Form 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2002

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _______ to _______

Commission File Number 0-24175

ATEL Capital Equipment Fund VII, L.P.
(Exact name of registrant as specified in its charter)

California	**94-3248318**
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

235 Pine Street, 6th Floor, San Francisco, California 94104
(Address of principal executive offices)

Registrant's telephone number, including area code: (415) 989-8800

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒
No ☐

DOCUMENTS INCORPORATED BY REFERENCE

None

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

JUNE 30, 2002 AND DECEMBER 31, 2001
(Unaudited)

ASSETS

	2002	2001
Cash and cash equivalents	$ 1,523,154	$ 936,189
Accounts receivable, net of allowance for doubtful accounts of $488,067 in 2002 and $118,067 in 2001	3,471,097	5,759,540
Other assets	30,017	108,015
Investments in leases	123,493,324	129,049,875
Total assets	$128,517,592	$ 135,853,619

LIABILITIES AND PARTNERS' CAPITAL

	2002	2001
Long-term debt	$ 40,529,000	$ 38,540,000
Non-recourse debt	7,027,922	9,971,225
Line of credit	7,000,000	4,100,000
Accounts payable:		
General Partner		580,916
Other	1,071,273	510,598
Accrued interest payable	178,908	355,458
Interest rate swap contracts	698,178	1,323,006
Unearned operating lease income	816,435	976,565
Total liabilities	57,321,716	56,357,768
Partners' capital	71,195,876	79,495,851
Total partners' capital	71,195,876	79,495,851
Total liabilities and partners' capital	$128,517,592	$ 135,853,619

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENT OF OPERATIONS

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2002 AND 2001
(Unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Revenues:				
Leasing activities:				
Operating leases	$ 12,543,651	$ 16,333,829	$ 5,832,667	$ 8,040,945
Direct financing	768,332	543,677	364,652	264,834
Leveraged leases		-	-	-
Loss on sales of assets	(1,057,988)	(351,040)	(1,010,652)	(270,078)
Interest	8,542	36,770	2,425	14,378
Other	90,059	5,167	87,948	2,593
	12,352,596	16,568,403	5,277,040	8,052,672
Expenses:				
Depreciation and amortization	9,095,832	10,771,879	4,672,320	5,179,501
Interest expense	1,737,408	2,159,511	847,810	1,049,036
Equipment and incentive management fees to General Partner	491,462	689,171	209,110	362,185
Provision for doubtful accounts	370,000	-	70,000	-
Cost reimbursements to General Partner	672,409	492,543	108,383	297,166
Railcar maintenance	347,462	425,191	194,252	188,344
Other	317,908	340,215	168,096	151,016
Professional fees	148,480	103,909	54,951	49,619
	13,180,961	14,982,419	6,324,922	7,276,867
Net (loss) income	$ (828,365)	$ 1,585,984	$ (1,047,882)	$ 775,805
Net (loss) income:				
General Partner	$ 596,584	$ 518,964	$ 300,277	$ 303,981
Limited Partners	(1,424,949)	1,067,020	(1,348,159)	471,824
	$ (828,365)	$ 1,585,984	$ (1,047,882)	$ 775,805
Net (loss) income per Limited Partnership Unit	($0.10)	$0.07	($0.09)	$0.03
Weighted average number of Units outstanding	14,996,050	14,996,050	14,996,050	14,996,050

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

SIX MONTH PERIOD ENDED
JUNE 30, 2002
(Unaudited)

	Limited Partners Units	Limited Partners Amount	General Partner	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2001	14,996,050	$ 80,818,857	$ -	$ (1,323,006)	$ 79,495,851
Unrealized decrease in value of interest rate swap contracts		-	-	624,828	624,828
Distributions to partners		(7,499,854)	(596,584)		(8,096,438)
Net (loss) income		(1,424,949)	596,584	-	(828,365)
Balance June 30, 2002	14,996,050	$ 71,894,054	$ -	$ (698,178)	$ 71,195,876

