Form 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2003

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

Commission File Number 0-24175

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

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

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

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

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

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

The number of Limited Partnership Units outstanding as of June 30, 2003 was 14,995,550

DOCUMENTS INCORPORATED BY REFERENCE

None

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

JUNE 30, 2003 AND DECEMBER 31, 2002
(Unaudited)

ASSETS

	2003	2002
Cash and cash equivalents	$ 1,630,643	$ 2,194,169
Accounts receivable, net of allowance for doubtful accounts of $524,150 in 2003 and $403,067 in 2002	2,698,538	4,848,736
Due from General Partner	33,851	253,543
Other assets	-	10,019
Investments in leases	86,803,392	108,917,281
Total assets	$ 91,166,424	$ 116,223,748

LIABILITIES AND PARTNERS' CAPITAL

Long-term debt	$ 18,944,000	$ 33,546,000
Non-recourse debt	1,093,282	4,577,308
Line of credit	14,000,000	13,300,000
Accounts payable	642,798	752,459
Accrued interest payable	43,565	192,403
Interest rate swap contracts	1,121,280	1,624,360
Unearned operating lease income	981,178	1,012,984
Total liabilities	36,826,103	55,005,514
Partners' capital	54,340,321	61,218,234
Total partners' capital	54,340,321	61,218,234
Total liabilities and partners' capital	$ 91,166,424	$ 116,223,748

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF OPERATIONS

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Revenues:				
Leasing activities:				
Operating leases	$ 9,938,031	$ 12,543,651	$ 4,394,962	$ 5,832,667
Direct financing	428,758	768,332	154,426	364,652
Gain (loss) on sales of assets	2,189,125	(1,057,988)	35,680	(1,010,652)
Interest	2,441	8,542	773	2,425
Other	48,701	90,059	21,789	87,948
	12,607,056	12,352,596	4,607,630	5,277,040
Expenses:				
Depreciation and amortization	7,871,614	9,095,832	3,347,997	4,672,320
Interest expense	1,088,342	1,737,408	468,049	847,810
Cost reimbursements to General Partner	803,734	672,409	23,430	108,383
Impairment losses	517,926	-	-	-
Equipment and incentive management fees to General Partner	471,482	491,462	110,518	209,110
Railcar and equipment maintenance	425,070	347,462	315,580	194,252
Provision for (recovery of) doubtful accounts	136,000	370,000	(84,000)	70,000
Franchise fees and income taxes	128,178	23,124	128,178	23,124
Professional fees	95,318	148,480	59,017	54,951
Other	323,895	294,784	143,500	144,972
	11,861,559	13,180,961	4,512,269	6,324,922
Net income (loss)	$ 745,497	$ (828,365)	$ 95,361	$ (1,047,882)
Net income (loss):				
General Partner	$ 627,208	$ 596,584	$ 319,070	$ 300,277
Limited Partners	118,289	(1,424,949)	(223,709)	(1,348,159)
	$ 745,497	$ (828,365)	$ 95,361	$ (1,047,882)
Net income (loss) per Limited Partnership Unit	$0.01	($0.10)	($0.01)	($0.09)
Weighted average number of Units outstanding	14,995,883	14,996,050	14,995,717	14,996,050

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

SIX MONTH PERIOD ENDED
JUNE 30, 2003
(Unaudited)

	Limited Partners		General	Accumulated Other Comprehensive Income	
	Units	Amount	Partner	(Loss)	Total
Balance December 31, 2002	14,996,050	$ 62,842,594	$ -	$ (1,624,360)	$ 61,218,234
Unrealized change in value of interest rate swap contracts		-	-	503,080	503,080
Limited partnership units repurchased	(500)	(1,844)	-	-	(1,844)
Distributions to partners		(7,497,438)	(627,208)	-	(8,124,646)
Net income		118,289	627,208	-	745,497
Balance June 30, 2003	14,995,550	$ 55,461,601	$ -	$ (1,121,280)	$ 54,340,321

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Operating activities:				
Net income (loss)	$ 745,497	$ (828,365)	$ 95,361	$ (1,047,882)
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation	7,871,614	9,095,832	3,347,997	4,672,320
(Gain) loss on sales of assets	(2,189,125)	1,057,988	(35,680)	1,010,652
Provision for (recovery of) doubtful accounts	136,000	370,000	(84,000)	70,000
Impairment losses	517,926	-	-	-
Changes in operating assets and liabilities:				
Accounts receivable	2,014,198	1,918,443	758,663	580,491
Due from General Partner	219,692	-	(33,851)	-
Other assets	10,019	77,998	-	9,999
Accounts payable, General Partner	-	(580,916)	(909,051)	(287,088)
Accounts payable, other	(109,661)	560,675	17,901	303,897
Accrued interest expense	(148,838)	(176,550)	(112,100)	(105,079)
Unearned lease income	(31,806)	(160,130)	243,997	(204,262)
Net cash provided by operations	9,035,516	11,334,975	3,289,237	5,003,048
Investing activities:				
Proceeds from sales of assets	14,942,797	925,430	253,216	684,549
Reduction in net investment in direct financing leases	970,677	1,597,356	409,106	787,491
Purchases of equipment on operating leases	-	(3,959,522)	-	-
Purchases of equipment on direct financing leases	-	(3,052,572)	-	6,568
Payment of initial direct costs to General Partner	-	(107,961)	-	-
Net cash provided by (used in) investing activities	15,913,474	(4,597,269)	662,322	1,478,608

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS
(Continued)

