respectively. In late December 2003, CNL-Capital removed the remaining loans on the Warehouse Credit Facility by selling them to CNL-Investments. CNL-Investments then executed a bond offering supported, in part, by this collateral. In January 2004, CNL-Capital used these proceeds along with additional funds, to repay the Bank \$10 million on the Subordinated Note Payable. As part of the repayment, CNL-Capital and the Bank modified the terms of the Subordinated Note Payable. The Bank extended the maturity date on the Subordinated Note Payable from June 2007 to December 2008 and reduced the interest rate from 8.50 percent to 7.00 percent per annum. Under the new terms, CNL-Capital must repay \$11.88 million on this facility by December 31, 2004. CNL-Capital will then make quarterly payments of principal and interest to the Bank using a five-year amortization schedule beginning March 2005 with a balloon payment due on December 31, 2008. As part of the negotiations, the Bank eliminated a previous requirement for CNL-Capital to pay down the Subordinated Note Payable for every dollar distributed by CNL-Capital to the Company. In addition, the Company agreed to provide a guaranty on the entire amount outstanding under the Subordinated Note Payable as part of the renegotiations. Prior to the renegotiations, only CNL-Capital had provided a guaranty on the Subordinated Note Payable.

Bonds Payable. In May 2001, CNL-Capital issued bonds collateralized by a pool of mortgages. The bond indenture requires monthly principal and interest payments received from borrowers to be applied to the bonds. The bond indenture also provides for an optional redemption of the bonds at their remaining principal balance when the remaining amounts due under the loans that serve as collateral for the bonds are less than ten percent of the aggregate amounts due under the loans at the time of issuance. Amounts outstanding were \$35.5 and \$38.9 at June 30, 2004 and December 31, 2003, respectively.

Some sources of debt financing require that CNL-Capital maintain certain standards of financial performance such as a fixed-charge coverage ratio, a tangible net worth requirement and certain levels of available cash. Any failure to comply with the terms of these covenants would constitute a default and may create an immediate need to find alternative borrowing sources.

Liquidity Risks

In addition to the liquidity risks discussed above in connection with the Investment Property Sales Program, tenants or borrowers that are experiencing financial difficulties could impact CNL-Capital's ability to generate adequate amounts of cash to meet its needs. In the event the financial difficulties persist, CNL-Capital's collection of rental payments, and interest and principal payments could be interrupted. At present, most of these tenants and borrowers continue to pay rent, principal and interest substantially in accordance with lease and loan terms. However, CNL-Capital continues to monitor each borrower's situation carefully and will take appropriate action to place CNL-Capital in a position to maximize the value of its investment.

Liquidity risk also exists from the possibility of borrower delinquencies on the mortgage loans held to maturity. In the event of a borrower delinquency, the Company could suffer not only shortfalls on scheduled payments but also margin calls by the lenders that provide the warehouse facilities and the five-year note, subjecting the Company to unanticipated cash outflows. The Company is obligated under the provisions of its five-year note to pay down certain debt associated with borrower delinquencies or defaults within a required time frame. Most properties acquired on the mortgage warehouse facilities are required to be sold within a certain time frame. Any delinquency, default or delay in the resale of properties financed through one of these facilities would generally require an immediate pay-down of the related debt and may restrict the Company's ability to find alternative financing for these specific assets. The Company's debt, excluding bonds payable, generally provides for cross-default triggers. A default of a mortgage warehouse facility, for example from a failure to make a margin call, could result in other Company borrowings becoming immediately due and payable. For those borrowers who have experienced financial difficulties or who have defaulted under their loans, management has estimated the loss or impairment on the related investments and reflected such charge in the statement of income through June 30, 2004. However, impairment charges may be required in future periods based upon changing circumstances.

In March 2004, CNL-Capital provided temporary debt service relief to a borrower/tenant who was experiencing liquidity difficulties. CNL-Capital agreed to modify the interest rate due on the outstanding debt over the next twelve months on eight mortgage loans to provide debt service relief. Repayment terms are scheduled to return to the original terms starting with the thirteenth month. The mortgage loans receivable from this borrower/tenant serve as collateral on the Note Payable. As a result of the restructure, and as required by the lender, the Company paid down approximately \$5.3 million under its Note Payable. This reduction in cash flows from the temporary debt service relief provided to the borrower/tenant, after consideration of the \$5.3 million reduction in debt outstanding under the Note Payable, will have an approximate \$1 million negative impact to cash flows over the next twelve months. Management does not believe that this temporary decline in cash flows will have a material adverse effect on overall liquidity.

Additional liquidity risks include the possible occurrence of economic events that could have a negative impact on the franchise securitization market and affect the quality or perception of the loans or leases underlying CNL-Capital's previous securitization transactions. The Company conducted its previous securitizations using bankruptcy remote entities. These entities exist independent from the Company and their assets are not available to satisfy the claims of creditors of the Company, any subsidiary or its affiliates. To date, the ratings on the loans underlying the securities issued in these transactions have been affirmed unlike the ratings of many competitors' loan pools that have been downgraded. Upon the occurrence of a significant amount of delinquencies and/or defaults, one or more of the three rating agencies may choose to place a specific transaction on ratings watch or even downgrade one or more classes of securities to a lower rating. Should the loans underlying the securities default, and the securities undergo a negative ratings action, CNL-Capital could experience material adverse consequences impacting its ability to continue earning income as servicer, renew its warehouse credit facilities and impact its ability to engage in future net lease securitization transactions. In addition, a negative ratings action against the Company's securitized pools could cause the Company's warehouse lenders to lower the advance rates and increase the cost of financing.

CNL-Capital holds an interest in two securitizations (referred to as the 1998-1 and 1999-1 residual interests), the assets and liabilities of which are not consolidated in the Company's financial statements. The following table shows the assets and the related bonds outstanding in each securitization pool at June 30, 2004:

<TABLE>
<CAPTION>
<s> <c>

	(In thousands)	
	Mortgage loans in pool at par	Bonds outstanding at face value (1)
Loans and debt supporting 1998-1 Certificates issued by CNL Funding 1998-1, LP	\$ 177,144	\$ 175,302
Loans and debt supporting 1999-1 Certificates issued by CNL Funding 1999-1, LP	222,467	222,467
	\$ 399,611	\$ 397,769

</TABLE>

(1) Certain bonds in both the 1998-1 and 1999-1 pools are owned by CNL-Investments; the aggregate net carrying value of \$27,360 appears as investments in the condensed consolidated financial statements of the Company.

CNL-Investments

CNL-Investments' demand for funds are predominantly interest expense, operating expenses, acquisitions of properties and distributions to the Company. CNL-Investments' cash flows primarily consist of rental income from tenants on restaurant properties owned, interest income on mortgage loans, proceeds from dispositions of properties and income from holding interests in prior loan securitizations including those originated by predecessor entities of CNL-Capital. CNL-Investments had cash and cash equivalents of \$1.8 million and \$4.3 million at June 30, 2004 and December 31, 2003, respectively.

CNL-Investments' management believes the availability on its revolver will permit it to meet its short-term liquidity objectives. Long-term liquidity requirements will be met through a combination of selectively disposing of assets and reinvesting the proceeds from cash from operating activities and from debt and equity offerings.

Indebtedness

CNL-Investments has the following borrowing sources at June 30, 2004, with the stated total capacity and interest rate:

<TABLE>
<CAPTION>
<s> <c>

	(In thousands)			
	Amount Used	Capacity	Maturity	Interest Rate (1)
Revolver	\$ 7,500	\$ 30,000	July 2005	3.39%
Note payable	605	605	2005	4.35%
Series 2000-A bonds payable	243,579	243,579	2009-2017	7.94%
Series 2001 bonds payable	114,770	114,770	Oct 2006	1.59%
Series 2003 bonds payable	27,971	27,971	2005-2010	5.67%
	\$ 394,425	\$ 416,925		

</TABLE>

(1) Excludes debt issuance and other related costs.

Revolver. CNL-Investments' short-term debt consists of a \$30 million revolving line of credit (the "Revolver") with the Bank. CNL-Investments utilizes the Revolver from time to time to manage the timing of inflows and outflows of cash from operating activities. In June 2004, CNL Investments amended the terms of the Revolver to extend the maturity date to July 2005. Amounts outstanding were \$7.5 million and \$2.0 million at June 30, 2004 and December 31, 2003, respectively.

Note Payable. At June 30, 2004, the Company had \$0.6 million outstanding

relating to a Note Payable to CNL Bank, an affiliate. Amounts outstanding are collateralized by two mortgages on certain real property, bear interest at LIBOR plus 325 basis points per annum and require monthly interest only payments until maturity in August and December 2005.

Bonds Payable. CNL-Investments has medium-term note and long-term bond financing, referred to collectively as bonds payable. Rental income received on properties and interest income received on mortgage loans and equipment leases pledged as collateral on medium and long-term financing is used to make scheduled reductions in bond principal and interest. In May 2004, CNL-Investments issued an additional \$5 million note from its Series 2003 offering that had closed in December 2003. The note is collateralized by a pool of mortgage notes, bears interest at LIBOR plus 600 basis points and matures in 2011. The \$5 million in proceeds from the issuance of the notes were used to pay down short-term debt.

CNL-Investments provides a guaranty of up to ten percent of CNL-Capital's Note Payable and on the \$160 million Warehouse Credit Facility with the Bank. The Company also provides a 100 percent guaranty on CNL-Capital's Subordinated Note Payable.

Some sources of debt financing require that CNL-Investments maintain certain standards of financial performance such as fixed-charge coverage ratios and tangible net worth requirements, and impose a limitation on the distributions from CNL-Investments to the Company tied to funds from operations. Any failure to comply with the terms of these covenants could constitute a default and may create an immediate need to find alternative borrowing sources.

Liquidity Risks

Liquidity risks within CNL-Investments include the potential that a tenant's or borrower's financial condition could deteriorate, rendering it unable to make lease payments or payments of interest and principal on mortgage and equipment notes receivable. Generally, CNL-Investments uses a triple-net lease to lease its properties to its tenants. The triple-net lease is a long-term lease that requires the tenant to pay expenses on the property. The lease somewhat insulates CNL-Investments from significant cash outflows for maintenance, repair, real estate taxes or insurance. However, if the tenant experiences financial problems, rental payments could be interrupted. In the event of tenant bankruptcy, CNL-Investments may be required to fund certain expenses in order to retain control or take possession of the property. This could expose CNL-Investments to successor liabilities and further affect liquidity.