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2002 AND 2001
(Unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Operating activities:				
Net (loss) income	$ (828,365)	$ 1,585,984	$ (1,047,882)	$ 775,805
Adjustments to reconcile net (loss) income to cash provided by operating activities:				
Depreciation	9,095,832	10,771,879	4,672,320	5,179,501
Loss on sales of assets	1,057,988	351,040	1,010,652	270,078
Provision for doubtful accounts	370,000	-	70,000	-
Changes in operating assets and liabilities:				
Accounts receivable	1,918,443	1,464,456	580,491	115,429
Other assets	77,998	19,998	9,999	9,999
Accounts payable, General Partner	(580,916)	178,027	(287,088)	508,731
Accounts payable, other	560,675	(142,541)	303,897	47,104
Accrued interest expense	(176,550)	(210,127)	(105,079)	(140,400)
Unearned lease income	(160,130)	(336,984)	(204,262)	(293,713)
Net cash provided by operations	11,334,975	13,681,732	5,003,048	6,472,534
Investing activities:				
Purchases of equipment on operating leases	(3,959,522)	(1,950,111)	-	-
Reduction in net investment in direct financing leases	1,597,356	1,355,342	787,491	889,208
Proceeds from sales of assets	925,430	821,864	684,549	374,513
Purchases of equipment on direct financing leases	(3,052,572)	(492,988)	6,568	(41,066)
Payment of initial direct costs to General Partner	(107,961)	(16,726)	-	-
Net cash (used in) provided by investing activities	(4,597,269)	(282,619)	1,478,608	1,222,655
Financing activities:				
Distributions to partners	(8,096,438)	(8,019,110)	(4,050,183)	(4,054,171)
Repayments of long-term debt	(8,111,000)	(8,114,000)	(3,515,000)	(3,174,000)
Proceeds of long-term debt	10,100,000	2,000,000	-	2,000,000
Borrowings under line of credit	13,200,000	5,500,000	3,500,000	1,000,000
Repayments of borrowings under line of credit	(10,300,000)	(2,000,000)	(500,000)	(2,000,000)
Repayments of non-recourse debt	(2,943,303)	(3,207,037)	(1,186,766)	(1,645,135)
Net cash used in financing activities	(6,150,741)	(13,840,147)	(5,751,949)	(7,873,306)
Net increase (decrease) in cash and cash equivalents	586,965	(441,034)	729,707	(178,117)
Cash and cash equivalents at beginning of period	936,189	1,321,417	793,447	1,058,500
Cash and cash equivalents at end of period	$ 1,523,154	$ 880,383	$ 1,523,154	$ 880,383
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$ 1,913,958	$ 2,369,638	$ 952,889	$ 1,189,436

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002
(Unaudited)

1. Summary of significant accounting policies:

Interim financial statements:

The unaudited interim financial statements reflect all adjustments which are, in the opinion of the general partners, necessary to a fair statement of financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim financial statements should be read in conjunction with the most recent report on Form 10K.

2. Organization and partnership matters:

ATEL Capital Equipment Fund VII, L.P. (the Fund), was formed under the laws of the State of California on July 17 , 1996, for the purpose of acquiring equipment to engage in equipment leasing and sales activities.

The Partnership does not make a provision for income taxes since all income and losses will be allocated to the Partners for inclusion in their individual tax returns.

3. Investment in leases:

The Partnership's investment in leases consists of the following:

	Balance December 31, 2001	Additions	Depreciation Expense or Amortization of Leases	Reclassi-fications or Dispositions	Balance June 30, 2002
Net investment in operating leases	$ 101,066,589	$ 3,959,522	$ (8,986,718)	$ (537,720)	$ 95,501,673
Net investment in direct financing leases	18,931,921	3,052,572	(1,597,356)	(1,283,606)	19,103,531
Assets held for sale or lease	9,267,614	-	-	(666,319)	8,601,295
Reserve for losses	(504,227)	-	-	504,227	-
Initial direct costs, net of accumulated amortization	287,978	107,961	(109,114)	-	286,825
	$ 129,049,875	$ 7,120,055	$ (10,693,188)	$ (1,983,418)	$ 123,493,324

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002
(Unaudited)

3. Investment in leases (continued):

Property on operating leases consists of the following:

