Form 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (no fee required)**
For the Year Ended December 31, 2002

OR

☐ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (no fee required)**
For the transition period from ____ to ____

Commission File number 0-24175

ATEL Capital Equipment Fund VII, L.P.

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

600 California Street, 6th Floor, San Francisco, California 94108
(Address of principal executive offices)

Registrant's telephone number, including area code (415) 989-8800
Securities registered pursuant to section 12(b) of the Act: None
Securities registered pursuant to section 12(g) of the Act: Limited Partnership Units

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 ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

State the aggregate market value of voting stock held by non-affiliates of the registrant: Inapplicable

DOCUMENTS INCORPORATED BY REFERENCE

Prospectus dated November 29, 1996, filed pursuant to Rule 424(b) (Commission File No. 333-08879) is hereby incorporated by reference into Part IV hereof.

PART I

Item 1: BUSINESS

General Development of Business

ATEL Capital Equipment Fund VII, L.P. (the Partnership) was formed under the laws of the state of California in May 1996. The Partnership was formed for the purpose of acquiring equipment to engage in equipment leasing and sales activities. The General Partner of the Partnership is ATEL Financial Services LLC (ATEL). Prior to converting to a limited liability company structure, the General Partner was formerly known as ATEL Financial Corporation.

The Partnership conducted a public offering of 15,000,000 Units of Limited Partnership Interest (Units) at a price of $10 per Unit. On January 7, 1997, the Partnership commenced operations in its primary business (leasing activities).   As of November 27, 1998, the Partnership had received subscriptions for 15,000,000 ($150,000,000) Limited Partnership Units and the offering was terminated. As of December 31, 2002, 14,996,050 Units were issued and outstanding.

The Partnership's principal objectives are to invest in a diversified portfolio of equipment that will (i) preserve, protect and return the Partnership's invested capital; (ii) generate regular distributions to the partners of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the reinvestment period, ending December 31, 2004 and (iii) provide additional distributions following the reinvestment period and until all equipment has been sold. The Partnership is governed by its Limited Partnership Agreement.

Narrative Description of Business

The Partnership has acquired and intends to acquire various types of equipment and to lease such equipment pursuant to "Operating" leases and "High Payout" leases, whereby "Operating" leases are defined as being leases in which the minimum lease payments during the initial lease term do not recover the full cost of the equipment and "High Payout" leases recover at least 90% of such cost. It is the intention of the General Partner that a majority of the aggregate purchase price of equipment will represent equipment leased under "High Payout" leases upon final investment of the net proceeds of the offering and that no more than 20% of the aggregate purchase price of equipment will be invested in equipment acquired from a single manufacturer.

The Partnership will generally only purchase equipment for which a lease exists or for which a lease will be entered into at the time of the purchase.

As of December 31, 2002, the Partnership had purchased equipment with a total acquisition price of $302,751,046.

The Partnership's objective is to lease a minimum of 75% of the equipment acquired with the net proceeds of the offering to lessees that (i) have an aggregate credit rating by Moody's Investor Service, Inc. of Baa or better, or the credit equivalent as determined by the General Partner, with the aggregate rating weighted to account for the original equipment cost for each item leased or (ii) are established hospitals with histories of profitability or municipalities. The balance of the original equipment portfolio may include equipment leased to lessees, which although deemed creditworthy by the General Partner, would not satisfy the general credit rating criteria for the portfolio. In excess of 75% of the equipment acquired with the net proceeds of the offering (based on original purchase cost) has been leased to lessees with an aggregate credit rating of Baa or better or to such hospitals or municipalities.

As set forth below, during 2002, one lessee generated 11% the Partnership's lease revenues. During 2001and 2000, no single lessee generated more than 10% of the Partnership's lease revenues.

Lessee	Type of Equipment	2002	2001	2000
General Motors Corporation	Materials Handling	11%	*	*

* Less than 10%.

These percentages are not expected to be comparable in future periods.

The equipment leasing industry is highly competitive. Equipment manufacturers, corporations, partnerships and others offer users an alternative to the purchase of most types of equipment with payment terms that vary widely depending on the lease term and type of equipment. The ability of the Partnership to keep the equipment leased and/or operating and the terms of the acquisitions, leases and dispositions of equipment depends on various factors (many of which are not in the control of the General Partner or the Partnership), such as general economic conditions, including the effects of inflation or recession, and fluctuations in supply and demand for various types of equipment resulting from, among other things, technological and economic obsolescence.

The General Partner will seek to limit the amount invested in equipment to any single lessee to not more than 20% of the aggregate purchase price of equipment owned at any time during the reinvestment period.

The business of the Partnership is not seasonal.

The Partnership has no full time employees.

Equipment Leasing Activities

Through December 31, 2002, the Partnership has disposed of certain leased assets as set forth below:

Type of Equipment	Original Equipment Cost	Sale Price	Excess of Rents Over Expenses *
Manufacturing	$ 20,322,974	$ 6,609,943	$ 13,332,058
Transportation	22,358,502	8,222,796	17,790,923
Office automation	10,942,274	1,226,848	11,102,974
Aircraft	4,708,142	4,954,738	2,576,835
Other	2,763,000	410,702	1,879,147
Food processing	2,182,333	1,329,201	1,980,738
Furniture and fixtures	1,378,013	769,570	1,095,675
Mining	1,405,029	1,057,869	793,098
Materials handling	1,278,498	164,477	1,385,570
	$ 67,338,766	$ 24,746,144	$ 51,937,018

* Includes only those expenses directly related to the production of the related rents.

The Partnership has acquired a diversified portfolio of equipment. The equipment has been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Partnership through December 31, 2002 and the industries to which the assets have been leased. The Partnership has purchased certain assets subject to existing non-recourse debt. For financial statement purposes, non-recourse debt has been offset against the investment in certain direct finance leases where the right of offset exists.

Asset Types	Purchase Price Excluding Acquisition Fees	Percentage of Total Acquisitions
Transportation, rail cars	$ 64,328,409	21.24%
Manufacturing	45,709,520	15.10%
Mining	30,756,101	10.16%
Transportation, other	26,723,940	8.83%
Transportation, intermodal containers	26,631,519	8.80%
Marine vessels	22,335,250	7.38%
Materials handling	16,318,944	5.39%
Motor Vehicles	13,148,102	4.34%
Office automation	11,449,934	3.78%
Medical	9,133,951	3.02%
Aircraft	6,310,979	2.08%
Railroad locomotives	5,010,960	1.66%
Other *	24,893,437	8.22%
	$ 302,751,046	100.00%

Industry of Lessee	Purchase Price Excluding Acquisition Fees	Percentage of Total Acquisitions
Transportation, rail	$ 73,779,368	24.36%
Municipalities	45,050,058	14.88%
Transportation, other	43,079,361	14.23%
Manufacturing, other	41,295,886	13.64%
Electronics	26,062,302	8.61%
Mining	17,670,967	5.84%
Business services	15,093,493	4.99%
Primary metals	13,251,254	4.38%
Other *	27,468,357	9.07%
	$ 302,751,046	100.00%

* Individual amounts included in "Other" represent less than 2.5% of the total.

For further information regarding the Partnership's equipment lease portfolio as of December 31, 2002, see Note 3 to the financial statements, Investments in equipment and leases, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

Item 2. PROPERTIES

The Partnership does not own or lease any real property, plant or material physical properties other than the equipment held for lease as set forth in Item 1.

Item 3. 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 (the Debtor) 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 its 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 Partnership's claim due to duplication and an improper liquidated damages provision. The Partnership disputed this and, as of July 26, 2002, agreement has been reached between the Partnership and Debtor as to the amount of the Partnership's claim, and the Debtor's objection to the Partnership's claim was withdrawn.

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 continued to use and pay for the equipment under the lease on a month-to-month basis. A letter agreement has been executed by the debtor to formalize an understanding for debtor's continued use of the equipment under the terms of the Lease on a month-to-month basis until the cars were returned. The debtor has also objected to the Partnership's claim, which objection was being disputed by the Partnership and is likely to be resolved via an amended Proof of Claim. At this point, all equipment has been returned to the Partnership, and is in the process of being re-leased and/or sold. The full extent of any recovery is not known at this time.

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

None.

PART II

Item 5. MARKET FOR REGISTRANT'S LIMITED PARTNERSHIP UNITS AND RELATED MATTERS

Market Information

The Units are transferable subject to restrictions on transfers that have been imposed under the securities laws of certain states. However, as a result of such restrictions, the size of the Partnership and its investment objectives, to the General Partner's knowledge, no established public secondary trading market has developed and it is unlikely that a public trading market will develop in the future. As a result, there is no currently ascertainable market value for the Units.