Management is aware of multi-unit tenants that are experiencing financial difficulties. In the event the financial difficulties continue, CNL-Investments' collection of rental payments could be interrupted. At present, most of these tenants continue to pay rent substantially in accordance with lease terms. However, CNL-Investments continues to monitor each tenant's situation carefully and will take appropriate action to place CNL-Investments in a position to maximize the value of its investment. For those tenants who have experienced financial difficulties or have defaulted under their leases, management has estimated the loss or impairment on the related properties and included such charge in earnings through June 30, 2004. Management believes it has recorded an appropriate impairment charge at June 30, 2004, based on its assessment of each tenants' financial difficulties and its knowledge of the properties. However, impairment charges may be required in future periods based upon changing circumstances.

In October 2003, Chevy's Holding, Inc. and numerous operating subsidiaries ("Chevy's"), a tenant of CNL-Investments, filed for voluntary bankruptcy under the provisions of Chapter 11. Chevy's operates the Chevy's, Rio Bravo and Fuzio concepts. As of the bankruptcy filing, CNL-Investments owned 23 Chevy's units with a total initial investment of \$56.6 million. Through August 9, 2004, Chevy's had rejected the leases on 19 of the 23 sites. Management has recorded impairments relating to some of these sites. Through August 9, 2004 management has sold three sites, re-leased one site and expects the remaining rejected sites to be re-leased or sold. Chevy's has paid rent on the four sites whose leases have not been rejected since filing bankruptcy. As of August 9, 2004 all but one of the properties were pledged as collateral for the Series 2000-A and Series 2001 triple net lease bonds payable.

In February 2004, The Ground Round, Inc. ("Ground Round"), a tenant of CNL-Investments, filed for voluntary bankruptcy under the provisions of Chapter 11. Ground Round operates the Ground Round and Tin Alley Grills concepts. As of the bankruptcy filing, CNL-Investments owned 12 units, with a total initial investment of \$12.9 million. All twelve properties were pledged as collateral for the Series 2000-A triple net lease bonds payable and as of August 9, 2004, Ground Round had closed nine of these sites. As of August 9, 2004, Ground Round had rejected the leases on seven sites, is expected to affirm the leases on four sites and expects to assign the lease on the remaining site to a franchisee. As of August 9, 2004, CNL Investments had recorded impairments of approximately \$0.1 million.

In March 2004, CNL-Investments provided temporary rent forbearance to a tenant who was experiencing liquidity difficulties. CNL-Investments agreed to forebear

the collection of partial rents over the next twelve months on ten sites to provide rent relief. Under the proposed negotiations, the tenant will pay the amounts deferred under the forbearance agreement over five years. This temporary forbearance on the rents will have a \$1.8 million negative impact on cash flows of CNL-Investments over the next twelve months but the cash flows are expected to be collected between months 13 through 72.

CNL-Investments has experienced tenant bankruptcies and may commit further resources in seeking resolution to these properties including temporarily funding restaurant businesses directly or on behalf of successor tenants. For example, where the value of the leased real estate is linked to the financial performance of the tenant, CNL-Investments may allocate capital to invest in turnaround opportunities. As of June 30, 2004 the Company owned, through an investment of \$1.3 million, the business restaurant operations of twelve Denny's restaurants that represented a strategic move to preserve the Company's real estate investment when the franchisee of the restaurants experienced severe financial difficulties. CNL-Investments has since successfully disposed of the real estate and plans to sell its investment in the business by the end of 2004. This activity is not a core operation or competency of the Company and is only undertaken in situations where management believes the course of action best preserves the Company's position in the real estate or loan investment.

Certain net lease properties are pledged as collateral for the Series 2000-A and Series 2001 triple-net lease bonds payable. In the event of a tenant default relating to pledged properties, the Company may elect to contribute additional properties or substitute properties into these securitized pools from properties it owns not otherwise pledged as collateral. These pools contain properties potentially impacted by the bankruptcy filings of Chevy's and Ground Round, and the financial difficulties of other restaurant operators. Management is evaluating the impact to the pools, including any need to identify substitute properties. In the event that CNL-Investments has no suitable substitute property, the adverse performance of the pool might inhibit the Company's future capital raising efforts including the ability to refinance the Series 2001 bonds payable maturing in 2006. The Series 2000-A and Series 2001 bonds payable include certain triggers relating to delinquency percentages or debt service coverage. If certain ratios are exceeded or not maintained, then principal pay down on the outstanding bonds is accelerated. The Company is currently exceeding certain required performance cash flow ratios within the Series 2000-A bonds payable due primarily to tenant defaults from the Chevy's and Ground Round bankruptcies described above. As a result, cash flow normally exceeding the scheduled principal and interest payments is required to be directed toward additional debt reduction. For the six months ended June 30, 2004, the Company was required to use cash from operations to make additional debt reductions of approximately \$1.7 million as a result of exceeding certain ratios in the net lease pools. The Company is actively seeking new tenants or buyers for these properties that will result in improved performance under these ratios.

Off-Balance Sheet Transactions

The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. The Company holds a residual interest in approximately \$399.6 million in loans transferred to unconsolidated trusts that serve as collateral for the long-term bonds discussed in "Liquidity and Capital Resources - CNL-Capital - Indebtedness". Recent accounting pronouncements have not required the consolidation of these trusts.

Interest Rate Risk

Floating interest rates on variable rate debt expose the Company to interest rate risk. The Company invests in assets with a fixed return by sometimes financing a portion of them with variable rate debt. As of June 30, 2004, the Company's variable rate debt includes the following:

- o \$7.5 million on its Revolver;
- o \$153.2 million on its mortgage warehouse facilities;
- o \$167.9 million on the June 2002 five-year financing, of which \$134 million are subject to an interest-rate swap;
- o \$114.8 million outstanding on the Series 2001 bonds payable, of which \$113 million are subject to an interest rate cap; and
- o \$28.0 million outstanding on the Series 2003 bonds payable, all of which is subject to an interest rate cap.

Generally, the Company uses derivative financial instruments (primarily interest rate swap contracts) to hedge against fluctuations in interest rates from the time it originates fixed-rate mortgage loans and leases until the time they are sold. The Company generally terminates certain of these contracts upon the sale of the loans or properties, and both the gain or loss on the sale of the loans and the additional gain or loss on the termination of the interest rate swap contracts is recognized in the consolidated statement of income.

The Company uses interest rate swaps and caps to hedge against fluctuations in

variable cash flows on a portion of its floating rate debt. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount. Under a cap purchase, a third party agrees to assume any interest costs above a stated rate. Changes in the values of the Company's current interest rate swaps and caps that qualify for hedge accounting are reflected in other comprehensive income.

The Company also invests in financial instruments that are subject to various forms of market risk such as interest rate fluctuations, credit risk and prepayment risk. The value of its mortgage loans held for sale and its investments change as a result of fluctuating interest rates, credit risk, market sentiment and other external forces, which could adversely affect liquidity and capital resources.

Management estimates that a one-percentage point increase in short-term interest rates as of June 30, 2004 would have resulted in additional interest costs of approximately \$1.4 million. This sensitivity analysis contains certain simplifying assumptions (for example, it does not consider the impact of changes in prepayment risk or credit spread risk). Therefore, although it gives an indication of the Company's exposure to interest rate change, it is not intended to predict future results and the Company's actual results will likely vary.

Management believes inflation has not significantly affected the Company's earnings because the inflation rate has remained low. During inflationary periods, which generally are accompanied by rising interest rates, the Company's ability to grow may be adversely affected because the yield on new investments may increase at a slower rate than new borrowing costs. However, sustained low inflation could lead to net lease pricing pressure as tenants request decreasing rates for longer maturities.

Results from Operations

The Company generated net income of \$9.2 million and \$20.1 million for the quarter and six months ended June 30, 2004, respectively as compared to \$10.6 million and \$18.6 million for the comparable periods in 2003. Net income decreased 13 percent for the quarter ended June 30, 2004 as compared to the same quarter in 2003, while the six months ended June 30, 2004 posted an eight percent increase in net income over the comparable period in 2003 as a result of several factors. The decline in net income during the quarter ended June 30, 2004 as compared with the same period in 2003 was primarily due to CNL-Capital recording an income tax provision in 2004, as further described below, and CNL-Investments recording lower rental revenues due to bankruptcies of two tenants. The decrease in net income was partially offset due to the Company incurring less impairment losses and reserves in 2004 as compared to 2003 relating to the properties and loans in the portfolio. No income tax provision was recorded in 2003 because the 2003 provision was offset by the recognition of deferred tax assets that had been previously subject to a valuation allowance. Net income has increased between the comparative six-month periods presented, primarily as a result of lower general operating and administrative expenses and decreased impairment losses and reserves, partially offset by the income tax provision recorded in 2004. Net income also increased due to lower interest expense in 2004.