	Balance December 31, 2001	Dispositions & Reclassifications 1st Quarter	Dispositions & Reclassifications 2nd Quarter	Balance June 30, 2002
Transportation	$ 80,788,684	$ (180,106)	$ (356,586)	$ 80,251,992
Marine vessels / barges	27,030,136	-	-	27,030,136
Construction	22,831,963	(417,700)	-	22,414,263
Manufacturing	9,702,801	(28,868)	(306,545)	9,367,388
Materials handling	5,265,654	3,959,522	(166,602)	9,058,574
Mining	9,012,965	-	-	9,012,965
Other	5,813,733	(120,237)	320,234	6,013,730
Communications	4,387,819	-	-	4,387,819
Office automation	5,297,632	(466,740)	(1,119,362)	3,711,530
	170,131,387	2,745,871	(1,628,861)	171,248,397
Less accumulated depreciation	(69,064,798)	(3,445,301)	(3,236,625)	(75,746,724)
	$ 101,066,589	$ (699,430)	$ (4,865,486)	$ 95,501,673

All of the property on leases was acquired in 1997, 1998, 1999, 2001 and 2002.

At June 30, 2002, the aggregate amounts of future minimum lease payments are as follows:

	Operating Leases	Direct Financing Leases	Total
Six months ending December 31, 2002	$ 10,686,978	$ 2,141,528	$ 12,828,506
Year ending December 31, 2003	14,940,321	3,943,273	18,883,594
2004	9,664,461	3,857,280	13,521,741
2005	6,430,500	3,786,011	10,216,511
2006	1,509,428	1,713,362	3,222,790
Thereafter	769,347	756,133	1,525,480
	$ 44,001,035	$ 16,197,587	$ 60,198,622

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002
(Unaudited)

4. Non-recourse debt:

Notes payable to financial institutions are due in varying monthly and quarterly installments of principal and interest. The notes are secured by assignments of lease payments and pledges of the assets which were purchased with the proceeds of the particular notes. Interest rates on the notes vary from 7.40% to 8.828%.

Future minimum principal payments of non-recourse debt are as follows:

	Principal	Interest	Total
Six months ending December 31, 2002	$ 2,814,146	$ 245,283	$ 3,059,429
Year ending December 31, 2003	3,261,130	288,831	3,549,961
2004	298,403	67,364	365,767
2005	322,838	42,927	365,765
2006	216,850	20,179	237,029
Thereafter	114,555	5,418	119,973
	$ 7,027,922	$ 670,002	$ 7,697,924

5. Long-term debt:

In 1998, the Partnership entered into a $65 million receivables funding program (the Program) with a receivables financing company that issues commercial paper rated A1 by Standard and Poors and P1 by Moody's Investor Services. Under the Program, the receivables financing company receives a general lien against all of the otherwise unencumbered assets of the Partnership. The Program provides for borrowing at a variable interest rate (1.8539% at June 30, 2002). As of June 30, 2002, the program has been closed as to additional borrowings.

The Program requires the General Partner to enter into various interest rate swaps with a financial institution (also rated A1/P1) to manage interest rate exposure associated with variable rate obligations under the Program by effectively converting the variable rate debt to fixed rates. As of June 30, 2002, the Partnership receives or pays interest on a notional principal of $40,529,000, based on the difference between nominal rates ranging from 4.10% to 7.58% and the variable rate under the Program. No actual borrowing or lending is involved. The last of the swaps terminates in 2009. The differential to be paid or received is accrued as interest rates change and is recognized currently as an adjustment to interest expense related to the debt.

5. Long-term debt (continued):

Borrowings under the Program are as follows:

Date Borrowed	Original Amount Borrowed	Balance June 30, 2002	Rate on Interest Swap Agreement
4/1/98	$ 21,770,000	$ 2,386,000	6.220%
7/1/98	25,000,000	4,543,000	6.155%
10/1/98	20,000,000	7,601,000	5.550%
4/16/99	9,000,000	2,772,000	5.890%
1/26/00	11,700,000	7,578,000	7.580%
5/25/01	2,000,000	1,596,000	5.790%
9/28/01	6,000,000	4,889,000	4.360%
1/31/02	4,400,000	3,974,000	4.100%
2/19/02	5,700,000	5,190,000	5.490%
	$ 105,570,000	$ 40,529,000	