Holders

As of December 31, 2002, a total of 5,589 investors were record holders of Units in the Partnership.

ERISA Valuation

In order to permit ERISA fiduciaries who hold Units to satisfy their annual reporting requirements, the General Partner estimated the value per Unit of the Partnership's assets as of September 30, 2002. The General Partner calculated the estimated liquidation proceeds that would be realized by the Partnership, assuming an orderly disposition of all of the Partnership's assets as of January 1, 2003. The estimates were based on the amount of remaining lease payments on existing Partnership leases, and the estimated residual values of the equipment held by the Partnership upon the termination of those leases. This valuation was based solely on the General Partner's perception of market conditions and the types and amounts of the Partnership's assets. No independent valuation was sought.

After calculating the aggregate estimated disposition proceeds, the General Partner then calculated the portion of the aggregate estimated value of the Partnership assets that would be distributed to Unit holders on liquidation of the Partnership, and divided the total so distributable by the number of outstanding Units. As of September 30, 2002, the value of the Partnership's assets, calculated on this basis, was approximately $6.17 per Unit. The foregoing valuation was performed solely for the ERISA purposes described above. There is no market for the Units, and, accordingly, this value does not represent an estimate of the amount a Unit holder would receive if he were to seek to sell his Units. Furthermore, there can be no assurance as to the amount the Partnership may actually receive if and when it seeks to liquidate its assets, or the amount of lease payments and equipment disposition proceeds it will actually receive over the remaining term of the Partnership.

Dividends

The Partnership does not make dividend distributions. However, the Limited Partners of the Partnership are entitled to certain distributions as provided under the Limited Partnership Agreement.

The General Partner has sole discretion in determining the amount of distributions; provided, however, that the General Partner will not reinvest in equipment, but will distribute, subject to payment of any obligations of the Partnership, such available cash from operations and cash from sales or refinancing as may be necessary to cause total distributions to the Limited Partners for each year during the reinvestment period to equal $1.00 per Unit. The reinvestment period ends December 31, 2004.

The rate for monthly distributions from 2002 operations was $0.0833 per Unit. The distributions were paid in February 2002 through December 2002 and in January 2003. For each quarterly distribution (paid in April, July and October 2002 and in January 2003) the rate was $0.25 per Unit. Distributions were from 2002 cash flows from operations.

The rate for monthly distributions from 2001 operations was $0.0833 per Unit. The distributions were paid in February 2001 through December 2001 and in January 2002. For each quarterly distribution (paid in April, July and October 2001 and in January 2002) the rate was $0.25 per Unit. Distributions were from 2001 cash flows from operations.

The rate for monthly distributions from 2000 operations was $0.0833 per Unit. The distributions were paid in February 2000 through December 2000 and in January 2001. For each quarterly distribution (paid in April, July and October 2000 and in January 2001) the rate was $0.25 per Unit. Distributions were from 2000 cash flows from operations.

The following table presents summarized information regarding distributions to Limited Partners:

	2002	2001	2000	1999	1998
Distributions of net income (loss)	$ (0.20)	$ 0.01	$ 0.53	$ (0.17)	$ 0.46
Return of investment	1.20	0.99	0.48	1.17	0.45
Distributions per Unit	1.00	1.00	1.01	1.00	0.91
Differences due to timing of distributions	-	-	(0.01)	-	0.09
Nominal distribution rates from above	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data of the Partnership at December 31, 2002, 2001, 2000, 1999 and 1998 and for the years then ended. This financial data should be read in conjunction with the financial statements and related notes included under Part II, Item 8.

	2002	2001	2000	1999	1998
Gross revenues	$ 25,942,773	$ 30,646,525	$ 41,463,919	$ 39,634,771	$ 37,195,090
Net income (loss)	$ (1,772,503)	$ 2,939,818	$ 9,158,705	$ (2,159,370)	$ 5,279,496
Weighted average Units outstanding	14,996,050	14,996,050	14,996,050	14,996,050	10,729,510
Net income (loss) allocated to Limited Partners	$ (2,976,387)	$ 140,295	$ 7,938,589	$ (2,622,996)	$ 4,883,534
Net income (loss) per Unit, based on weighted average Units outstanding	$ (0.20)	$ 0.01	$ 0.53	$ (0.17)	$ 0.46
Distributions per Unit, based on weighted average Units outstanding	$ 1.00	$ 1.00	$ 1.01	$ 1.00	$ 0.91
Total Assets	$116,223,748	$135,853,619	$ 157,600,746	$ 191,424,300	$ 212,456,902
Non-recourse Debt	$ 4,577,308	$ 9,971,225	$ 15,452,741	$ 21,780,420	$ 16,599,347
Other Long-term Debt	$ 33,546,000	$ 38,540,000	$ 44,877,000	$ 53,181,000	$ 61,553,000
Total Partners' Capital	$ 61,218,234	$ 79,492,851	$ 94,163,608	$ 101,313,784	$ 119,711,246

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-K, which are not historical facts, may be forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Investors are cautioned not to attribute undue certainty to these forward-looking statements, which speak only as of the date of this Form 10-K. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events, other than as required by law.

Capital Resources and Liquidity

The Partnership's public offering provided for a total maximum capitalization of $150,000,000. As of November 27, 1998, the offering was concluded. As of that date, subscriptions for 15,000,000 Units had been received and accepted.

The liquidity of the Partnership will vary in the future, increasing to the extent cash flows from leases and proceeds of asset sales 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 and proceeds from asset sales.

As another source of liquidity, the Partnership is expected to have 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 $55,645,837 revolving line of credit (comprised of an acquisition facility and a warehouse facility) with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of December 31, 2002, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 13,300,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	15,700,000
Total borrowings under the acquisition facility	29,000,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 29,000,000

Total available under the line of credit	$ 55,645,837
Total outstanding balance	(29,000,000)
Remaining availability	$ 26,645,837

Draws on the acquisition facility by any individual borrower are secured only by that borrower's assets, including equipment and related leases. Borrowings on the warehouse facility are recourse jointly to certain of the affiliated partnerships and limited liability companies, the Partnership and the General Partner.

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. At December 31, 2002, the Partnership had no commitments to purchase lease assets.

As of December 31, 2002, cash balances consisted of working capital and amounts reserved for distributions to be paid in January 2003, generated from operations in 2002.

The Partnership currently has available adequate reserves to meet its immediate cash requirements and those of the next twelve months, 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.

In 1998, the Partnership established a $65 million receivables funding program with a receivables financing company that issues commercial paper rated A1 from Standard and Poors and P1 from Moody's Investor Services. In this receivables funding program, the lenders received a general lien against all of the otherwise unencumbered assets of the Partnership. The program provided for borrowing at a variable interest rate and required the General Partner to enter into interest rate swap agreements with certain hedge counterparties (also rated A1/P1) to mitigate the interest rate risk associated with a variable rate note. The General Partner anticipated that this program would allow the Partnership to avail itself of lower cost debt than that available for individual non-recourse debt transactions. The program expired as to new borrowings in February 2002.

See Item 7a and Note 5 to the financial statements, Other long-term debt, as set forth in Part II, Item 8, Financial Statements and Supplementary Data, for additional information regarding this program and related interest rate swaps.

It is the intention of the Partnership to use the receivables funding program as its primary source of debt financing. The Partnership will continue to use its sources of non-recourse secured debt financing on a transaction basis as a means of mitigating credit risk.

The General Partner expects that aggregate borrowings in the future will be approximately 50% of aggregate equipment cost. In any event, the Limited Partnership Agreement limits such borrowings to 50% of the total cost of equipment, in aggregate.

See Note 4 to the financial statements, Non-recourse debt, as set forth in Part II, Item 8, Financial Statements and Supplementary Data, for additional information regarding non-recourse debt.

The Partnership commenced regular distributions, based on cash flows from operations, beginning with the month of January 1997. See Items 5 and 6 of this report for additional information regarding distributions.

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.

<u>Cash Flows</u>

2002 vs. 2001:

Cash flows from operations decreased from $23,869,682 in 2001 to $20,508,144 in 2002, a decrease of $3,361,538. Rents from operating leases is the primary source of operating cash flows. Lease terminations and sales of operating lease assets in 2001 and 2002 led to the decrease in operating lease revenues compared to 2001.

In 2002, sources of cash from investing activities consisted of proceeds from the sales of lease assets and from rents from direct financing leases. Proceeds from the sales of lease assets decreased from $3,830,077 in 2001 to $2,229,481 in 2002, a decrease of $1,600,596. Proceeds from the sales of lease assets are not expected to be consistent from one period to another as the sales of lease assets is subject to various factors such as the timing of lease terminations, the timing of market demand and the condition and uniquness of the assets subject to sale. Rents from direct financing leases increased by $771,036 as a result of acquisitions of lease assets in 2001 and 2002.