The following discussion of results from operations is by segment. All segment results are before eliminating adjustments and results of the holding company. As a result, the sum of amounts applicable to each segment will not, in some cases, equal the Company total amount reflected in the condensed consolidated statement of income. Company net income is as follows:

<TABLE>

<CAPTION>

<s> <c>

Net income by segment (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 6.3	68%	\$ 8.9	84%
CNL-Capital	3.2	35	1.7	16
Other holding company results and consolidating eliminations	(0.3)	(3)	--	--
Net income	\$ 9.2	100%	\$ 10.6	100%

Net income by segment (in Millions)	For the six months ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 15.4	77%	\$ 14.5	78%
CNL-Capital	5.1	25	4.1	22
Other holding company results and consolidating eliminations	(0.4)	(2)	--	--

Net income	\$ 20.1	100 %	\$ 18.6	100%
------------	---------	-------	---------	------

</TABLE>

Revenues are discussed based on the individual segment results beginning with the results of CNL-Investments:

<TABLE>
<CAPTION>
<s> <c>

CNL-Investments revenues by line item (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
Rental income from operating leases and earned income from direct financing leases	\$ 16.8	86%	\$ 17.8	84%
Interest income from mortgage, equipment and other notes receivable	1.2	6	1.1	5
Investment and interest income	1.1	6	1.2	6
Other income	0.4	2	1.1	5
Total segment revenues	\$ 19.5	100%	\$ 21.2	100%

CNL-Investments revenues by line item (in Millions)	For the six months ended June 30,			
	2004	% of Total	2003	% of Total
Rental income from operating leases and earned income from direct financing leases	\$ 34.1	86%	\$ 35.6	84%
Interest income from mortgage, equipment and other notes receivable	2.4	6	2.2	5
Investment and interest income	2.2	6	2.2	5
Other income	0.9	2	2.5	6
Total segment revenues	\$ 39.6	100%	\$ 42.5	100%

</TABLE>

- o The rental revenue from vacant and other properties sold was classified as a component of discontinued operations for all periods presented and was not included in the segment revenues above. The combined amount of rental income from operating leases and earned income from direct financing leases from continuing operations decreased during the quarter and six months ended June 30, 2004 as compared to comparable periods in 2003 due to lower rental revenues in connection with tenant bankruptcies including Chevy's and Ground Round.
- o Interest income from mortgage, equipment and other notes receivable increased slightly as a result of the purchase of approximately \$26.1 million in mortgage loans from CNL-Capital in December 2003. CNL-Investments combined these mortgage loans with other mortgage loans it previously owned and in December 2003, issued notes ("bonds payable") collateralized by approximately \$46.6 million of mortgage loans. The increase in interest income from the new loans was partially offset by a decrease in interest income earned on the declining balance of its original loan portfolio resulting from the scheduled collections of principal and the lack of new loan originations since 2000.
- o Other income decreased during the quarter and six months ended June 30, 2004 as compared to the comparable periods in 2003 as a result of decreased billings of direct costs to third parties using CNL-Investments for property management services. During 2003, CNL-Investments transferred certain functions to CFG, an affiliate, thereby reducing general and operating expenses, as well as reducing the billings of these expenses collected from third parties. Other income in future quarters is expected to be at levels comparable to the quarter ended June 30, 2004.

The revenues of CNL-Capital are generally more variable than those of CNL-Investments. The following table provides additional information relating to the revenues of this segment:

<TABLE>
<CAPTION>
<s> <c>

CNL-Capital revenues by line item (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
Interest income from mortgage equipment and other notes receivable	\$ 5.5	80%	\$ 6.5	83%
Investment and interest income	0.1	1	0.2	3
Net decrease in value of mortgage loans held for sale, net of related hedge	--	--	(0.2)	(3)
Other income	1.3	19	1.3	17
	\$ 6.9	100%	\$ 7.8	100%

CNL-Capital revenues by line item (in Millions)	For the six months ended June 30,			
	2004	% of Total	2003	% of Total
Interest income from mortgage equipment and other notes receivable	\$ 10.9	78%	\$ 13.4	93%
Investment and interest income	0.4	3	0.4	3
Net decrease in value of mortgage loans held for sale, net of related hedge	--	--	(2.3)	(16)
Other income	2.6	19	2.9	20
	\$ 13.9	100%	\$ 14.4	100%

</TABLE>

- o Interest income from mortgage, equipment and other notes receivable decreased 15 percent and 19 percent for the quarter and six months ended June 30, 2004, respectively, as compared to the same periods in 2003 partially due to the sale of \$26.1 million in mortgage loans to CNL-Investments in December 2003, as described above. The remainder of the decrease was due to the declining balance of its loan portfolio resulting from scheduled collections of principal and the lack of new loan originations since 2001.
- o CNL-Capital did not record any changes in the fair value of mortgage loans held for sale, net of related hedge, for the quarter and six months ended June 30, 2004. This was the result of CNL-Capital's sale in December 2003 of its remaining mortgage loans held for sale to CNL-Investments, which then re-designated these loans as held for investment purposes and issued bonds collateralized by the loans. During the six months ended June 30, 2003, CNL-Capital recorded a \$2.3 million decline in the fair value of these loans held for sale, net of related hedge and net of estimated potential default losses.

Expenses

Expenses decreased for the quarter and six months ended June 30, 2004 from the comparable periods in 2003. General operating and administrative expenses were lower due to the Company's initiative of outsourcing some functions to reduce expenses. Property expenses and impairment losses relating to the properties and loans in the portfolio were lower due to less financial difficulties and defaults by borrowers and tenants. Interest expense was lower as a result of the \$10 million pay down on the Subordinated Note Payable and the related decrease of the interest rate on this facility from 8.5 percent to 7.0 percent in January 2004.

General operating and administrative expenses consist primarily of payroll-related, legal and other professional expenses. The following tables

illustrate the comparative period expenses by segment:

<TABLE>
<CAPTION>
<s> <c>

General operating and administrative expenses by segment (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 2.2	32%	\$ 2.5	36%
CNL-Capital	5.0	74	5.0	71
Other holding company results and consolidating eliminations	(0.4)	(6)	(0.5)	(7)
Total general operating and administrative expenses	\$ 6.8	100%	\$ 7.0	100%

General operating and administrative expenses by segment (in Millions)	For the six months ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 4.4	33%	\$ 5.9	40%
CNL-Capital	9.9	75	9.8	68
Other holding company results and consolidating eliminations	(1.1)	(8)	(1.2)	(8)
Total general operating and administrative expenses	\$ 13.2	100%	\$ 14.5	100%

</TABLE>

- o CNL-Investments' general operating and administrative expenses decreased by 12 percent and 25 percent for the quarter and six months ended June 30, 2004, respectively, as compared to the same periods in 2003 as a result of transferring certain financial and strategic functions, including transferring certain employees relating to the management of the external portfolios, to a subsidiary of CFG, an affiliate.
- o CNL-Capital's general operating and administrative expenses remained fairly constant during the quarter and six months ended June 30, 2004 as compared with similar periods in 2003.

Interest expense constitutes one of the most significant operating expenses. A portion of interest expense is also included in operating results from discontinued operations. Components of interest expense from continuing operations are as follows:

<TABLE>
<CAPTION>
<s> <c>

Interest expense by segment (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 7.2	60%	\$ 6.9	53%
CNL-Capital	4.7	39	6.4	49
Other holding company results and consolidating eliminations	0.1	1	(0.2)	(2)
Total interest expense	\$ 12.0	100%	\$ 13.1	100%

</TABLE>

<TABLE>
<CAPTION>
<s> <c>

Interest expense by segment (in Millions)	For the six months ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 14.3	60%	\$ 13.9	55%
CNL-Capital	9.4	39	12.1	47
Other holding company results and consolidating eliminations	0.1	1	(0.4)	(2)

Total interest expense	\$ 23.8	100%	\$ 25.6	100%
------------------------	---------	------	---------	------

</TABLE>

- o CNL-Investments had a slight increase in interest expense for the quarter and six months ended June 30, 2004 from the comparable periods in 2003 due to CNL-Investments issuing bonds payable in December 2003, collateralized by approximately \$46.6 million of mortgage loans.
- o CNL-Capital had a 27 percent and 22 percent decrease in interest expense for the quarter and six months ended June 30, 2004, respectively, from the comparable periods in 2003. The decrease in interest expense was partially the result of the \$10 million pay down on the Subordinated Note Payable and the related decrease of the interest rate on this facility from 8.5 percent to 7 percent in January 2004. Interest expense also decreased because CNL-Capital paid down the Mortgage Warehouse Facility by approximately \$12.3 million in December 2003 when it sold the mortgage loans receivable to CNL-Investments, as described above. As a result of the sale of these mortgage loans receivable, CNL-Capital terminated the fair value hedge associated with the mortgage loans receivable and eliminated the interest expense on the hedge instrument. As a result of these transactions, the weighted average balance outstanding, on which interest is calculated, was lower during 2004 as compared to the same period in 2003.

Depreciation and amortization expenses primarily reflect the level of assets invested in leased properties held by CNL-Investments. A portion of these expenses are also reflected as a component of discontinued operations.

CNL-Capital recorded a loss on termination of cash flow hedge of \$0.6 million and \$0.9 million for the quarter and six months ended June 30, 2004, respectively. In conjunction with the Company paying margin calls of approximately \$5.8 million, as described above in "Liquidity and Capital Resources -- CNL-Capital -- Indebtedness -- Note Payable," the Company unwound a portion of its cash flow hedge to comply with its hedge agreement. No such loss was recorded during the same periods in 2003.

Impairments and provisions on assets consist of bad debt expense relating to receivables that are deemed uncollectible, provisions for loan losses associated with non-performing loans, valuation allowances associated with investments in the 1998-1 and 1999-1 residual interests and impairment provisions on properties (excluding impairments on properties treated as discontinued operations as described below). The following table illustrates the comparative period expenses by segment:

<TABLE>
<CAPTION>
<s> <c>

Impairments and provisions on assets (in Millions)	For the quarters ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 0.9	90%	\$ --	--%
CNL-Capital	0.1	10	2.5	100
Total impairments and provisions on assets	\$ 1.0	100%	\$ 2.5	100%

</TABLE>

<TABLE>
<CAPTION>
<s> <c>

Impairments and provisions on assets (in Millions)	For the six month ended June 30,			
	2004	% of Total	2003	% of Total
CNL-Investments	\$ 1.2	75%	\$ 1.8	38%
CNL-Capital	0.4	25	3.0	62
Total impairments and provisions on assets	\$ 1.6	100%	\$ 4.8	100%

</TABLE>

- o CNL-Investments recorded impairment provisions of \$0.9 million and \$1.2

million for the quarter and six months ended June 30, 2004, respectively, excluding impairments on properties treated as discontinued operations as described below. This segment recorded \$1.8 million in impairment provisions for the six months ended June 30, 2003, and no such charges were recorded during the quarter ended June 30, 2003. The impairments recorded during 2004 and 2003 related primarily to properties previously leased to Chevy's, which declared bankruptcy in 2003. The impairments represented the difference between the net carrying value of the properties and their estimated fair values.

- o CNL-Capital recorded provisions for loan losses of \$2.2 million and \$2.6 million for the quarter and six months ended June 30, 2003, respectively, associated with non-performing loans. CNL-Capital did not record similar provisions during the comparable periods in 2004. CNL-Capital also recorded \$0.1 million and \$0.4 million in bad debts for the quarter and six months ended June 30, 2004, respectively, compared to \$0.3 million and \$0.4 million for the quarter and six months ended June 30, 2003, respectively. Bad debt expense relates to receivables that management does not believe are recoverable.