The long-term debt borrowings mature from 2004 through 2009. Future minimum principal payments of long-term debt are as follows:

	Principal	Interest	Total	Rates on Interest Swap Agreements*
Six months ending December 31, 2002	$ 6,983,000	$ 1,105,682	$ 8,088,682	5.859% - 5.876%
Year ending December 31, 2003	11,524,000	1,653,145	13,177,145	5.858% - 5.878%
2004	9,458,000	1,041,883	10,499,883	5.871% - 5.910%
2005	7,875,000	539,350	8,414,350	5.927% - 6.257%
2006	2,810,000	206,986	3,016,986	6.414% - 7.009%
2007	903,000	103,979	1,006,979	7.007% - 7.211%
2008	635,000	46,443	681,443	7.245% - 7.580%
2009	341,000	12,229	353,229	7.58%
	$ 40,529,000	$ 4,709,697	$ 45,238,697	

6. Related party transactions:

The terms of the Limited Partnership Agreement provide that the General Partner and/or Affiliates are entitled to receive certain fees for equipment management and resale and for management of the Partnership.

The Limited Partnership Agreement allows for the reimbursement of costs incurred by the General Partner in providing administrative services to the Partnership. Administrative services provided include Partnership accounting, investor relations, legal counsel and lease and equipment documentation. The General Partner is not reimbursed for services where it is entitled to receive a separate fee as compensation for such services, such as acquisition and management of equipment. Reimbursable costs incurred by the General Partner are allocated to the Partnership based upon actual time incurred by employees working on Partnership business and an allocation of rent and other costs based on utilization studies.

6. Related party transactions (continued):

Substantially all employees of the General Partner record time incurred in performing administrative services on behalf of all of the Partnerships serviced by the General Partner. The General Partner believes that the costs reimbursed are the lower of (i) actual costs incurred on behalf of the Partnership or (ii) the amount the Partnership would be required to pay independent parties for comparable administrative services in the same geographic location and are reimbursable in accordance with the Limited Partnership Agreement.

The General Partner and/or Affiliates earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement during the six month periods ended June 30, 2001 and 2000 as follows:

	2002	2001
Incentive management fees and equipment management fees	$ 491,462	$ 689,171
Administrative costs reimbursed to General Partner	672,409	492,543
	$ 1,163,871	$ 1,181,714

7. Partner's capital:

As of June 30, 2002, 14,996,050 Units ($149,960,500) were issued and outstanding.

First, Distributions of Cash from Operations shall be 88.5% to the Limited Partners, 7.5% to the General Partner and 4% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital, as defined in the Limited Partnership Agreement.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

Available Cash from Sales or Refinancing, as defined in the Limited Partnership Agreement, shall be distributed as follows:

First, Distributions of Sales or Refinancings shall be 92.5% to the Limited Partners and 7.5% to the General Partner, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

8. Line of credit:

The Partnership participates with the General Partner and certain of its affiliates in a $43,654,928 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of June 30, 2002, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 7,000,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	16,000,000
Total borrowings under the acquisition facility	23,000,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 23,000,000

Total available under the line of credit	$ 43,654,928
Total outstanding balance	(23,000,000)
Remaining availability	$ 20,654,928

9. Commitments:

As of June 30, 2002, the Partnership had no outstanding commitments to purchase lease equipment.

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

Capital Resources and Liquidity

During the first and second quarters of 2002, the Partnership's primary activity was engaging in equipment leasing activities.

The liquidity of the Partnership will vary in the future, increasing to the extent cash flows from leases exceed expenses, and decreasing as lease assets are acquired, as distributions are made to the limited partners and to the extent expenses exceed cash flows from leases.

As another source of liquidity, the Partnership has contractual obligations with a diversified group of lessees for fixed lease terms at fixed rental amounts. As the initial lease terms expire the Partnership will re-lease or sell the equipment. The future liquidity beyond the contractual minimum rentals will depend on the General Partner's success in re-leasing or selling the equipment as it comes off lease.