In 2002, financing sources of cash consisted of proceeds of long-term debt and borrowings on the line of credit. The proceeds of long-term debt were used to repay the line of credit.

Cash used for distributions to partners did not change significantly. Non-recourse debt payments scheduled in 2002 were less than those scheduled in 2001. This was the cause of the decrease in debt payments.

Cash used to repay long-term debt increased as a result of the additional borrowings in 2002.

2001 vs. 2000:

Cash flows from operations decreased from $28,382,888 in 2000 to $23,869,682 in 2001, a decrease of $4,513,206. Rents from operating leases is the primary source of operating cash flows. Sales of operating lease assets in 2000 and 2001 led to the decrease in operating lease revenues compared to 2000.

In 2001 and 2000, sources of cash from investing activities consisted of proceeds from the sales of lease assets and from rents from direct financing leases. Proceeds from the sales of lease assets decreased from $10,439,849 in 2000 to $3,830,077 in 2001, a decrease of $6,609,772. Proceeds from the sales of lease assets are not expected to be consistent from one period to another. Rents from direct financing leases decreased by $293,602 as a result of sales of lease assets in 2000 and 2001.

In 2001, financing sources of cash consisted of proceeds of long-term debt and borrowings on the line of credit. In 2000, financing sources of cash consisted of proceeds of long-term debt, proceeds of non-recourse debt and borrowings on the line of credit. The proceeds of long-term debt were used to repay the line of credit. The additional non-recourse debt was assumed as a part of the acquisition of leased assets in 2001 and 2000.

Cash used to repay long-term debt decreased as a result of a reduction in scheduled payments, net of the effect of the additional borrowings in 2001. Overall, average debt balances were lower in 2001 than in 2000 as a result of making debt payments as scheduled.

Results of Operations

As of January 7, 1997, subscriptions for the minimum amount of the offering ($1,200,000) had been received and accepted by the Partnership. As of that date, the Partnership commenced operations in its primary business (leasing activities). There were no operations in 1996.

2002 vs. 2001:

Operations resulted in a loss of $1,772,503 in 2002 compared to net income of $2,939,818 in 2001. The primary cause of the decrease is the provision for losses and impairments of $2,111,593 recorded in 2002. There was no such provision in 2001.

Revenues from leases decreased from $31,726,016 in 2001 to $27,009,517 in 2002, a decrease of $4,716,499. Revenue increases resulting from asset purchases in 2001 and in 2002 were offset by the effects of income producing asset sales. Lower lease rates realized on lease renewals has also contributed to the decrease in lease revenues. Losses on sales of assets increased from $1,145,708 in 2001 to $1,270,985 in 2002, an increase of $125,277. Such gains and losses are not expected to be consistent from one period to another.

Depreciation expense decreased by $1,404,812 compared to 2001 as a result of the sales of depreciable assets in 2001 and 2002.

Interest expense declined as a result of scheduled debt payments. These repayments exceeded the amounts of new borrowings in 2002. Total debt, including the line of credit, decreased from $52,611,225 at December 31, 2001 to $51,423,308 at December 31, 2002.

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. As a result of that review, management determined that the values of fleets of jumbo covered hopper cars, tidewater barges and diesel electric locomotives had declined in value to the extent that the carrying values had become impaired. This decline is the result of decreased long-term demand for these types of assets and a corresponding reduction in the amounts of rental payments that these assets currently command. Management has recorded a provision for the decline in value of those assets in the amount of $2,111,593 for the year ended December 31, 2002.

2001 vs. 2000:

Operations resulted in net income of $2,939,818 in 2001 compared to $9,158,705 in 2000.

Revenues from leases decreased from $38,849,507 in 2000 to $31,726,016 in 2001, a decrease of $7,123,491. Decreases resulted from asset sales in 2000 and in 2001. Gains and losses on sales of assets decreased from a gain of $2,381,787 in 2000 to a loss of $1,145,708 in 2001, a change of $3,527,495. Such gains and losses are not expected to be consistent from one period to another.

Depreciation expense decreased in 2001 compared to 2000 as a result of sales of depreciable assets in 2000 and 2001.

Interest expense declined as a result of scheduled debt payments and the early extinguishment of the Applied Magnetics debt in 2000. Total debt, including the line of credit, decreased from $60,329,741 at December 31, 2000 to $52,611,225 at December 31, 2001.

Derivative Financial Instruments

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, and by SFAS No. 138, issued in June 2000.

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments.

The Partnership adopted SFAS No. 133, as amended, on January 1, 2001. Upon adoption, the Partnership recorded interest rate swap hedging instruments at fair value in the balance sheet and recognized the changes in fair value in net income or other comprehensive income, in accordance with SFAS No. 133. See Note 5 to the financial statements, Other long-term debt, as set forth in Part II, Item 8, Financial Statements and Supplementary Data, for additional information.

Recent Accounting Pronouncement

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations,* for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Partnership adopted SFAS 144 as of January 1, 2002. The adoption of the Statement did not have a significant impact on the Partnership's financial position or results of operations.

Internal Controls

As of December 31, 2002, an evaluation was performed under the supervision and with the participation of the Partnership's management, including the CEO and CFO of the General Partner, of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures. Based on that evaluation, the Partnership's management, including the CEO and CFO of the General Partner, concluded that the Partnership's disclosure controls and procedures were effective as of December 31, 2002. There have been no significant changes in the Partnership's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2002.

Critical Accounting Policies

The policies discussed below are considered by management of the Partnership to be critical to an understanding of the Partnership's financial statements because their application requires significant complex or subjective judgments, decisions, or assessments, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The Partnership also states these accounting policies in the notes to the financial statements and in relevant sections in this discussion and analysis. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimates primarily relate to the determination of residual values at the end of the lease term and expected future cash flows used for impairment analysis purposes.

Asset Valuation:

Recorded values of the Company's asset portfolio are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss is measured and recognized only if the estimated undiscounted future cash flows of the asset are less than their net book value. The estimated undiscounted future cash flows are the sum of the estimated residual value of the asset at the end of the asset's expected holding period and estimates of undiscounted future rents. The residual value assumes, among other things, that the asset is utilized normally in an open, unrestricted and stable market. Short-term fluctuations in the market place are disregarded and it is assumed that there is no necessity either to dispose of a significant number of the assets, if held in quantity, simultaneously or to dispose of the asset quickly. Impairment is measured as the difference between the fair value (as determined by the discounted estimated future cash flows) of the assets and its carrying value on the measurement date.

Item 7a. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership, like most other companies, is exposed to certain market risks, including primarily changes in interest rates. The Partnership believes its exposure to other market risks, including foreign currency exchange rate risk, commodity risk and equity price risk, are insignificant to both its financial position and results of operations.

In general, the Partnership's strategy is to manage its exposure to interest rate risk by obtaining fixed rate debt. Current fixed rate debt is structured so as to match the cash flows required to service the debt to the payment streams under fixed rate lease receivables. The payments under the leases are assigned to the lenders in satisfaction of the debt. Furthermore, the Partnership has historically been able to maintain a stable spread between its cost of funds and lease yields in both periods of rising and falling interest rates. Nevertheless, the Partnership frequently funds leases with its floating rate line of credit and is, therefore, exposed to interest rate risk until fixed interest rate financing is arranged, or the floating interest rate line of credit is repaid. As of December 31, 2002, there was an outstanding balance of $13,300,000 on the floating rate line of credit and the effective interest rate of the borrowings ranged from 3.29% to 3.31%.

Also, as described in Item 7in the caption “Capital Resources and Liquidity,” the Partnership entered into a receivables funding facility in 1998. Since interest on the outstanding balances under the facility varies, the Partnership is exposed to market risks associated with changing interest rates. To hedge its interest rate risk, the Partnership enters into interest rate swaps, which effectively convert the underlying interest characteristic on the facility from floating to fixed.

Under the swap agreements, the Partnership makes or receives variable interest payments to or from the counterparty based on a notional principal amount. The net differential paid or received by the Partnership is recognized as an adjustment to interest expense related to the facility balances. The amount paid or received represents the difference between the payments required under the variable interest rate facility and the amounts due under the facility at the fixed (hedged) interest rate. As of December 31, 2002, borrowings on the facility were $33,546,000 and the associated variable interest rate was 2.0081% and the average fixed interest rate achieved with the swap agreements was 5.869% at December 31, 2002.