Discontinued Operations

The Company accounts for certain of its revenues and expenses as originating from discontinued operations pursuant to Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 requires that sales of real estate, or the designation of a real estate asset as held for sale, be treated as discontinued operations. Any gain or loss from such disposition, and any income or expenses associated with these real estate assets, are included in the income statement as discontinued operations. CNL-Capital's Investment Property Sales program, a vital piece of its ongoing operating strategy, falls under this guidance. Therefore, gains from properties sold under the Investment Property Sales program are included as discontinued operations. Income and expenses associated with Investment Property Sales program assets are also included in discontinued operations. In addition, CNL-Investments has designated certain real estate assets as held for sale and has included income and expenses associated with the assets as well as the gain or loss from any dispositions of these assets as discontinued operations for all periods presented.

During 2002, the Company purchased the operations of certain restaurants. In December 2003, the Company decided to dispose of these restaurant operations. All operating results relating to these restaurant operations have been recorded as discontinued operations.

The table below illustrates the treatment of discontinued operations by segment:

<TABLE>
<CAPTION>
<s> <c>

Income from discontinued operations by segment (in Millions)	For the quarters ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
CNL-Investments discontinued operations:				
Losses from operations	\$ (0.3)	\$ (0.4)	\$ (0.6)	\$ (1.0)
Gains on disposal	0.3	0.6	2.0	0.9
CNL-Capital discontinued operations:				
Earnings from operations	1.5	1.8	3.2	3.2
Gains on disposal	8.7	6.7	14.0	13.2
Income tax provision	(2.0)	--	(3.2)	--
Total income from discontinued operations	\$ 8.2	\$ 8.7	\$ 15.4	\$ 16.3

</TABLE>

- o Losses from discontinued operations of CNL-Investments include impairment provisions of \$0.3 million for the quarter and six months ended June 30, 2004 as compared to \$0.9 million and \$2.2 million for the quarter and six months ended June 30, 2003, respectively. The earnings from discontinued operations of CNL-Capital include impairment provisions of \$0.4 million for the quarter and six months ended June 30, 2004, compared with \$0.2 million and \$1.0 million in such charges during the quarter and six months ended June 30, 2003. These impairments related primarily to properties designated as held for sale or sold through June 30, 2004.
- o Restaurant operations within CNL-Investments, which are recorded as discontinued operations, generated revenues of \$3.7 million and \$3.5 million for the quarters ended June 30, 2004 and 2003, respectively,

and generated related expenses of \$3.7 million and \$3.4 million, respectively. Restaurant operations reported \$7.6 million and \$6.9 million in revenues and \$7.7 million and \$6.7 million in expenses for the six-month period ended June 30, 2004 and 2003, respectively.

- o Gains on disposal of properties of CNL-Investments were higher during the six months ended June 30, 2004 as a result of selling more properties in 2004 as compared to the same period in 2003. Although CNL-Capital sold 32 and 56 properties during the quarter and six months ended June 30, 2004, respectively, compared to 50 and 91 properties during comparable periods in 2003, gains on disposal of properties of CNL-Capital were higher during 2004. Despite the decline in the number of properties sold in 2004, the gain per property was higher during 2004 and the average gain as a percentage of the sales price increased by approximately one percent. The gain per property was higher in 2004 as a result of CNL-Capital reducing its reliance on outside brokers during 2004 to sell these properties. Additional information on actual proceeds and related cost of sales is located in "Liquidity and Capital Resources - CNL-Capital - Investment Property Sales Program."

Income Tax Provision

The Company is primarily treated as a REIT and generally records no tax expense. However, effective January 1, 2001, the activities of CNL-Capital and certain activities of CNL-Investments are taxable pursuant to rules governing TRSs. CNL-Capital had not reflected an income tax provision from inception through December 31, 2003 as a result of recognition of deferred tax assets previously subject to valuation allowances. CNL-Capital reversed the remaining valuation allowance at December 31, 2003 and recorded income tax provisions of \$2.0 million and \$3.2 million for the quarter and six months ended June 30, 2004, respectively, which were recorded in discontinued operations as shown in the table above. CNL-Capital anticipates recording income tax provisions in future quarters to the extent it generates taxable earnings.

As of June 30, 2004, the CNL-Investments' TRS had a deferred tax asset of \$0.8 million. This TRS has not yet generated any taxable income. Therefore, CNL-Investments has established a valuation allowance to completely offset the deferred tax asset.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information regarding the Company's market risk at December 31, 2003 is included in its Annual Report on Form 10-K for the year ended December 31, 2003. The material changes in the Company's market risk are discussed in Item 2 above. Information regarding the Company's market risk relating to changes in interest rates are incorporated herein by reference to Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk" herein.

Item 4. Controls and Procedures.

Quarterly Evaluation. Management carried out an evaluation as of June 30, 2004 of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which management refers to as the Company's disclosure controls. This evaluation was done under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer. Rules adopted by the Securities and Exchange Commission (the "Commission") require that management present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of the Company's disclosure controls as of the end of the period covered by this quarterly report.

CEO and CFO Certifications. Included as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q are forms of "Certification" of the Company's Chief Executive Officer and Chief Financial Officer. The forms of Certification are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the Quarterly Report on Form 10-Q which you are currently reading is the information concerning the evaluation referred to in the Section 302 certifications. This information should be read in conjunction with the Section 302 certifications for a more complete understanding of the topics presented.

Disclosure Controls and Procedures and Internal Control over Financial Reporting. Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial

Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- o pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- o provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management or the Company's Board of Directors; and
- o provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material adverse effect on the Company's financial statements.

Limitations on the Effectiveness of Controls. Management, including the Company's Chief Executive Officer and Chief Financial Officer, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions. Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2004 and subject to the limitations noted above, the Company's disclosure controls and procedures were effective at the reasonable assurance level to ensure that material information relating to the Company and the Company's consolidated subsidiaries is made known to management, including the Company's Chief Executive Officer and Chief Financial Officer.

During the quarter ended June 30, 2004, there were no significant changes in the Company's internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, the Company's internal control for financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Inapplicable.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchaser of Equity Securities. Inapplicable.

Item 3. Defaults upon Senior Securities. Inapplicable.

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

- (a) The regular annual meeting of stockholders of the Company was held in Orlando, Florida on June 23, 2004 for the purpose of electing the board of directors.

(b) Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder, and there was no solicitation in opposition to management's solicitations. All of management's nominees for director were elected.

(c) One proposal was submitted to a vote of stockholders as follows:

(1) The stockholders approved the election of the following persons as directors of the Company:

Name	For	Withheld
Robert A. Bourne	24,779,965	279,405
G. Richard Hostetter, Esq.	24,780,587	278,783
Richard C. Huseman	24,765,901	293,469
J. Joseph Kruse	24,747,243	312,127
James M. Seneff, Jr.	24,781,319	278,051

Item 5. Other Information. Inapplicable.

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

(a) Exhibits

2.1 Agreement and Plan of Merger, by and among the Registrant, CFA Acquisition Corp., CNL Fund Advisors, Inc. and CNL Group, Inc., dated March 11, 1999 (included as Exhibit 10.38 to the Registrant's Registration Statement No. 333-74329 on Form S-4 (the "Form S-4") as originally filed and incorporated herein by reference).

2.2 Agreement and Plan of Merger, by and among the Registrant, CFC Acquisition Corp., CFS Acquisition Corp., CNL Financial Corp., CNL Financial Services, Inc., CNL Group, Inc., Five Arrows Realty Securities L.L.C., Robert A. Bourne, Curtis B. McWilliams and Brian Fluck, dated March 11, 1999 (included as Exhibit 10.39 to the Form S-4 as originally filed and incorporated herein by reference).

3.1 CNL Restaurant Properties, Inc. Second Amended and Restated Articles of Incorporation, as amended by Articles of Amendment to Second Amended and Restated Articles of Incorporation of CNL Restaurant Properties, Inc., as amended by Articles of Amendment to Second Amended and Restated Articles of Incorporation of CNL Restaurant Properties, Inc. (included as Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference.)

3.2 Third Amended and Restated Bylaws of CNL Restaurant Properties, Inc. (filed herewith).

4.1 Form of Stock Certificate (included as Exhibit 4.5 to the Registrant's Registration Statement No. 33-78790 on Form S-11 and incorporated herein by reference).

10.1 Form of Indemnification Agreement dated as of April 18, 1995, between the Registrant and each of James M. Seneff, Jr., Robert A. Bourne, G. Richard Hostetter, J. Joseph Kruse, Richard C. Huseman, John T. Walker, Jeanne A. Wall, Lynn E. Rose and Edgar J. McDougall, dated as of January 27, 1997, between the Registrant and Steven D. Shackelford, dated as of February 18, 1998, between the Registrant and Curtis B. McWilliams, and dated as of September 1, 1999, between the Registrant and each of Howard J. Singer, John L. Farren, Timothy J. Neville, Michael I. Wood and Barry L. Goff (included as Exhibit 10.9 to the Registrant's Registration Statement No. 333-15411 on Form S-11 and incorporated herein by reference).

10.2 Amended and Restated Agreement of Limited Partnership of CNL APF Partners, LP (included as Exhibit 10.50 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).