The Partnership participates with the General Partner and certain of its affiliates in a $43,654,928 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of June 30, 2002, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 7,000,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	16,000,000
Total borrowings under the acquisition facility	23,000,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 23,000,000
Total available under the line of credit	$ 43,654,928
Total outstanding balance	(23,000,000)
Remaining availability	$ 20,654,928

The Partnership anticipates reinvesting a portion of lease payments from assets owned in new leasing transactions. Such reinvestment will occur only after the payment of all obligations, including debt service (both principal and interest), the payment of management fees to the General Partner and providing for cash distributions to the Limited Partners.

The Partnership currently has available adequate reserves to meet contingencies, but in the event those reserves were found to be inadequate, the Partnership would likely be in a position to borrow against its current portfolio to meet such requirements. The General Partner envisions no such requirements for operating purposes.

No commitments of capital have been or are expected to be made other than for the acquisition of additional equipment. There were no such commitments as of June 30, 2002.

If inflation in the general economy becomes significant, it may affect the Partnership inasmuch as the residual (resale) values and rates on re-leases of the Partnership's leased assets may increase as the costs of similar assets increase. However, the Partnership's revenues from existing leases would not increase, as such rates are generally fixed for the terms of the leases without adjustment for inflation.

If interest rates increase significantly, the lease rates that the Partnership can obtain on future leases will be expected to increase as the cost of capital is a significant factor in the pricing of lease financing. Leases already in place, for the most part, would not be affected by changes in interest rates.

Cash Flows, 2002 vs. 2001:

During the first half of 2002 and 2001, the Partnership's primary sources of liquidity was rents from assets on operating leases.

Cash from operating activities was almost entirely from operating lease rents in both 2002 and in 2001 for both the three and six month periods.

Sources of cash from investing activities consisted of proceeds from sales of assets and direct financing lease rents. Proceeds from sales of lease assets increased significantly compared to 2001. In 2002 and 2001, cash was used in investing activities to purchase assets on operating and direct financing leases and to pay initial direct costs to the General Partner.

In 2002 and 2001, cash from financing sources consisted of proceeds of long-term debt and borrowings under the line of credit. In both 2002 and 2001, proceeds of long-term debt were used to repay amounts due on the line of credit. Repayments of long-term debt have changed as a result of scheduled payments. Distributions to partners did not change

Results of operations, 2002 vs. 2001:

Operations in 2002 resulted in a net loss of $828,365 (six months) and $1,047,882 (three months). Operations in 2001 resulted in a net income of $1,585,984 (six months) and $775,805 (three months). The losses in 2002 were directly related to the losses incurred in sales of lease assets in the second quarter of 2002. The Partnership's primary source of revenues is from operating leases. This is expected to remain true in future periods. Operating lease revenues for the six month periods decreased from $$16,333,829 in 2001 to $12,543,651 in 2002. For the three month periods, they decreased from $8,040,945 in 2001 to $5,832,667 in 2002. The decreases were the result of asset sales in 2001 and in 2002.

Depreciation expense is the single largest expense of the Partnership and is expected to remain so in future periods. As lease assets have been sol over the last year, operating lease revenues have declined. This has also led to decreases in depreciation expense. Total debt has remained almost constant compared to June 30, 2001. However, more of the debt is being carried on the receivables funding facility. This has helped to reduce average interest rates and interest expense as the effective rates on the facility are lower than on the Partnership's other borrowings. For the six month periods, interest decreased by $422,103. For the three month period, the decrease was $201,226.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

No material legal proceedings are currently pending against the Partnership or against any of its assets. The following is a discussion of legal matters involving the Partnership but which do not represent claims against the Partnership or its assets.

Applied Magnetics Corporation:

In January 2000, Applied Magnetics Corporation filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The Partnership had assets with a total net book value of $8,048,095 leased to Applied Magnetics Corporation at the bankruptcy filing date. On January 31, 2000, the General Partner was appointed to the Official Committee of Unsecured Creditors and currently serves as the Chairperson of the Committee. Procedures were quickly undertaken for the liquidation of the Partnership's leased equipment, which proceeds resulted in recoveries of $1,773,798 or 21.7% of original equipment cost. As of November 1, 2000, liquidation of the assets was completed.