In general, these swap agreements eliminate the Partnership's interest rate risk associated with variable rate borrowings. However, the Partnership is exposed to and manages credit risk associated with the counterparty to the swap agreement by dealing only with institutions it considers financially sound. If these agreements were not in place, based on the Partnership’s facility borrowings at December 31, 2002, a hypothetical 1.00% increase or decrease in market interest rates would increase or decrease the Partnership’s 2003 variable interest expense by approximately $282,000.

See the Notes to the Financial Statements as set forth in Item 8 for additional information.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Report of Independent Auditors, Financial Statements and Notes to Financial Statements attached hereto at pages 14 through 32.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Partners
ATEL Capital Equipment Fund VII, L.P.

We have audited the accompanying balance sheets of ATEL Capital Equipment Fund VII, L.P. (Partnership) as of December 31, 2002 and 2001, and the related statements of operations, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATEL Capital Equipment Fund VII, L.P. at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Francisco, California
February 7, 2003

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

ASSETS

	2002	2001
Cash and cash equivalents	$ 2,194,169	$ 936,189
Accounts receivable, net of allowance for doubtful accounts of $403,067 in 2002 and $118,067 in 2001	4,848,736	5,759,540
Due from General Partner	253,543	-
Other assets	10,019	108,015
Investments in equipment and leases	108,917,281	129,049,875
Total assets	$ 116,223,748	$ 135,853,619

LIABILITIES AND PARTNERS' CAPITAL

Non-recourse debt	$ 4,577,308	$ 9,971,225
Other long-term debt	33,546,000	38,540,000
Line of credit	13,300,000	4,100,000
Accounts payable and accruals:		
General Partner	-	580,916
Other	752,459	510,598
Accrued interest payable	192,403	355,458
Interest rate swap contracts	1,624,360	1,326,006
Unearned lease income	1,012,984	976,565
	55,005,514	56,360,768
Total partners' capital	61,218,234	79,492,851
Total liabilities and partners' capital	$ 116,223,748	$ 135,853,619

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
Revenues:			
Leasing activities:			
Operating leases	$ 25,631,019	$ 30,657,648	$ 37,500,588
Direct financing leases	1,378,498	1,068,368	1,153,226
Leveraged leases	-	-	195,693
Gain (loss) on sale of assets	(1,270,985)	(1,145,708)	2,381,787
Interest income	14,000	55,569	157,678
Other	190,241	10,648	74,947
	25,942,773	30,646,525	41,463,919
Expenses:			
Depreciation and amortization	18,608,503	20,023,249	25,306,146
Interest	3,206,557	4,029,695	5,307,064
Provision for losses and impairments	2,111,593	-	-
Equipment and incentive management fees to affiliates	947,568	1,175,912	1,770,779
Cost reimbursements to General Partner	859,415	851,382	917,952
Railcar maintenance	710,564	715,826	484,432
Provision for doubtful accounts	285,000	118,067	-
Professional fees	199,993	163,006	86,643
Other	786,083	629,570	488,772
	27,715,276	27,706,707	34,361,788
Income (loss) before extraordinary item	(1,772,503)	2,939,818	7,102,131
Extraordinary gain on early extinguishment of debt	-	-	2,056,574
Net income (loss)	$ (1,772,503)	$ 2,939,818	$ 9,158,705
Net income (loss):			
General Partner	$ 1,203,884	$ 2,799,523	$ 1,220,116
Limited Partners	(2,976,387)	140,295	7,938,589
	$ (1,772,503)	$ 2,939,818	$ 9,158,705
Income (loss) before extraordinary item per Limited Partnership unit	$ (0.20)	$ 0.01	$ 0.40
Extraordinary gain on early extinguishment of debt per Limited Partnership unit	-	-	0.13
Net income (loss) per Limited Partnership unit	$ (0.20)	$ 0.01	$ 0.53
Weighted average number of units outstanding	14,996,050	14,996,050	14,996,050

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Limited Partners Units	Limited Partners Amount	General Partner	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 1999	14,996,050	$102,828,385	$ (1,514,601)	$ -	$ 101,313,784
Distributions to Limited Partners ($1.01 per Unit)		(15,088,765)	-	-	(15,088,765)
Distributions to General Partner		-	(1,220,116)	-	(1,220,116)
Net income		7,938,589	1,220,116	-	9,158,705
Balance December 31, 2000	14,996,050	95,678,209	(1,514,601)	-	94,163,608
Distributions to Limited Partners ($1.00 per Unit)		(14,999,647)	-	-	(14,999,647)
Distributions to General Partner		-	(1,284,922)	-	(1,284,922)
Cumulative effect of change in accounting principle at January 1, 2001		-	-	281,661	281,661
Unrealized decrease in value of interest rate swap contracts		-	-	(1,607,667)	(1,607,667)
Net income		140,295	2,799,523	-	2,939,818
Balance December 31, 2001	14,996,050	80,818,857	-	(1,326,006)	79,492,851
Distributions to Limited Partners ($1.00 per Unit)		(14,999,876)	-	-	(14,999,876)
Distributions to General Partner		-	(1,203,884)	-	(1,203,884)
Unrealized decrease in value of interest rate swap contracts		-	-	(298,354)	(298,354)
Net income (loss)		(2,976,387)	1,203,884	-	(1,772,503)
Balance December 31, 2002	14,996,050	$ 62,842,594	$ -	$ (1,624,360)	$ 61,218,234

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
Operating activities:			
Net income (loss)	$ (1,772,503)	$ 2,939,818	$ 9,158,705
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Leveraged lease income	-	-	(195,693)
Depreciation and amortization	18,608,503	20,023,249	25,306,146
Provision for losses and impairments	2,111,593	-	-
Provision for doubtful accounts	285,000	118,067	-
Loss (gain) on sales of assets	1,270,985	1,145,708	(2,381,787)
Extraordinary gain on early extinguishment of debt	-	-	(2,056,574)
Changes in operating assets and liabilities:			
Accounts receivable	625,804	344,704	(596,206)
Due from General Partner	(253,543)	-	-
Other assets	97,996	(18,004)	39,996
Accounts payable, General Partner	(580,916)	(24,768)	(829,967)
Accounts payable, other	241,861	(193,163)	277,865
Accrued interest payable	(163,055)	(178,400)	(180,839)
Unearned lease income	36,419	(287,529)	(158,758)
Net cash provided by operating activities	20,508,144	23,869,682	28,382,888
Investing activities:			
Proceeds from sales of assets	2,229,481	3,830,077	10,439,849
Reduction of net investment in direct financing leases	3,032,098	2,261,062	2,554,664
Purchases of equipment on direct financing leases	(3,052,582)	(4,344,293)	(1,678,000)
Initial direct lease costs	(107,962)	(48,560)	(18,370)
Purchases of equipment on operating leases	(3,959,522)	(1,950,111)	-
Net cash provided by (used in) investing activities	(1,858,487)	(251,825)	11,298,143
Financing activities:			
Distributions to Limited Partners	(14,999,876)	(14,999,647)	(15,088,765)
Distributions to General Partner	(1,203,884)	(1,284,922)	(1,220,116)
Borrowings under line of credit	19,500,000	12,900,000	450,000
Repayments of borrowings under line of credit	(10,300,000)	(8,800,000)	(11,600,000)
Proceeds of other long-term debt	10,100,000	8,000,000	11,700,000
Repayments of other long-term debt	(15,094,000)	(14,337,000)	(17,947,426)
Repayments of non-recourse debt	(5,393,917)	(5,481,516)	(6,912,082)
Proceeds of non-recourse debt	-	-	584,403
Net cash used in financing activities	(17,391,677)	(24,003,085)	(40,033,986)
Net increase (decrease) in cash and cash equivalents	1,257,980	(385,228)	(352,955)
Cash and cash equivalents at beginning of year	936,189	1,321,417	1,674,372
Cash and cash equivalents at end of year	$ 2,194,169	$ 936,189	$ 1,321,417

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 3,369,612	$ 4,208,095	$ 5,487,903
Schedule of non-cash transactions:			
Extraordinary gain on early extinguishment of debt	$ -	$ -	$ 2,056,574
Change in fair value of interest rate swaps contracts	$ (298,354)	$ (1,607,667)	$ -

See accompanying notes.

1. Organization and Partnership matters:

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

Upon the sale of the minimum amount of Units of Limited Partnership interest (Units) (120,000 Units) ($1,200,000) and the receipt of the proceeds thereof on January 7, 1997, the Partnership commenced operations.

The General Partner of the Partnership is ATEL Financial Services LLC (ATEL). Prior to converting to a limited liability company structure, the General Partner was formerly known as ATEL Financial Corporation.