10.3 Franchise Receivable Funding and Servicing Agreement dated as of October 14, 1999 between CNL APF Partners, LP

and Neptune Funding Corporation (included as Exhibit 10.5 to the Registrant's Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

- 10.4 Interim Wholesale Mortgage Warehouse and Security Agreement dated as of September 18, 1998, and Amended Agreement dated as of August 30, 1999 between CNL APF Partners, LP and Prudential Securities Credit Corporation (included as Exhibit 10.6 to the Registrant's Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- 10.5 1999 Performance Incentive Plan (included as Exhibit 10.1 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.6 Registration Rights Agreement by and among the Registrant, Robert A. Bourne, Curtis B. McWilliams, John T. Walker, Howard Singer, Steven D. Shackelford and CNL Group, Inc., dated as of March 11, 1999 (included as Exhibit 10.40 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.7 Registration Rights Agreement by and among the Registrant, Five Arrows Realty Securities L.L.C., James M. Seneff, Jr., Robert A. Bourne, Curtis B. McWilliams and CNL Group, Inc., dated as of March 11, 1999 (included as Exhibit 10.41 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.8 Employment Agreement by and between Barry L. Goff and the Registrant, dated September 15, 1999 (included as Exhibit 10.46 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).
- 10.9 Employment Agreement by and between Robert W. Chapin and the Registrant, dated September 15, 1999 (included as Exhibit 10.47 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).
- 10.10 Employment Agreement by and between Michael Wood and the Registrant, dated August 31, 1999 (included as Exhibit 10.19 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.11 Employment Agreement by and between Brent Heaton and the Registrant, dated September 29, 1999 (included as Exhibit 10.20 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.12 Addendum to Employment Agreement dated as of November 1, 1999, between the Registrant and Curtis McWilliams (included as Exhibit 10.21 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a substantially identical Addendum relating to their respective employment agreements: Steve Shackelford (dated November 1, 1999), John Walker (dated November 3, 1999), Barry Goff (dated November 1, 1999), and Brent Heaton (dated November 3, 1999).
- 10.13 Addendum to Employment Agreement dated as of November 1, 1999, between the Registrant and Robert Chapin (included as Exhibit 10.22 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a substantially identical Addendum relating to their respective employment agreements: Howard Singer (dated November 1, 1999), Michael Wood (dated November 8, 1999) and Timothy Neville (dated November 24, 1999).
- 10.14 Second Addendum to Employment Agreement dated as of June 16, 2000, between the Registrant and Curtis McWilliams (included as Exhibit 10.23 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a substantially identical Second Addendum relating to their respective employment agreements: Howard Singer (dated June 19, 2000), Robert Chapin (dated June 20, 2000) and Brent Heaton (dated October 30, 2000).
- 10.15 Second Addendum to Employment Agreement dated as of August 20, 2000, between the Registrant and Barry Goff (included as Exhibit 10.24 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated

herein by reference).

- 10.16 Second Addendum to Employment Agreement dated as of October 24, 2000, between the Registrant and Michael Wood (included as Exhibit 10.27 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.17 Amended and Restated Master Purchase Agreement dated as of October 11, 2001, among Bank of America, N.A., CNL Financial VII, LP and CNL Franchise Network, LP (included as Exhibit 10.29 to the Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.18 Third Amended and Restated Side Letter dated as of October 11, 2001, among Bank of America, N.A., CNL Financial VII, LP and CNL Franchise Network, LP (included as Exhibit 10.30 to the Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.19 Loan and Security Agreement dated as of June 14, 2002 between CNL Financial IX, LP and Nieuw Amsterdam Receivables Corporation (included as Exhibit 10.31 to the Registrant's Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference).
- 10.20 Letter Agreement dated December 15, 2003 between Bank of America, N.A., CNL Financial VII, LP and CNL Restaurant Capital, LP (included as Exhibit 10.20 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.21 Employment Agreement dated as of May 5, 2003 by and between CNL Franchise Network GP Corp. and Steven D. Shackelford (included as Exhibit 10.21 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.22 Employment Agreement dated as of May 5, 2003 by and between CNL Franchise Network GP Corp. and Curtis B. McWilliams (included as Exhibit 10.22 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.23 Employment Agreement dated as of January 1, 2004 by and between CNL Restaurant Investments, Inc. and Thomas G. Kindred, Jr. (included as Exhibit 10.23 to the Registrant's Form 10-Q for the quarter ended March 31, 2004, and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Chief Executive Officer 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 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

(b) The Registrant filed no reports on Form 8-K 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.

By:/s/ Curtis B. McWilliams

CURTIS B. MCWILLIAMS
Chief Executive Officer
(Principal Executive Officer)

By:/s/ Steven D. Shackelford

STEVEN D. SHACKELFORD
Chief Financial Officer
(Principal Financial and Accounting
Officer)

EXHIBIT INDEX

(c) Exhibits

- 2.1 Agreement and Plan of Merger, by and among the Registrant, CFA Acquisition Corp., CNL Fund Advisors, Inc. and CNL Group, Inc., dated March 11, 1999 (included as Exhibit 10.38 to the Registrant's Registration Statement No. 333-74329 on Form S-4 (the "Form S-4") as originally filed and incorporated herein by reference).
- 2.2 Agreement and Plan of Merger, by and among the Registrant, CFC Acquisition Corp., CFS Acquisition Corp., CNL Financial Corp., CNL Financial Services, Inc., CNL Group, Inc., Five Arrows Realty Securities L.L.C., Robert A. Bourne, Curtis B. McWilliams and Brian Fluck, dated March 11, 1999 (included as Exhibit 10.39 to the Form S-4 as originally filed and incorporated herein by reference).
- 3.1 CNL Restaurant Properties, Inc. Second Amended and Restated Articles of Incorporation, as amended by Articles of Amendment to Second Amended and Restated Articles of Incorporation of CNL Restaurant Properties, Inc., as amended by Articles of Amendment to Second Amended and Restated Articles of Incorporation of CNL Restaurant Properties, Inc. (included as Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- 3.2 Third Amended and Restated Bylaws of CNL Restaurant Properties, Inc. (filed herewith).
- 4.1 Form of Stock Certificate (included as Exhibit 4.5 to the Registrant's Registration Statement No. 33-78790 on Form S-11 and incorporated herein by reference).
- 10.1 Form of Indemnification Agreement dated as of April 18, 1995, between the Registrant and each of James M. Seneff, Jr., Robert A. Bourne, G. Richard Hostetter, J. Joseph Kruse, Richard C. Huseman, John T. Walker, Jeanne A. Wall, Lynn E. Rose and Edgar J. McDougall, dated as of January 27, 1997, between the Registrant and Steven D. Shackelford, dated as of February 18, 1998, between the Registrant and Curtis B. McWilliams, and dated as of September 1, 1999, between the Registrant and each of Howard J. Singer, John L. Farren, Timothy J. Neville, Michael I. Wood and Barry L. Goff (included as Exhibit 10.9 to the Registrant's Registration Statement No. 333-15411 on Form S-11 and incorporated herein by reference).
- 10.2 Amended and Restated Agreement of Limited Partnership of CNL APF Partners, LP (included as Exhibit 10.50 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).
- 10.3 Franchise Receivable Funding and Servicing Agreement dated as of October 14, 1999 between CNL APF Partners, LP and Neptune Funding Corporation (included as Exhibit 10.5

to the Registrant's Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

- 10.4 Interim Wholesale Mortgage Warehouse and Security Agreement dated as of September 18, 1998, and Amended Agreement dated as of August 30, 1999 between CNL APF Partners, LP and Prudential Securities Credit Corporation (included as Exhibit 10.6 to the Registrant's Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- 10.5 1999 Performance Incentive Plan (included as Exhibit 10.1 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.6 Registration Rights Agreement by and among the Registrant, Robert A. Bourne, Curtis B. McWilliams, John T. Walker, Howard Singer, Steven D. Shackelford and CNL Group, Inc., dated as of March 11, 1999 (included as Exhibit 10.40 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.7 Registration Rights Agreement by and among the Registrant, Five Arrows Realty Securities L.L.C., James M. Seneff, Jr., Robert A. Bourne, Curtis B. McWilliams and CNL Group, Inc., dated as of March 11, 1999 (included as Exhibit 10.41 to Amendment No. 1 to the Form S-4 and incorporated herein by reference).
- 10.8 Employment Agreement by and between Barry L. Goff and the Registrant, dated September 15, 1999 (included as Exhibit 10.46 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).
- 10.9 Employment Agreement by and between Robert W. Chapin and the Registrant, dated September 15, 1999 (included as Exhibit 10.47 to Amendment No. 2 to the Form S-4 and incorporated herein by reference).
- 10.10 Employment Agreement by and between Michael Wood and the Registrant, dated August 31, 1999 (included as Exhibit 10.19 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.11 Employment Agreement by and between Brent Heaton and the Registrant, dated September 29, 1999 (included as Exhibit 10.20 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.12 Addendum to Employment Agreement dated as of November 1, 1999, between the Registrant and Curtis McWilliams (included as Exhibit 10.21 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a substantially identical Addendum relating to their respective employment agreements: Steve Shackelford (dated November 1, 1999), John Walker (dated November 3, 1999), Barry Goff (dated November 1, 1999), and Brent Heaton (dated November 3, 1999).
- 10.13 Addendum to Employment Agreement dated as of November 1, 1999, between the Registrant and Robert Chapin (included as Exhibit 10.22 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a substantially identical Addendum relating to their respective employment agreements: Howard Singer (dated November 1, 1999), Michael Wood (dated November 8, 1999) and Timothy Neville (dated November 24, 1999).
- 10.14 Second Addendum to Employment Agreement dated as of June 16, 2000, between the Registrant and Curtis McWilliams (included as Exhibit 10.23 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference). The following persons have signed a

substantially identical Second Addendum relating to their respective employment agreements: Howard Singer (dated June 19, 2000), Robert Chapin (dated June 20, 2000) and Brent Heaton (dated October 30, 2000).

- 10.15 Second Addendum to Employment Agreement dated as of August 20, 2000, between the Registrant and Barry Goff (included as Exhibit 10.24 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.16 Second Addendum to Employment Agreement dated as of October 24, 2000, between the Registrant and Michael Wood (included as Exhibit 10.27 to the Registrant's Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.17 Amended and Restated Master Purchase Agreement dated as of October 11, 2001, among Bank of America, N.A., CNL Financial VII, LP and CNL Franchise Network, LP (included as Exhibit 10.29 to the Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.18 Third Amended and Restated Side Letter dated as of October 11, 2001, among Bank of America, N.A., CNL Financial VII, LP and CNL Franchise Network, LP (included as Exhibit 10.30 to the Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.19 Loan and Security Agreement dated as of June 14, 2002 between CNL Financial IX, LP and Nieuw Amsterdam Receivables Corporation (included as Exhibit 10.31 to the Registrant's Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference).
- 10.20 Letter Agreement dated December 15, 2003 between Bank of America, N.A., CNL Financial VII, LP and CNL Restaurant Capital, LP (included as Exhibit 10.20 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.21 Employment Agreement dated as of May 5, 2003 by and between CNL Franchise Network GP Corp. and Steven D. Shackelford (included as Exhibit 10.21 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.22 Employment Agreement dated as of May 5, 2003 by and between CNL Franchise Network GP Corp. and Curtis B. McWilliams (included as Exhibit 10.22 to the Registrant's Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
- 10.23 Employment Agreement dated as of January 1, 2004 by and between CNL Restaurant Investments, Inc. and Thomas G. Kindred, Jr. (included as Exhibit 10.23 to the Registrant's Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Chief Executive Officer 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 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

EXHIBIT 3.2

THIRD AMENDED AND RESTATED BYLAWS OF
CNL RESTAURANT PROPERTIES, INC.