The debtor filed a Plan of Reorganization (the "Plan"), which was approved by a vote of the creditors of the debtor in October 2001. The Plan provided that the Debtor change its name to “Integrated Micro-Technology”, and enter into a new line of business, the manufacture and production of “micro-machines”. As part of the Plan, the Partnership, along with the other unsecured creditors, receives a proportionate share of their unsecured claims, in the form of ownership shares and warrants in the newly formed business. The success of this new business plan is highly uncertain.

On February 13, 2002, the reorganized Debtor filed a notice of objection to the Funds claim due to duplication and an improper liquidated damages provision, which the Funds intend to dispute.

The Partnership anticipates additional amounts may be recoverable through its equity interests in the reorganized lessee's business, however, any recoveries above the amounts received upon liquidation of the Partnership's equipment are highly uncertain and speculative.

Pioneer Companies, Inc.:

On July 31, 2001, petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code were filed by the Pioneer Companies, Inc., et al. The Partnership's Proof of Claim was timely filed on October 14, 2001, with the Bankruptcy Clerk in Houston. The Partnership is the successor in interest to First Union Rail Corporation (FURC) under four (4) tank car lease schedules for 36 tank cars with Pioneer Chlor-Alkali Company, Inc. n/k/a Pioneer Americas, Inc. (together, the “Lease”). FURC manages the Lease for the Partnership. The Order Confirming Debtor’s Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code ("Plan") was entered on November 28, 2001. The Effective Date, as defined in the Plan, was December 31, 2001. Pursuant to Schedules 6.1(a)(x) and 6.1(a)(y) of the Plan, the Lease was rejected by the debtor.

Although the equipment was to be returned to FURC by December 31, 2001, the debtor has continued to use and pay for the equipment under the lease on a month-to-month basis. A letter agreement has been forwarded to executed by the debtor to formalize an understanding for debtor’s continued use of the equipment under the terms of the Lease at least until March 31, 2002 on a month-to-month basis until the cars are returned. The debtor has also objected to the Fund’s claim, which objection is being disputed by the Fund. The full extent of any recovery is not known at this time.

Item 2. Changes In Securities.

Inapplicable.

Item 3. Defaults Upon Senior Securities.

Inapplicable.

Item 4. Submission Of Matters To A Vote Of Security Holders.

Inapplicable.

Item 5. Other Information.

Inapplicable.

Item 6. Exhibits And Reports On Form 8-K.

(a) Documents filed as a part of this report

1. Financial Statements

   Included in Part I of this report:

   Balance Sheets, June 30, 2002 and December 31, 2001.
   Statement of changes in partners' capital for the six months ended June 30, 2002.
   Statements of operations for the six and three month periods ended June 30, 2002 and 2001.
   Statement of cash flows for the six and three month periods ended June 30, 2002 and 2001.
   Notes to the Financial Statements.

2. Financial Statement Schedules

   All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(b) Report on Form 8-K
None

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

In connection with the Quarterly report on Form 10QSB of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Dean L. Cash, Chief Executive Officer of ATEL Financial Services, LLC, general partner of the Partnership, hereby certify 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.

/s/ DEAN L. CASH
Dean L. Cash
President and Chief Executive
Officer of General Partner
August 14, 2002

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

In connection with the Quarterly report on Form 10QSB of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Paritosh K. Choksi, Chief Financial Officer of ATEL Financial Services, LLC, general partner of the Partnership, hereby certify 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.

/s/ PARITOSH K. CHOKSI
Paritosh K. Choksi
Executive Vice President of General
Partner, Principal financial officer of registrant
August 14, 2002

SIGNATURES

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

Date:
August 14, 2002

ATEL CAPITAL EQUIPMENT FUND VII, L.P.
(Registrant)

By: ATEL Financial Services, LLC
General Partner of Registrant

By: /s/ DEAN L. CASH
Dean L. Cash
President and Chief Executive
Officer of General Partner

By: /s/ PARITOSH K. CHOKSI
Paritosh K. Choksi
Executive Vice President of
General Partner, Principal
financial officer of registrant

By: /s/ DONALD E. CARPENTER
Donald E. Carpenter
Principal accounting
officer of registrant