The Partnership's business consists of leasing various types of equipment. As of December 31, 2002, the original terms of the leases ranged from eighteen months to eleven years.

Pursuant to the Limited Partnership Agreement, the General Partner receives compensation and reimbursements for services rendered on behalf of the Partnership (See Note 6). The General Partner is required to maintain in the Partnership reasonable cash reserves for working capital, the repurchase of Units and contingencies.

2. Summary of significant accounting policies:

Equipment on operating leases:

Equipment subject to operating leases is stated at cost. Depreciation is being recognized on a straight-line method over the terms of the related leases to the equipment's estimated residual values at the end of the leases.

Revenues from operating leases are recognized evenly over the terms of the related leases.

Direct financing leases:

Income from direct financing lease transactions is reported using the financing method of accounting, in which the Partnership's investment in the leased property is reported as a receivable from the lessee to be recovered through future rentals. The income portion of each rental payment is calculated so as to generate a constant rate of return on the net receivable outstanding.

Investment in leveraged leases:

Leases that are financed principally with non-recourse debt at lease inception and that meet certain other criteria are accounted for as leveraged leases. Leveraged lease contracts receivable are stated net of the related non-recourse debt service (which includes unpaid principal and aggregate interest on such debt) plus estimated residual values. Unearned income represents the excess of anticipated cash flows (after taking into account the related debt service and residual values) over the investment in the lease and is amortized using a constant rate of return applied to the net investment when such investment is positive.

2. Summary of significant accounting policies (continued):

Accounts receivable:

Accounts receivable represent the amounts billed under lease contracts and currently due to the Partnership. Allowances for doubtful accounts are typically established based on historical charge offs and collection experience and are usually determined by specifically identified lessees and invoiced amounts.

Statements of cash flows:

For purposes of the Statements of Cash Flows, cash and cash equivalents include cash in banks and cash equivalent investments with original maturities of ninety days or less.

Income taxes:

The Partnership does not provide for income taxes since all income and losses are the liability of the individual partners and are allocated to the partners for inclusion in their individual tax returns.

The tax basis of the Company's net assets and liabilities varies from the amounts presented in these financial statements (unaudited):

	2002	2001
Financial statement basis of net assets	$ 61,218,234	$ 79,492,851
Tax basis of net assets	(22,854,898)	(1,474,318)
Difference	$ 84,073,132	$ 80,967,169

The primary differences between the tax basis of net assets and the amounts recorded in the financial statements are the result of differences in accounting for syndication costs and differences between the depreciation methods used in the financial statements and the Partnership's tax returns.

The following reconciles the net income (loss) reported in these financial statements to the loss reported on the Partnership's federal tax return (unaudited):

	2002	2001	2000
Net income (loss) per financial statements	$ (1,772,503)	$ 2,939,818	$ 9,158,705
Adjustment to depreciation expense	(9,817,508)	(18,455,212)	(20,229,067)
Adjustments to lease revenues	1,442,714	2,145,833	573,208
Provision for losses	2,396,593	118,067	-
Net loss per federal tax return	$ (7,750,704)	$ (13,251,494)	$ (10,497,154)

Per unit data:

Net income and distributions per unit are based upon the weighted average number of units outstanding during the period.

2. Summary of significant accounting policies (continued):

Credit risk:

Financial instruments that potentially subject the Partnership to concentrations of credit risk include cash and cash equivalents, direct finance lease receivables and accounts receivable. The Partnership places its cash deposits and temporary cash investments with creditworthy, high quality financial institutions. The concentration of such deposits and temporary cash investments is not deemed to create a significant risk to the Partnership. Accounts receivable represent amounts due from lessees in various industries, related to equipment on operating and direct financing leases. See Note 8 for a description of lessees by industry as of December 31, 2002, 2001 and 2000.

Basis of presentation:

The accompanying financial statements as of December 31, 2002 and 2001 and for the three years ended December 31, 2002 have been prepared in accordance with accounting principles generally accepted in the United States. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimates primarily relate to the determination of residual values at the end of the lease term and expected future cash flows used for impairment analysis purposes.

Asset valuation:

Recorded values of the Company's asset portfolio are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss is measured and recognized only if the estimated undiscounted future cash flows of the asset are less than their net book value. The estimated undiscounted future cash flows are the sum of the estimated residual value of the asset at the end of the asset's expected holding period and estimates of undiscounted future rents. The residual value assumes, among other things, that the asset is utilized normally in an open, unrestricted and stable market. Short-term fluctuations in the market place are disregarded and it is assumed that there is no necessity either to dispose of a significant number of the assets, if held in quantity, simultaneously or to dispose of the asset quickly. Impairment is measured as the difference between the fair value (as determined by the discounted estimated future cash flows) of the assets and its carrying value on the measurement date.

Derivative financial instruments:

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, and by SFAS No. 138, issued in June 2000.

2. Summary of significant accounting policies (continued):

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and to carry those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments. Upon adoption on January 1, 2001, the Partnership adjusted hedging instruments to fair value in the balance sheet and recognized the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income, as appropriate.

The Partnership utilizes cash flow hedges comprised of interest rate swaps. Such interest rate swaps are linked to and are designed to effectively adjust the interest rate sensitivity of specific long-term debt.

The effective portion of the change in fair value of the hedging derivatives is recorded in equity as a component of Accumulated Other Comprehensive Income (AOCI) and the ineffective portion (if any) directly in earnings. Amounts in AOCI are reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged item (generally reflected in interest expense). If a hedged item is dedesignated prior to maturity, previous adjustments to AOCI are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging interest bearing instruments). Interest income or expense on most hedging derivatives used to manage interest rate exposure is recorded on an accrual basis, as an adjustment to the yield of the link exposures over the periods covered by the contracts. This matches the income recognition treatment of the exposure (i.e., the liabilities, which are carried at historical cost, with interest recorded on an accrual basis).

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of the loss created by the default is the replacement cost or current positive fair value of the defaulted contract.

Recent accounting pronouncement:

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations* for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Partnership adopted SFAS 144 as of January 1, 2002. The adoption of the Statement did not have a significant impact on the Partnership's financial position or results of operations.

Initial direct costs:

The Partnership capitalizes initial direct costs associated with the acquisition of lease assets. The costs are amortized over a five year period using a straight line method.

3. Investments in equipment and leases:

The Partnership's investments in equipment and leases consist of the following:

	December 31, 2001	Additions	Depreciation Expense or Amortization of Leases	Reclass-ifications or Dispositions	December 31, 2002
Net investment in operating leases	$101,066,589	$ 3,959,522	$ (18,424,332)	$ (2,574,877)	$ 84,026,902
Net investment in direct financing leases	18,931,921	3,052,582	(3,032,098)	(2,725,288)	16,227,117
Reserve for losses and impairments	(504,227)	(2,111,593)	-	504,227	(2,111,593)
Assets held for sale or lease	9,267,614	-	-	1,295,472	10,563,086
Initial direct costs, net of accumulated amortization of $905,356 in 2002 and $726,703 in 2001	287,978	107,962	(184,171)	-	211,769
	$129,049,875	$ 5,008,473	$ (21,640,601)	$ (3,500,466)	$ 108,917,281

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. As a result of that review, management determined that the fair values of fleets of jumbo covered hopper cars, tidewater barges and diesel electric locomotives had declined in value to the extent that the carrying values had become impaired. The fair value of the assets was determined based on the sum of the discounted estimated future cash flows of the assets. A charge to operations was recorded for the decline in value of those assets in the amount of $2,111,593 for the year ended December 31, 2002.

Operating leases:

Property subject to operating leases consists of the following:

	December 31, 2001	Additions	Reclass-ifications or Dispositions	December 31, 2002
Transportation	$ 80,788,684	$ -	$ (5,899,676)	$ 74,889,008
Marine vessels / barges	27,030,136	-	-	27,030,136
Construction	22,831,963	-	(417,700)	22,414,263
Manufacturing	9,702,801	-	(335,413)	9,367,388
Mining	9,012,965	-	-	9,012,965
Other	5,813,733	-	220,653	6,034,386
Office automation	5,297,632	-	(1,692,944)	3,604,688
Materials handling	5,265,654	3,959,522	(216,081)	9,009,095
Communications	4,387,819	-	(77,934)	4,309,885
	170,131,387	3,959,522	(8,419,095)	165,671,814
Less accumulated depreciation	(69,064,798)	(18,424,332)	5,844,218	(81,644,912)
	$ 101,066,589	$ (14,464,810)	$ (2,574,877)	$ 84,026,902

3. Investments in equipment and leases (continued):

Direct financing leases:

As of December 31, 2002, investment in direct financing leases consist of various transportation, manufacturing and medical equipment. The following lists the components of the Partnership's investment in direct financing leases as of December 31, 2002 and 2001:

	2002	2001
Total minimum lease payments receivable	$ 14,018,775	$ 15,374,654
Estimated residual values of leased equipment (unguaranteed)	6,286,069	8,678,613
Investment in direct financing leases	20,304,844	24,053,267
Less unearned income	(4,077,727)	(5,121,346)
Net investment in direct financing leases	$ 16,227,117	$ 18,931,921

All of the property subject to leases was acquired in the years 1997 through 2002.