EXHIBIT 31.1

RULE 13a-14 (a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

EXHIBIT 31.2

RULE 13a-14 (a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

EXHIBIT 32.1

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

EXHIBIT 32.2

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

CNL RESTAURANT PROPERTIES, INC.
THIRD AMENDED AND RESTATED BYLAWS

The Bylaws of CNL RESTAURANT PROPERTIES, INC., a corporation organized under the laws of the State of Maryland (the "Company"), having The Corporation Trust Incorporated as its resident agent located at 32 South Street, Baltimore, Maryland 21202, are as follows:

ARTICLE I
OFFICES

SECTION 1. PRINCIPAL OFFICE. The principal office of the Company shall be located at such place or places as the Board of Directors may designate in the State of Maryland.

SECTION 2. ADDITIONAL OFFICES. The Company may have additional offices at such places as the Board of Directors may from time to time determine or the business of the Company may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

SECTION 1. PLACE. All meetings of stockholders shall be held at the principal office of the Company or at such other place within the United States as shall be stated in the notice of the meeting.

SECTION 2. ANNUAL MEETING. An annual meeting of the stockholders for the election of Directors, as such term is defined below, and the transaction of any business within the powers of the Company shall be held upon reasonable notice and not less than 30 days after delivery of the annual report.

SECTION 3. SPECIAL MEETINGS. Subject to the rights of the holders of any series of Preferred Shares (as such term is defined in the Company's Articles of Incorporation, as amended (the "Articles of Incorporation")) to elect additional Directors under specified circumstances, special meetings of the stockholders may be called by (i) a majority of the Board of Directors; or (ii) the secretary at the request in writing of stockholders representing at least 10% of all votes entitled to be cast on any issue proposed to be considered at any such special meeting, not less than 15 nor more than 60 days after such request is received. Written or printed notice of any special meeting called pursuant to subsection (ii) will be provided to all stockholders within ten days after any such request is received, stating the time and place of the meeting specified in the request, which shall be a time and place convenient to the stockholders.

SECTION 4. NOTICE. Not less than 15 nor more than 60 days before each meeting of stockholders, the secretary shall give to each stockholder entitled to vote at such meeting, and to each stockholder not

entitled to vote who is entitled to notice of the meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by statute or these Bylaws, the purpose for which the meeting is called, either by mail to the address of such stockholder as it appears on the records of the Company, or by presenting it to such stockholder personally or by leaving it at his residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at his post office address as it appears on the records of the Company, with postage thereon prepaid.

SECTION 5. SCOPE OF NOTICE. Any business of the Company may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by statute to be stated in such notice. No business shall be transacted at a special meeting of stockholders except as specifically designated in the notice.

SECTION 6. QUORUM. At any meeting of stockholders, the presence in person or by proxy of stockholders holding 50% of the then outstanding shares shall constitute a quorum; but this section shall not affect any requirement under any statute, any other provision of these Bylaws, or the Articles of Incorporation for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the stockholders, the stockholders entitled to vote at such meeting, present in person or by proxy, shall have power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 7. VOTING. A majority of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a Director, notwithstanding the concurrence of the Board of Directors to such action. Each share may be voted for as many individuals as there are Directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Articles of Incorporation. Unless otherwise provided in the Articles of Incorporation, each Common Share owned of record on the applicable record date shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. The Directors and any affiliates are prohibited from voting on or consenting to matters submitted to the stockholders regarding the removal of Directors or any affiliate or any transaction between the Company and any of them, nor will such shares be counted in determining a quorum or a majority in such circumstances.

SECTION 8. PROXIES. A stockholder may vote the shares owned of record by him, either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the Company before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless

otherwise provided in the proxy.

SECTION 9. VOTING OF SHARES BY CERTAIN HOLDERS. Shares registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the chief executive officer or a vice president, a general partner, trustee or other fiduciary thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such shares pursuant to a bylaw or a resolution of the board of directors of such corporation or other entity presents a certified copy of such bylaw or resolution, in which case such person may vote such shares. Any trustee or other fiduciary may vote shares registered in his name as such fiduciary, either in person or by proxy.

Shares of the Company directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Company that any shares registered in the name of the stockholder are held for the account of a specific person other than the stockholder. The resolution shall set forth the class of stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it, if the certification is with respect to a record date or closing of the share transfer books, the time after the record date or closing of the share transfer books within which the certification must be received by the Company and any other provisions with respect to the procedure which the Directors consider necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the stockholder of record of the specified shares in place of the stockholder who makes the certification.

SECTION 10. INSPECTORS. At any meeting of stockholders, the chairman of the meeting may, or upon the request of any stockholder shall, appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the stockholders.

Each report of an inspector shall be in writing and signed by him or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

SECTION 11. REPORTS TO STOCKHOLDERS.

(a) Not later than 120 days after the close of each fiscal year of the Company, the Directors shall deliver or cause to be delivered a report of the business and operations of the Company during such fiscal year to the stockholders, containing (i) financial statements prepared in accordance with generally accepted accounting principles which are audited and reported on by independent certified public accountants; (ii) the ratio of the costs of raising capital during the period to the capital raised; (iii) a report from the Board of Directors that the policies being followed by the Company are in the best interests of its stockholders and the basis for such determination; (iv) separately stated, full disclosure of all material terms, factors, and circumstances surrounding any and all transactions involving the Company, Directors and any Affiliate thereof occurring in the year for which the annual report is made; and (v) Distributions, as such term is defined in the Company's Articles of Incorporation, to the stockholders for the period, identifying the source of such Distributions, and if such information is not available at the time of the distribution, a written explanation of the relevant circumstances will accompany the Distributions (with the statement as to the source of Distributions to be sent to stockholders not later than 60 days after the end of the fiscal year in which the distribution was made) and such further information as the Board of Directors may determine is required pursuant to any law or regulation to which the Company is subject. A signed copy of the annual report and the accountant's certificate shall be filed by the Directors with the State Department of Assessments and Taxation of Maryland, and with such other governmental agencies as may be required by law and as the Directors may deem appropriate. Such report shall be submitted at the annual meeting of stockholders and, within 20 days after such meeting, placed on file at the Company's principal office.

(b) Not later than 45 days after the end of each of the first three quarterly periods of each fiscal year and upon written request by a stockholder, the Directors shall deliver or cause to be delivered an interim report to such requesting stockholder containing unaudited financial statements for such quarter and for the period from the beginning of the fiscal year to the end of such quarter, and such further information as the Directors may determine is required pursuant to any law or regulation to which the Company is subject.

SECTION 12. NOMINATIONS AND STOCKHOLDER BUSINESS.

(a) Annual Meetings of Stockholders.

(1) With respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made only (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Company who was a stockholder of record at the time of giving of notice, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 12(a).

(2) For nominations or other business to be properly

brought before an annual meeting by a stockholder pursuant to clause (ii) of paragraph (a)(1) of this Section 12, the stockholder must have given timely notice thereof in writing to the secretary of the Company. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election or re-election as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and of the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of Section 12(a)(2) to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Company at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 12(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the Company not later than the close of business on the tenth day following the day on which such public announcement is first made by the Company.

(b) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Company's notice of meeting.

Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected pursuant to the Company's notice of meeting (i) by or at the direction of the Board of Directors or (ii) provided that the Board of Directors has determined that Directors shall be elected at such special meeting, by any stockholder of the Company who is a stockholder of record at the time of giving of notice provided for in this Section 12(b), who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 12(b). In the event the Company calls a special meeting of stockholders for the purpose of electing one or more Directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be) for election to such position as specified in the Company's notice of meeting, if the stockholder's notice complies with the requirements of Section 12(a)(2) and is delivered to the secretary at the principal executive offices of the Company not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Directors to be elected at such meeting.

(c) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 12 shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 12. The presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 12 and, if any proposed nomination or business is not in compliance with this Section 12, to declare that such defective nomination or proposal be disregarded.

(2) For purposes of this Section 12, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(3) Notwithstanding the foregoing provisions of this Section 12, a stockholder also shall comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 12. Nothing in this Section 12 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 13. VOTING BY BALLOT. Voting on any question or in any election may be viva voce unless the presiding officer shall order or any stockholder shall demand that voting be by ballot.

SECTION 14. NO STOCKHOLDER ACTION BY WRITTEN CONSENT. Subject to the rights of the holders of any series of Preferred Shares to elect additional Directors under specific circumstances, any action required or permitted to be taken by the stockholders of the Company must be effected at an annual or special meeting of stockholders and may not be effected by any consent in writing by such stockholders.

ARTICLE III DIRECTORS

SECTION 1. GENERAL POWERS; NUMBER; QUALIFICATIONS. The business and affairs of the Company shall be managed under the direction of its Board of Directors (also referred to herein as "Director" or "Directors"). Notwithstanding the other requirements set forth herein and in the Articles of Incorporation, a Director shall be an individual at least 21 years of age who is not under legal disability. The number of Directors which shall constitute the whole board shall not be less than three nor more than fifteen. Within such limits, the actual number of directors which shall constitute the whole board shall be as fixed from time to time by resolution of the Board of Directors.

SECTION 2. REGULAR MEETINGS. A meeting of the Directors shall be held quarterly in person or by telephone. The Directors may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Directors without other notice than such resolution.

SECTION 3. SPECIAL MEETINGS. Special meetings of Directors may be called by or at the request of the chief executive officer or by a majority of the Directors then in office. The person or persons authorized to call special meetings of the Directors may fix any place, either within or without the State of Maryland, as the place for holding any special meeting of the Directors called by them.