At December 31, 2002, the aggregate amounts of future minimum lease payments to be received under operating and direct financing leases are as follows:

Year ending December 31,	Operating Leases	Direct Financing Leases	Total
2003	$ 15,666,811	$ 3,935,864	$ 19,602,675
2004	9,975,468	3,850,612	13,826,080
2005	6,682,211	3,779,344	10,461,555
2006	1,567,028	1,706,695	3,273,723
2007	459,000	542,007	1,001,007
Thereafter	463,950	204,253	668,203
	$ 34,814,468	$ 14,018,775	$ 48,833,243

3. Investments in equipment and leases (continued):

Reserve for losses and impairments and allowance for doubtful accounts:

Activity in the reserve for losses and impairments and allowances for doubtful accounts consists of the following:

	Reserve for losses and impairments	Allowance for doubtful accounts
Balance December 31, 1999	$ 6,185,366	$ -
Provision	-	-
Charge offs	(5,681,139)	-
Balance December 31, 2000	504,227	-
Provision	-	118,067
Charge offs	-	-
Balance December 31, 2001	504,227	118,067
Provision	2,111,593	285,000
Charge offs	(504,227)	-
Balance December 31, 2002	$ 2,111,593	$ 403,067

At December 31, 2002, the Partnership had no commitments to purchase lease assets.

4. Non-recourse debt:

At December 31, 2002, non-recourse debt consists of notes payable to financial institutions. The notes are due in varying monthly, quarterly, semi-annual and annual payments. Interest on the notes is at fixed rates from 7.4% to 16.6%. The notes are secured by assignments of lease payments and pledges of assets. At December 31, 2002, the carrying value of the pledged assets is $16,937,114. The notes mature from 2003 through 2008.

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

Year ending December 31,	Principal	Interest	Total
2003	$ 3,624,662	$ 288,831	$ 3,913,493
2004	298,403	67,364	365,767
2005	322,838	42,927	365,765
2006	216,850	20,179	237,029
2007	90,838	5,141	95,979
Thereafter	23,717	277	23,994
	$ 4,577,308	$ 424,719	$ 5,002,027

5. Other 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 (2.0081% at December 31, 2002), based on an index of A1 commercial paper.

The Program requires the General Partner, on behalf of the Partnership, 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 December 31, 2002, the Partnership receives or pays interest on a notional principal of $25,680,000, based on the difference between nominal rates ranging from 4.36% to 7.58% and the variable rate under the Program. No actual borrowing or lending is involved. The termination of the swaps coincides with the maturity of the debt. 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.

Borrowings under the Program are as follows:

Date Borrowed	Original Amount Borrowed	Balance December 31, 2002	Payment Rate on Interest Swap Agreement
4/1/98	$ 21,770,000	$ 1,332,000	6.220%
7/1/98	25,000,000	3,469,000	6.155%
10/1/98	20,000,000	6,087,000	5.550%
4/16/99	9,000,000	2,435,000	5.890%
1/26/00	11,700,000	6,699,000	7.580%
5/25/01	2,000,000	1,402,000	5.790%
9/28/01	6,000,000	4,256,000	4.360%
1/31/02	4,400,000	3,455,000	*
2/19/02	5,700,000	4,411,000	*
	$105,570,000	$ 33,546,000	

* Under the terms of the Program, no interest rate swap agreements were required for these borrowings.

The long-term debt borrowings mature from 2003 through 2009. Future minimum principal payments of long-term debt and annual swap notional reductions are as follows:

Year ending December 31,	Swap Notional / Debt Principal	Debt Principal Not Swapped	Interest	Total	Rates on Interest Swap Agreements**
2003	$ 8,903,000	$ 2,621,000	$ 1,653,145	$ 13,177,145	5.858%-5.878%
2004	7,186,000	2,272,000	1,041,833	10,499,833	5.871%-5.910%
2005	5,766,000	2,109,000	539,350	8,414,350	5.927%-6.257%
2006	1,946,000	864,000	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%-7.480%
2009	341,000	-	12,229	353,229	7.58%
	$ 25,680,000	$ 7,866,000	$ 3,603,965	$ 37,149,965	

5. Other long-term debt (continued):

** Represents the range of monthly weighted average fixed interest rates paid for amounts maturing in the particular year. The receive-variable rate portion of the swap represents commercial paper rates (2.0081% at December 31, 2002).

In 2002 and 2001, the net effect of the interest rate swaps was to increase interest expense by $955,401 and $622,647, respectively.

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 acquisition, 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 whereby it is entitled to receive a separate fee as compensation for such services, such as acquisition and disposition 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.

Each of ATEL Leasing Corporation ("ALC"), ATEL Equipment Corporation ("AEC"), ATEL Investor Services ("AIS") and ATEL Financial Services LLC is a wholly-owned subsidiary of ATEL Capital Group and performs services for the Partnership. Acquisition services are performed for the Partnership by ALC, equipment management, lease administration and asset disposition services are performed by AEC, investor relations and communications services are performed by AIS and general administrative services for the Partnership are performed by ATEL Financial Services, LLC.

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 as follows during 2002, 2001 and 2000:

	2002	2001	2000
Incentive management fees (computed as 4.0% of distributions of cash from operations, as defined in the Limited Partnership Agreement) and equipment management fees (computed as 3.5% of gross revenues from operating leases, as defined in the Limited Partnership Agreement plus 2% of gross revenues from full payout leases, as defined in the Limited Partnership Agreement).	$ 947,568	$ 1,175,912	$ 1,770,779
Cost reimbursements to General Partner	859,415	851,382	917,952
	$ 1,806,983	$ 2,027,294	$ 2,688,731

7. Partners' capital:

As of December 31, 2002, 14,996,050 Units were issued and outstanding. The Partnership is authorized to issue up to 15,000,050 Units, including the 50 Units issued to the Initial Limited Partners, as defined.

The Partnership's Net Profits, Net Losses, and Tax Credits are to be allocated 92.5% to the Limited Partners and 7.5% to the General Partner. In accordance with the terms of the of Limited Partnership Agreement, an additional allocations of income were made to the General Partner in 2002 and 2001. The amount allocated was determined to bring the General Partner's ending capital account balance to zero.

As defined in the Limited Partnership Agreement, available Cash from Operations, is to be distributed as follows:

First, Distributions of Cash from Operations are to 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.

As defined in the Limited Partnership Agreement, available Cash from Sales or Refinancing, are to be distributed as follows:

First, Distributions of Sales or Refinancings are to 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. Concentration of credit risk and major customers:

The Partnership leases equipment to lessees in diversified industries. Leases are subject to the General Partner's credit committee review. The leases provide for the return of the equipment upon default.

As of December 31, 2002, 2001 and 2000, there were concentrations (defined as greater than 10%) of equipment leased to lessees in certain industries (as a percentage of total equipment cost) as follows:

	2002	2001	2000
Manufacturing	24%	*	*
Transportation, rail	15%	13%	19%
Transportation, other	14%	14%	12%
Municipalities	13%	17%	16%

* Less than 10%

During 2002, one customer comprised 11% of the Partnership's revenues from leases. During 2001 and 2000, no customers comprised in excess of 10% of the Partnership's revenues from leases.

9. Line of credit:

The Partnership participates with the General Partner and certain of its affiliates in a $55,645,837 revolving line of credit (comprised of an acquisition facility and a warehouse facility) with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of December 31, 2002, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 13,300,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	15,700,000
Total borrowings under the acquisition facility	29,000,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 29,000,000
Total available under the line of credit	$ 55,645,837
Total outstanding balance	(29,000,000)
Remaining availability	$ 26,645,837

Draws on the acquisition facility by any individual borrower are secured only by that borrower's assets, including equipment and related leases. Borrowings on the warehouse facility are recourse jointly to certain of the affiliated partnerships and limited liability companies, the Partnership and the General Partner.

The Partnership borrowed $19,500,000, $12,900,000 and $450,000 under the line of credit during 2002, 2001 and 2000, respectively. Repayments on the line of credit were $10,300,000, $8,800,000 and $11,600,000 during 2002, 2001 and 2000, respectively. Interest on the line of credit is based on either the thirty day LIBOR rate or the bank's prime rate. The effective interest rate on borrowings at December 31, 2002 ranged from 3.29% to 3.31%.

The credit agreement includes certain financial covenants applicable to each borrower. The Partnership was in compliance with its covenants as of December 31, 2002.

10. Fair value of financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value.

Cash and cash equivalents:

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments.

Non-recourse debt:

The fair value of the Partnership's non-recourse debt is estimated using discounted cash flow analyses, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. The estimated fair value of the Partnership's non-recourse debt at December 31, 2002 is $4,373,028.

Other long-term debt:

The carrying value of the Partnership's other long-term debt approximates its fair value at December 31, 2002 as borrowings are at a variable interest rate that adjusts to current market interest rates.

Line of credit:

The carrying amounts of the Partnership's variable rate line of credit approximates fair value.

Interest rate swaps:

The fair value of interest rate swaps is estimated by management based on independent valuations or discounting the fixed cash flows paid under each swap using the rate at which the Partnership could enter into new swaps of similar maturities. Swaps are recorded at fair value at December 31, 2002 and 2001.

11. Extraordinary gain on extinguishment:

In January 2000, one of the Partnership's lessees filed for reorganization under Chapter 11 of the United States Bankruptcy Code. The Partnership determined that the assets under operating leases with a net book value of $8,048,095 at December 31, 1999 leased to this particular lessee were impaired as of December 31, 1999. The Partnership estimated that the proceeds from the future sales of those assets, which were financed with non-recourse debt, would not be sufficient to satisfy the non-recourse lender. The debt balance was $2,056,574 at December 31, 1999. As a result, the Partnership fully reserved for those assets as of December 31, 1999. The portion of the assets not financed with non-recourse debt were written down to their expected net realizable value as of December 31, 1999.

Upon foreclosure by the lender and upon sale of the financed assets in 2000, the Partnership recognized an extraordinary gain on the extinguishment of the debt $2,056,574 during the year ended December 31, 2000.

12. Other comprehensive income (loss):

For the years ended December 31, 2002, 2001 and in 2000, other comprehensive income (loss) consisted of the following:

	2002	2001	2000
Net income (loss)	$ (1,772,503)	$ 2,939,818	$ 9,158,705
Other comprehensive income:			
Cumulative effect of change in accounting principle at January 1, 2001	-	281,661	-
Change in value of interest rate swap contracts	(298,354)	(1,607,667)	-
Comprehensive net income (loss)	$ (2,070,857)	$ 1,613,812	$ 9,158,705

13. Selected quarterly data (unaudited):

Quarter ended	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Total revenues	$ 8,515,731	$ 8,052,672	$ 7,865,481	$ 6,212,641
Net Income (loss)	$ 810,179	$ 775,805	$ 1,313,434	$ 40,400
Net income (loss) per limited partnership unit	$ 0.04	$ 0.03	$ 0.07	$ (0.13)

Quarter ended	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Total revenues	$ 7,075,556	$ 5,277,040	$ 6,713,097	$ 6,877,080
Net Income (loss)	$ 219,517	$ (1,047,882)	$ (91,256)	$ (852,882)
Net income (loss) per limited partnership unit	$ (0.01)	$ (0.09)	$ (0.03)	$ (0.07)

Item 9. CHANGES IN AND DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

The registrant is a Limited Partnership and, therefore, has no officers or directors.

All of the outstanding capital stock of ATEL Financial Services LLC (the General Partner) is held by ATEL Capital Group ("ACG"), a holding company formed to control ATEL and affiliated companies. The outstanding voting capital stock of ATEL Capital Group is owned 5% by A. J. Batt and 95% by Dean Cash.

Each of ATEL Leasing Corporation ("ALC"), ATEL Equipment Corporation ("AEC"), ATEL Investor Services ("AIS") and ATEL Financial Services LLC ("AFS") is a wholly-owned subsidiary of ATEL Capital Group and performs services for the Partnership. Acquisition services are performed for the Partnership by ALC, equipment management, lease administration and asset disposition services are performed by AEC, investor relations and communications services are performed by AIS and general administrative services for the Partnership are performed by AFS. ATEL Securities Corporation ("ASC") is a wholly-owned subsidiary of AFS.

The officers and directors of ATEL Capital Group and its affiliates are as follows:

Dean L. Cash	Chairman of the Board of Directors of ACG, AFS, ALC, AEC, AIS and ASC; President and Chief Executive Officer of ACG, AFS and AEC
Paritosh K. Choksi	Director, Executive Vice President, Chief Operating Officer and Chief Financial Officer of ACG, AFS, ALC, AEC and AIS
Donald E. Carpenter	Vice President and Controller of ACG, AFS, ALC, AEC and AIS; Chief Financial Officer of ASC
Vasco H. Morais	Senior Vice President, Secretary and General Counsel for ACG, AFS, ALC, AIS and AEC

Dean L. Cash, age 52, joined ATEL as director of marketing in 1980 and has been a vice president since 1981, executive vice president since 1983 and a director since 1984. He has been President and CEO since April 2001. Prior to joining ATEL, Mr. Cash was a senior marketing representative for Martin Marietta Corporation, data systems division, from 1979 to 1980. From 1977 to 1979, he was employed by General Electric Corporation, where he was an applications specialist in the medical systems division and a marketing representative in the information services division. Mr. Cash was a systems engineer with Electronic Data Systems from 1975 to 1977, and was involved in maintaining and developing software for commercial applications. Mr. Cash received a B.S. degree in psychology and mathematics in 1972 and an M.B.A. degree with a concentration in finance in 1975 from Florida State University. Mr. Cash is an arbitrator with the American Arbitration Association.

Paritosh K. Choksi, age 49, joined ATEL in 1999 as a director, senior vice president and its chief financial officer. He became its executive vice president and COO in April 2001. Prior to joining ATEL, Mr. Choksi was chief financial officer at Wink Communications, Inc. from 1997 to 1999. From 1977 to 1997, Mr. Choksi was with Phoenix American Incorporated, a financial services and management company, where he held various positions during his tenure, and was senior vice president, chief financial officer and director when he left the company. Mr. Choksi was involved in all corporate matters at Phoenix and was responsible for Phoenix's capital market needs. He also served on the credit committee overseeing all corporate investments, including its venture lease portfolio. Mr. Choksi was a part of the executive management team which caused Phoenix's portfolio to increase from $50 million in assets to over $2 billion. Mr. Choksi received a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology, Bombay; and an M.B.A. degree from the University of California, Berkeley.

Donald E. Carpenter, age 54, joined ATEL in 1986 as controller. Prior to joining ATEL, Mr. Carpenter was an audit supervisor with Laventhol & Horwath, certified public accountants in San Francisco, California, from 1983 to 1986. From 1979 to 1983, Mr. Carpenter was an audit senior with Deloitte, Haskins & Sells, certified public accountants, in San Jose, California. From 1971 to 1975, Mr. Carpenter was a Supply Corp officer in the U. S. Navy. Mr. Carpenter received a B.S. degree in mathematics (magna cum laude) from California State University, Fresno in 1971 and completed a second major in accounting in 1978. Mr. Carpenter has been a California certified public accountant since 1981.

Vasco H. Morais, age 44, joined ATEL in 1989 as general counsel to provide legal support in the drafting and reviewing of lease documentation, advising on general corporate law matters, and assisting on securities law issues. From 1986 to 1989, Mr. Morais was employed by the BankAmeriLease Companies, Bank of America's equipment leasing subsidiaries, providing in-house legal support on the documentation of tax-oriented and non-tax oriented direct and leveraged lease transactions, vendor leasing programs and general corporate matters. Prior to the BankAmeriLease Companies, Mr. Morais was with the Consolidated Capital Companies in the corporate and securities legal department involved in drafting and reviewing contracts, advising on corporate law matters and securities law issues. Mr. Morais received a B.A. degree in 1982 from the University of California in Berkeley, a J.D. degree in 1986 from Golden Gate University Law School and an M.B.A. (Finance) in 1997 from Golden Gate University. Mr. Morais has been an active member of the State Bar of California since 1986.

Item 11. EXECUTIVE COMPENSATION

The registrant is a Limited Partnership and, therefore, has no officers or directors.

Set forth hereinafter is a description of the nature of remuneration paid and to be paid to the General Partner and its Affiliates. The amount of such remuneration paid in 2002, 2001 and 2000 is set forth in Item 8 of this report under the caption "Financial Statements and Supplementary Data - Notes to the Financial Statements - Related party transactions," at Note 6 thereof, which information is hereby incorporated by reference.