SECTION 4. NOTICE. Notice of any annual, regular or special meeting shall be given by written notice delivered personally, transmitted by facsimile, telegraphed or mailed to each Director at his business or residence address. Personally delivered, facsimile transmitted or telegraphed notices shall be given at least two days prior to the meeting. Notice by facsimile or telegraph shall be promptly followed by mailed notice. Notice by mail shall be given at least five days prior to the meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. If given by telegram, such notice shall be deemed to be given when the telegram is delivered to the telegraph company. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

SECTION 5. QUORUM. A whole number of Directors equal to at least a majority of the whole Board of Directors shall constitute a quorum for transaction of business at any meeting of the Directors; provided, that if less than a quorum are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice; and provided further, that if, pursuant to the Articles of Incorporation or these Bylaws, the vote of a majority of a particular group of Directors is required for action, a quorum must also include a majority of such group.

The Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum.

SECTION 6. VOTING. The action of the majority of the Directors present at a meeting at which a quorum is present shall be the action of the Directors, unless the concurrence of a particular group of Directors or of a greater proportion is required for such action by applicable statute, the Articles of Incorporation or these Bylaws.

SECTION 7. TELEPHONE MEETINGS. Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

SECTION 8. INFORMAL ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting, if a consent in writing to such action is signed by each Director and such written consent is filed with the minutes of proceedings of the Directors.

SECTION 9. VACANCIES. If for any reason any or all the Directors cease to be Directors, such event shall not terminate the Company or affect these Bylaws or the powers of the remaining Directors hereunder (even if fewer than three Directors remain). Any vacancy created by an increase in the number of Directors shall be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the Directors. Any other vacancy shall be filled at any annual meeting or at any special meeting of the stockholders called for that purpose, by a majority of the Common Shares outstanding and entitled to vote. Any individual so elected as Director shall hold office for the unexpired term of the Director he is replacing.

SECTION 10. COMPENSATION. Each Director is entitled to receive \$12,000 annually for serving on the Board of Directors, as well as fees of \$1,000 per meeting of the Board of Directors attended and \$500 for each telephonic meeting of the Board of Directors in which the Director participates. The Director serving as Chair of the Audit Committee is entitled to receive fees of \$1,500 per meeting of the Audit Committee attended and \$500 per telephonic meeting of the Audit Committee in which the Director participates. The Director serving as chair of any other Committee is entitled to receive fees of \$1,000 per meeting of such committee attended and \$500 per telephonic meeting of such

committee in which the Director participates. Each other Director is entitled to receive fees of \$1,000 per meeting of the Audit Committee attended, \$1,000 per meeting of any Special Committee of the Board of Directors attended, \$750 per meeting of any other committee attended and \$500 for each telephonic meeting of any committee in which the Director participates.

SECTION 11. ELECTION AND REMOVAL OF DIRECTORS; TERM. The stockholders may, at any time, remove any Director in the manner provided in the Articles of Incorporation. The term of service for a Director is one year, without limit on successive terms.

SECTION 12. LOSS OF DEPOSITS. No Director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with which moneys or shares have been deposited.

SECTION 13. SURETY BONDS. Unless required by law, no Director shall be obligated to give any bond or surety or other security for the performance of any of his duties.

SECTION 14. RELIANCE. Each Director, officer, employee and agent of the Company shall, in the performance of his duties with respect to the Company, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Company, upon an opinion of counsel or upon reports made to the Company by any of its officers or employees or by the advisers, accountants, appraisers or other experts or consultants selected by the Directors or officers of the Company, regardless of whether such counsel or expert may also be a Director.

SECTION 15. CERTAIN RIGHTS OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. The Directors shall have no responsibility to devote their full time to the affairs of the Company. Any Director, officer, employee or agent of the Company, in his personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar to or in addition to those of or relating to the Company, subject to the adoption of any policies relating to such interests and activities adopted by the Directors and applicable law.

ARTICLE IV COMMITTEES

SECTION 1. NUMBER, TENURE AND QUALIFICATIONS. The Directors may, by resolution or resolutions passed by a majority of the whole Board, appoint from among its members an Audit Committee and other committees, composed of two or more Directors to serve at the pleasure of the Directors. At such time, if any, as the Shares become listed on a national securities exchange or over-the-counter market, the Company will form a Compensation Committee.

SECTION 2. POWERS. The Directors may delegate to committees appointed under Section 1 of this Article IV any of the powers of the Board of Directors; provided, however, that the Directors may not delegate to committee

the power to declare dividends or other Distributions, elect Directors, issue Preferred or Common Shares (as such terms are defined in the Articles of Incorporation) (hereinafter "Shares") in the Company other than as provided in the next sentence, recommend to the stockholders any action which requires stockholder approval, amend the Bylaws or approve any merger or share exchange which does not require stockholder approval. If the Board of Directors has given general authorization for the issuance of Shares in the Company to a committee of the Board, in accordance with a general formula or method specified by the Board by resolution or by adoption of an option or other plan, such committee may fix the terms of the Shares subject to classification or reclassification and the terms on which the shares may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

SECTION 3. COMMITTEE PROCEDURES. Each committee may fix rules of procedure for its business. A majority of the members of a committee shall constitute a quorum for the transaction of business and the action of a majority of those present at a meeting at which a quorum is present shall be action of the committee. In the absence of any member of any committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another Director to act in the place of such absent member, subject to the requirements of Section 1 of this Article IV. Any action required or permitted to be taken at a meeting of a committee may be taken without a meeting, if a unanimous written consent which sets forth the action to be taken is signed by each member of the committee and filed with the minutes of the proceedings of such committee. The members of a committee may conduct any meeting thereof by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at the meeting.

ARTICLE V OFFICERS

SECTION 1. GENERAL PROVISIONS. The officers of the Company may consist of a chief executive officer, a president, a chief operating officer, one or more vice presidents, a chief financial officer and treasurer, a secretary, and one or more assistant secretaries, as determined by the Directors. In addition, the Directors may from time to time appoint such other officers with such powers and duties as they shall deem necessary or desirable. The officers of the Company shall be elected annually by the Directors at the first meeting of the Directors held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until his or her successor is elected and qualifies or until his or her death, resignation or removal in the manner hereinafter provided. Any two or more offices except (i) chief executive officer and vice president, or (ii) president and vice president, may be held by the same person, although any person holding more than one office in the Company may not act in more than one capacity to execute, acknowledge or verify an instrument required by law to be executed, acknowledged or verified by more than one officer.

In their discretion, the Directors may leave unfilled any office except that of the chief executive officer, the president, the treasurer and the secretary. Election of an officer or agent shall not of itself create contract rights between the Company and such officer or agent.

SECTION 2. REMOVAL AND RESIGNATION. Any officer or agent of the Company may be removed by a majority of the members of the whole Board of Directors, with or without cause, if in their judgment the best interests of the Company would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Company may resign at any time by giving written notice of his resignation to the Directors, the chief executive officer or the secretary. Any resignation shall take effect at any time subsequent to the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its receipt. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

SECTION 3. VACANCIES. A vacancy in any office may be filled by the Directors for the balance of the term.

SECTION 4. Reserved.

SECTION 5. CHIEF EXECUTIVE OFFICER. The Directors may designate a chief executive officer from among the elected officers. The chief executive officer shall in general supervise the management of the business affairs of the Company and the implementation of the policies of the Company, as determined by the Directors. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Directors or by these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of chief executive officer and such other duties as may be prescribed by the Directors from time to time.

SECTION 6. PRESIDENT. The president, subject to the control of the Board of Directors and with the chief executive officer, shall in general supervise and control all of the business and affairs of the Company. He or she shall, when present and in the absence of the chief executive officer, preside at all meetings of the stockholders and the Board of Directors. He or she may sign with the secretary or the chief financial officer and treasurer certificates for shares of the Company. He or she may execute any deed, mortgage, bond, contract, or other instrument except in cases where the signing and execution thereof shall be expressly delegated by the Directors or by these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the chief executive officer or the Directors from time to time.

SECTION 7. CHIEF OPERATING OFFICER. The chief operating officer, under the direction of the chief executive officer, shall have general

management authority and responsibility for the day-to-day implementation of the policies of the Company. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Directors or by these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of chief operating officer and such other duties as may be prescribed by the Directors from time to time.

SECTION 8. VICE PRESIDENTS. In the absence of the chief executive officer, the president, the chief operating officer or in the event of a vacancy in all such offices, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the chief executive officer or the president and when so acting shall have all the powers of and be subject to all the restrictions upon the chief executive officer and the president; and shall perform such other duties as from time to time may be assigned to him by the chief executive officer, by the president, by the chief operating officer or by the Directors. The Directors may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

SECTION 9. SECRETARY. The secretary shall: (i) keep the minutes of the proceedings of the stockholders, the Directors and committees of the Directors in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of the Articles of Incorporation, these Bylaws or as required by law; (iii) be custodian of the trust records and of the seal (if any) of the Company; (iv) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (v) have general charge of the share transfer books of the Company; and (vi) in general perform such other duties as from time to time may be assigned to him or her by the chief executive officer, by the president, by the chief operating officer or by the Directors.

SECTION 10. CHIEF FINANCIAL OFFICER AND TREASURER. The chief financial officer and treasurer shall have the custody of the funds and securities of the Company and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Directors. The chief financial officer shall disburse the funds of the Company as may be ordered by the Directors, taking proper vouchers for such disbursements, and shall render to the chief executive officer and Directors, at their regular meetings of the Directors or whenever they may require it, an account of all his or her transactions as chief financial officer and of the financial condition of the Company.

If required by the Directors, he or she shall give the Company a bond in such sum and with such surety or sureties as shall be satisfactory to the Directors for the faithful performance of the duties of his or her office and for the restoration to the Company, in case of his or her death,

resignation, retirement or removal from office, all books, papers, vouchers, moneys and other property of whatever kind in his or her possession or under his or her control belonging to the Company.

SECTION 11. ASSISTANT SECRETARIES. The assistant secretaries, in general, shall perform such duties as shall be assigned to them by the secretary, or by the chief executive officer, the president, or the Directors.

SECTION 12. SALARIES. The salaries of the officers shall be fixed from time to time by the Directors, and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a Director.

ARTICLE VI CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Company and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document executed by one or more of the Directors or by an authorized person shall be deemed valid and binding upon the Directors and upon the Company when so authorized or ratified by action of the Directors.

SECTION 2. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or officers, agent or agents of the Company and in such manner as shall from time to time be determined by the Directors.

SECTION 3. DEPOSITS. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Directors may designate.