Selling Commissions

The Partnership will pay selling commissions in the amount of 9.5% of Gross Proceeds, as defined, to ATEL Securities Corporation, an affiliate of the General Partner. Of this amount, the majority is expected to be reallowed to other broker/dealers.

Through December 31, 1998, $14,250,000 of such commissions (the maximum allowable amount) had been paid to the General Partner or its affiliates. Of that amount, $12,327,297 was reallowed to other broker/dealers. None have been paid since 1998, nor will any additional amounts be paid in future periods.

Equipment Management Fees

As compensation for its service rendered generally in managing or supervising the management of the Partnership's equipment and in supervising other ongoing service and activities including, among others, arranging for necessary maintenance and repair of equipment, collecting revenue, paying operating expenses, determining the equipment is being used in accordance with all operative contractual arrangements, property and sales tax monitoring and preparation of financial data, the General Partner or its affiliates are entitled to receive management fees which are payable for each fiscal quarter and are to be in an amount equal to (i) 3.5% of the gross lease revenues from "operating" leases and (ii) 2% of gross lease revenues from "full payout" leases which contain net lease provisions.

See Note 6 to the financial statements included in Item 8 of this report for amounts paid.

Incentive Management Fees

As compensation for its service rendered in establishing and maintaining the composition of the Partnership's equipment portfolio and its acquisition and debt strategies and supervising fund administration including supervision the preparation of reports and maintenance of financial and operating data of the Partnership, Securities and Exchange Commission and Internal Revenue service filings, returns and reports, the General Partner is entitled to receive the Incentive management fee which shall be payable for each fiscal quarter.

Available Cash from Operations, as defined in the Limited Partnership Agreement, is to be distributed as follows:

First, Distributions of Cash from Operations are to 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, are to be distributed as follows:

First, Distributions of Sales or Refinancings are to 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.

See Note 6 to the financial statements included in Item 8 of this report for amounts paid.

Equipment Resale Fees

As compensation for service rendered in connection with the sale of equipment, the General Partner is entitled to receive an amount equal to the lesser of (i) 3% of the sales price of the equipment, or (ii) one-half the normal competitive equipment sales commission charged by unaffiliated parties for such service. Such fee is payable only after the Limited Partners have received a return of their adjusted invested capital (as defined in the Limited Partnership Agreement) plus 10% of their adjusted invested return of their adjusted invested capital (as defined in the Limited Partnership Agreement) plus 10% of their adjusted invested capital per annum calculated on a cumulative basis, compounded daily, commencing the last day of the quarter in which the Limited Partner was admitted to the Partnership. To date, none have been accrued or paid.

Equipment Re-lease Fee

As compensation for providing re-leasing service, the General Partner is entitled to receive fees equal to 2% of the gross rentals or the comparable competitive rate for such service relating to comparable equipment, whichever is less, derived from the re-lease provide that (i) the General Partner or their affiliates have and will maintain adequate staff to render such service to the Partnership, (ii) no such re-lease fee is payable in connection with the re-lease of equipment to a previous lessee or its affiliates, (iii) the General Partner or its affiliates have rendered substantial re-leasing service in connection with such re-lease and (iv) the General Partner or its affiliates are compensated for rendering equipment management service. To date, none have been accrued or paid.

General Partner's Interest in Operating Proceeds

Net income, net loss and investment tax credits are allocated 92.5% to the Limited Partners and 7.5% to the General Partner. In accordance with the terms of the of Limited Partnership Agreement, an additional allocation of income was made to the General Partner in 2002 and 2001. The amount allocated was determined so as to bring the General Partner's ending capital account balance to zero. See financial statements included in Item 8, Part I of this report for amounts allocated to the General Partner in 2002, 2001 and 2000.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

At December 31, 2002, no investor is known to hold beneficially more than 5% of the issued and outstanding Units.

Security Ownership of Management

The shareholders of the General Partner are beneficial owners of Limited Partnership Units as follows:

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Percent of Class
Limited Partnership Units	A. J. Batt 600 California Street, 6th Floor San Francisco, CA 94108	Initial Limited Partner Units 25 Units ($250) (owned by wife)	0.00017%
Limited Partnership Units	Dean Cash 600 California Street, 6th Floor San Francisco, CA 94108	Initial Limited Partner Units 25 Units ($250) (owned by wife)	0.00017%

Changes in Control

The Limited Partners have the right, by vote of the Limited Partners owning more than 50% of the outstanding Limited Partnership units, to remove a General Partner.

The General Partner may at any time call a meeting of the Limited Partners or a vote of the Limited Partners without a meeting, on matters on which they are entitled to vote, and shall call such meeting or for vote without a meeting following receipt of a written request therefore of Limited Partners holding 10% or more of the total outstanding Limited Partnership units.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to Item 1 of this report under the caption "Equipment Leasing Activities," Item 8 of this report under the caption "Financial Statements and Supplemental Data - Notes to the Financial Statements - Related party transactions" at Note 6 thereof, and Item 11 of this report under the caption "Executive Compensation," are hereby incorporated by reference.

Item 14. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management (ATEL Financial Services, LLC as General Partner of the registrant, including the chief executive officer and chief financial officer), an evaluation of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures [as defined in Rules 240.13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934] was performed as of a date within ninety days before the filing date of this annual report. Based upon this evaluation, the chief executive officer and chief financial officer concluded that, as of the evaluation date, our disclosure controls and procedures were effective for the purposes of recording, processing, summarizing and timely reporting information required to be disclosed by us in the reports that we file under the Securities Exchange Act of 1934 and that such information is accumulated and communicated to our management in order to allow timely decisions regarding required disclosure.

Changes in internal controls

There have been no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the evaluation date, nor were there any significant deficiencies or material weaknesses in our internal controls.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Schedules

1. Financial Statements
   Included in Part II of this report:
   Report of Independent Auditors
   Balance Sheets at December 31, 2002 and 2001
   Statements of Operations for the years ended December 31, 2002, 2001 and 2000
   Statements of Changes in Partners' Capital for the years ended December 31, 2002, 2001 and 2000
   Statement of Cash Flows for the years ended December 31, 2002, 2001 and 2000
   Notes to Financial Statements

2. Financial Statement Schedules

   All 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) Reports on Form 8-K for the fourth quarter of 2002
None

(c) Exhibits
(3) and (4) Agreement of Limited Partnership, included as Exhibit B to Prospectus (Exhibit 28.1), is incorporated herein by reference to the report on Form 10K for the period ended December 31, 1996 (File No. 333-08879).

SIGNATURES

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

Date: 3/26/03

ATEL Capital Equipment Fund VII, L.P.
(Registrant)

By: ATEL Financial Services, LLC,
General Partner of Registrant

By: /s/ Dean Cash
Dean Cash,
President and Chief Executive Officer of
ATEL Financial Services, LLC (General
Partner)

By: /s/ Paritosh K. Choksi
Paritosh K. Choksi,
Executive Vice President of ATEL
Financial Services, LLC (General Partner)

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

SIGNATURE	**CAPACITIES**	**DATE**
/s/ Dean Cash Dean Cash	President, Chairman and Chief Executive officer of ATEL Financial Services, LLC	3/26/03
/s/ Paritosh K. Choksi Paritosh K. Choksi	Executive Vice President and director of ATEL Financial Services, LLC, principal financial officer of registrant; principal financial officer and director of ATEL Financial Services, LLC	3/26/03
/s/ Donald E. Carpenter Donald E. Carpenter	Principal accounting officer of registrant; principal accounting officer of ATEL Financial Services, LLC	3/26/03

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act:

No proxy materials have been or will be sent to security holders. An annual report will be furnished to security holders subsequent to the filing of this report on Form 10-K, and copies thereof will be furnished supplementally to the Commission when forwarded to the security holders.

CERTIFICATIONS

I, Paritosh K. Choksi, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Cash Distribution Fund VII, LP;

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-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 3/26/03

/s/ Paritosh K. Choksi

Paritosh K. Choksi
Principal financial officer of registrant, Executive
Vice President of General Partner

CERTIFICATIONS

I, Dean L. Cash, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Cash Distribution Fund VII, LP;

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-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 3/26/03

/s/ Dean Cash

Dean L. Cash
President and Chief Executive
Officer of General Partner

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 Annual report on Form 10K of ATEL Cash Distribution Fund VII, LP, (the "Partnership") for the period ended December 31, 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 Partnership.

Date: 3/26/03

/s/ Dean Cash
Dean L. Cash
President and Chief Executive
Officer of General Partner

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 Annual report on Form 10K of ATEL Cash Distribution Fund VII, LP, (the "Partnership") for the period ended December 31, 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 Partnership.

Date: 3/26/03

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