ARTICLE VII SHARES

SECTION 1. CERTIFICATES. The Company will not issue share certificates. A stockholder's investment will be recorded on the books of the Company. A stockholder wishing to transfer his or her Shares will be required to send only an executed form to the Company, and the Company will provide the required form upon a stockholder's request. The executed form and any other required documentation must be received by the Company at least one calendar month prior to the last date of the current quarter.

SECTION 2. TRANSFERS. Transfers of Shares shall be effective, and the transferee of the Shares will be recognized as the holder of such Shares as of the first day of the following quarter on which the Company receives properly executed documentation. Stockholders who are residents of New York may not transfer fewer than 250 shares at any time.

The Company shall be entitled to treat the holder of record of any Share or Shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

SECTION 3. NOTICE OF ISSUANCE OR TRANSFER. Upon issuance or transfer of Shares, the Company shall send the stockholder a written statement that complies with the requirements of Section 5.6(xiii) of the Articles of Incorporation and reflects such investment or transfer. In addition such written statement shall set forth (i) the name of the Company; (ii) the name of the stockholder or other person to whom it is issued or transferred; (iii) the class of shares and number of shares purchased; (iv) the designations and any preferences, conversions and other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption of the shares of each class which the Company is authorized to issue; (v) the differences in the relative rights and preferences between the shares of each series of shares to the extent they have been set; (vi) the authority of the Board of Directors to set the relative rights and preferences; (vii) the restrictions on transferability of the shares sold or transferred (without affecting ss. 8-204 of the Commercial Law Article of the Maryland General Corporation Law (the "MGCL")); and (viii) any other information required by law. The Company, alternatively, may furnish notice that a full statement of the information contained in the foregoing subsections (i) through (viii) and otherwise complying with Section 5.6(xiii) of the Articles of Incorporation will be provided to any stockholder upon request and without charge.

SECTION 4. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. The Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or stockholders entitled to receive payment of any Distribution or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall not be more than 90 days and, in the case of a meeting of stockholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of stockholders is to be held or taken.

In the context of fixing a record date, the Directors may provide that the share transfer books shall be closed for a stated period but not longer than 20 days. If the share transfer books are closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed at least ten days before the date of such meeting.

If no record date is fixed and the share transfer books are not closed for the determination of stockholders, (i) the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the date on which notice of meeting is mailed or the 30th day before the meeting, whichever is the closer

date to the meeting, and (ii) the record date for the determination of stockholders entitled to receive payment of a Distribution or an allotment of any other rights shall be the close of business on the day on which the resolution of the Directors declaring the Distribution or allotment of rights is adopted, but the payment or allotment of rights may not be made more than 60 days after the date on which the resolution is adopted.

When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this Section 4, such determination shall apply to any adjournment thereof, except where the determination has been made through the closing of the transfer books and the stated period of closing has expired.

SECTION 5. SHARE LEDGER. The Company shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger, in written form or in any other form which can be converted within a reasonable time into written form for visual inspection, containing the name and address of each stockholder and the number of shares of each class held by such stockholder.

SECTION 6. FRACTIONAL SHARES; ISSUANCE OF UNITS. Directors may issue fractional shares or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Articles of Incorporation or these Bylaws, the Directors may issue units consisting of different securities of the Company. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Company, except that the Directors may provide that for a specified period securities of the Company issued in such unit may be transferred on the books of the Company only in such unit.

Before issuance of any shares classified or reclassified or otherwise issued in a unit, the Board of Directors will file articles supplementary with the Maryland State Department of Assessments and Taxation that describe such shares, including (a) the preferences, conversion and other rights, voting powers, restrictions, limitations as to distributions, qualifications, and terms and conditions of redemption, as set or changed by the Board of Directors; and (b) a statement that the shares have been classified or reclassified by the Board of Directors pursuant to its authority under the Company's charter. The articles supplementary will be executed in the manner provided by the MGCL.

ARTICLE VIII ACCOUNTING YEAR

The Directors shall have the power, from time to time, to fix the fiscal year of the Company by a duly adopted resolution.

ARTICLE IX DISTRIBUTIONS

SECTION 1. DECLARATION. Distributions upon the shares of the

Company may be declared by the Directors, subject to the provisions of law and the Articles of Incorporation. Distributions may be paid in cash or other property of the Company, subject to the provisions of law and the Articles of Incorporation.

SECTION 2. CONTINGENCIES. Before payment of any Distributions, there may be set aside out of any funds of the Company available for Distributions such sum or sums as the Directors may from time to time, in their absolute discretion, think proper as a reserve fund for the contingencies, for equalizing Distributions, for repairing or maintaining any property of the Company or for such other purpose as the Directors shall determine to be in the best interest of the Company, and the Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X INVESTMENT POLICY

Subject to the provisions of the Articles of Incorporation, the Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Company as they shall deem appropriate in their sole discretion. In addition, the Board of Directors shall review the Company's investment policies at least annually to determine that the policies are in the best interests of the stockholders.

ARTICLE XI SEAL

SECTION 1. SEAL. The Directors may authorize the adoption of a seal by the Company. The seal shall have inscribed thereon the name of the Company and the year of its organization. The Directors may authorize one or more duplicate seals and provide for the custody thereof.

SECTION 2. AFFIXING SEAL. Whenever the Company is required to place its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Company.

ARTICLE XII WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the Articles of Incorporation or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or

convened.

ARTICLE XIII
AMENDMENT OF BYLAWS

SECTION 1. AMENDMENTS. These Bylaws may be amended or repealed by either the affirmative vote of a majority of all Equity Shares, as such term is defined in the Company's Articles of Incorporation, outstanding and entitled to vote generally in the election of Directors, voting as a single group or by an affirmative vote of a majority of the Directors, provided that such amendments are not inconsistent with the Articles of Incorporation, and further provided that the Directors may not amend these Bylaws, without the affirmative vote of a majority of the Equity Shares, to the extent that such amendments adversely affect the rights, preferences and privileges of Stockholders.

SECTION 2. LOCATION OF BYLAWS. The original or a certified copy of these Bylaws, including any amendments thereto, shall be kept at the Company's principal office, as determined pursuant to Article I, Section 1 of these Bylaws.

ARTICLE XIV
ROLL-UP TRANSACTION

SECTION 1. PROVISION IN CONFLICT WITH LAW OR REGULATIONS. The Board of Directors has determined, in accordance with Section 10.3 of the Articles of Incorporation, that the following sentence included in Section 8.3 of the Articles of Incorporation is inconsistent with applicable state laws or regulations and, as a result, does not constitute part of the Articles of Incorporation.

In connection with a proposed Roll-Up Transaction which has not been approved by a vote of at least two-thirds (2/3) of the Stockholders, the person sponsoring the Roll-Up Transaction shall offer to Stockholders who vote against the proposed Roll-Up Transaction the choice of:

(i) accepting the securities of the Roll-Up Entity offered in the proposed Roll-Up Transaction; or

(ii) one of the following:

(a) remaining Stockholders of the Company and preserving their interests therein on the same terms and conditions as existed previously; or

(b) receiving cash in an amount equal to the Stockholder's pro rata share of the appraised value of the net assets of the Company.

SECTION 2. REPLACEMENT PROVISION. The following will apply to a Roll-Up Transaction in place of the sentence referenced above.

In connection with a proposed Roll-Up Transaction, the person sponsoring the Roll-Up Transaction shall offer to Stockholders who vote against

the proposed Roll-Up Transaction the choice of:

(i) accepting the securities of a Roll-Up Entity offered in the proposed Roll-Up Transaction; or

(ii) one of the following:

(a) remaining Stockholders of the Company and preserving their interests therein on the same terms and conditions as existed previously; or

(b) receiving cash in an amount equal to the Stockholder's pro rata share of the appraised value of the net assets of the Company.

ARTICLE XV
SUITABILITY

SECTION 1. Each person selling shares on behalf of the Company shall make every reasonable effort to determine that the purchase of shares is a suitable and appropriate investment for each stockholder.

SECTION 2. In making this determination, each person selling shares on behalf of the Company shall ascertain that the prospective stockholder:

(1) meets the minimum income and net worth standards established for the Company;

(2) can reasonably benefit from the Company based on the prospective stockholder's overall investment objectives and portfolio structure;

(3) is able to bear the economic risk of the investment based on the prospective stockholder's overall financial situation; and

(4) has apparent understanding of:

(A) the fundamental risks of the investment;

(B) the risk that the stockholder may lose the entire investment;

(C) the lack of liquidity of the shares;

(D) the restrictions of transferability of the shares; and

(E) the tax consequences of the investment.

SECTION 3. Each person selling shares on behalf of the Company will make this determination on the basis of information it has obtained from a prospective stockholder. Relevant information for this purpose will include at

least the age, investment objectives, investment experience, income, net worth, financial situation, and other investments of the prospective stockholder, as well as any other pertinent factors.

SECTION 4. Each person selling shares on behalf of the Company shall maintain records of the information used to determine that an investment in the shares is suitable and appropriate for a prospective stockholder. Each person selling shares on behalf of the Company shall maintain these records for at least six years.

SECTION 5. The Company shall disclose in each prospectus the responsibility of each person selling shares on behalf of the Company to make every reasonable effort to determine that the purchase of shares is a suitable and appropriate investment for each stockholder, based on information provided by the stockholder regarding the stockholder's financial situation and investment objectives.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Curtis B. McWilliams, the Chief Executive Officer of CNL Restaurant Properties, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNL Restaurant Properties, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers 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 we 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 officers 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/ Curtis B. McWilliams

Curtis B. McWilliams
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Steven D. Shackelford, the Chief Financial Officer of CNL Restaurant Properties, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNL Restaurant Properties, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers 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 we 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 officers 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/ Steven D. Shackelford

Steven D. Shackelford
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

The undersigned, Curtis B. McWilliams, the Chief Executive Officer of CNL Restaurant Properties, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the period year ended 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 Company.

DATED this 9th day of August 2004.

/s/ Curtis B. McWilliams

Curtis B. McWilliams
Chief Executive Officer

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

The undersigned, Steven D. Shackelford, the Chief Financial Officer of CNL Restaurant Properties, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the period ended 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 Company.

DATED this 9th day of August 2004.

/s/ Steven D. Shackelford

Steven D. Shackelford
Chief Financial Officer

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