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2003	2002	2003	2002
Financing activities:				
Distributions to limited partners	(7,497,438)	(7,499,854)	(3,747,490)	(3,749,906)
Distributions to General Partner	(627,208)	(596,584)	(319,070)	(300,277)
Repurchase of limited partnership units	(1,844)	-	(1,844)	-
Repayments of long-term debt	(14,602,000)	(8,111,000)	(11,415,000)	(3,515,000)
Proceeds of long-term debt	-	10,100,000	-	-
Borrowings under line of credit	14,500,000	13,200,000	14,000,000	3,500,000
Repayments of borrowings under line of credit	(13,800,000)	(10,300,000)	-	(500,000)
Repayments of non-recourse debt	(3,484,026)	(2,943,303)	(2,219,770)	(1,186,766)
Net cash used in financing activities	(25,512,516)	(6,150,741)	(3,703,174)	(5,751,949)
Net (decrease) increase in cash and cash equivalents	(563,526)	586,965	248,385	729,707
Cash and cash equivalents at beginning of period	2,194,169	936,189	1,382,258	793,447
Cash and cash equivalents at end of period	$ 1,630,643	$ 1,523,154	$ 1,630,643	$ 1,523,154
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$ 1,237,180	$ 1,913,958	$ 580,149	$ 952,889
Schedule of non-cash transactions:				
Change in fair value of interest rate swap contracts	$ 503,080	$ 624,828	$ 390,186	$ 383,707

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003
(Unaudited)

1. Summary of significant accounting policies:

Interim financial statements:

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The unaudited interim financial statements reflect all adjustments which are, in the opinion of the General Partner, necessary to a fair statement of financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

2. Organization and partnership matters:

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

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

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

ATEL Financial Services, LLC, an affiliated entity, acts as the General Partner of the Fund.

3. Investment in leases:

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

	Balance December 31, 2002	Impairment Losses	Depreciation Expense or Amortization of Leases	Reclassi-fications or Dispositions	Balance June 30, 2003
Net investment in operating leases	$ 84,026,902	$ (517,926)	$ (7,786,008)	$ (17,245,623)	$ 58,477,345
Net investment in direct financing leases	16,227,117	-	(970,677)	(6,062,850)	9,193,590
Assets held for sale or lease	10,563,086	-	-	8,443,208	19,006,294
Reserve for losses	(2,111,593)	-	-	2,111,593	-
Initial direct costs, net of accumulated amortization	211,769		(85,606)	-	126,163
	$ 108,917,281	$ (517,926)	$ (8,842,291)	$ (12,753,672)	$ 86,803,392

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003
(Unaudited)

3. Investment in leases (continued):

Operating leases:

Property on operating leases consists of the following:

	Balance December 31, 2002	Impairment Losses	Dispositions & Reclassifications 1st Quarter	Dispositions & Reclassifications 2nd Quarter	Balance June 30, 2003
Transportation	$ 74,889,008	$ -	$ 1,654,985	$ (295,923)	$ 76,248,070
Marine vessels / barges	27,030,136	-	(7,335,250)	(11,562,386)	8,132,500
Construction	22,414,263	-	(1,165,750)	(92,773)	21,155,740
Manufacturing	9,367,388	-	(4,813,948)	-	4,553,440
Materials handling	9,009,095	-	(4,058,323)	(100,762)	4,850,010
Mining	9,012,965	-	(369,793)	-	8,643,172
Other	6,034,386	-	(2,654,831)	167,378	3,546,933
Communications	4,309,885	-	(561,827)	-	3,748,058
Office automation	3,604,688	-	(83,642)	-	3,521,046
	165,671,814	-	(19,388,379)	(11,884,466)	134,398,969
Less accumulated depreciation	(81,644,912)	(517,926)	3,373,458	2,867,756	(75,921,624)
	$ 84,026,902	$ (517,926)	$ (16,014,921)	$ (9,016,710)	$ 58,477,345

In 2003, there were charges to net income for impairments of operating lease assets in the amount of $517,926. The charges related to covered grain hopper cars on lease to various lessees. The impairment resulted from decreased estimated cash flows expected to be generated by the assets over their remaining lives.

Direct financing leases:

The following lists the components of the Company's investment in direct financing leases as of June 30, 2003:

Total minimum lease payments receivable	$ 7,024,068
Estimated residual values of leased equipment (unguaranteed)	4,961,238
Investment in direct financing leases	11,985,306
Less unearned income	(2,791,716)
Net investment in direct financing leases	$ 9,193,590

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

3. Investment in leases (continued):

At June 30, 2003, the aggregate amounts of future minimum lease payments are as follows:

	Operating Leases	Direct Financing Leases	Total
Six months ending December 31, 2003	$ 8,296,264	$ 1,067,808	$ 9,364,072
Year ending December 31, 2004	11,587,409	2,135,616	13,723,025
2005	7,173,701	2,135,616	9,309,317
2006	3,769,599	945,719	4,715,318
2007	2,946,607	535,056	3,481,663
Thereafter	5,874,014	204,253	6,078,267
	$ 39,647,594	$ 7,024,068	$ 46,671,662

4. Non-recourse debt:

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

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

	Principal	Interest	Total
Six months ending December 31, 2003	$ 140,636	$ 42,247	$ 182,883
Year ending December 31, 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	278	23,995
	$ 1,093,282	$ 178,136	$ 1,271,418

5. Long-term debt:

In 1998, the Partnership entered into a $65 million receivables funding program (the Program) with a receivables financing company that issues commercial paper rated A1 by Standard and Poors and P1 by Moody's Investor Services. Under the Program, the receivables financing company receives a general lien against all of the otherwise unencumbered assets of the Partnership. The Program provides for borrowing at a variable interest rate (1.6178**%** at June 30, 2003), based on an index of A1 commercial paper. As of June 30, 2002, the program was closed as to additional borrowings.

5. Long-term debt (continued):

The Program requires the General Partner to enter into various interest rate swaps with a financial institution (also rated A1/P1) to manage interest rate exposure associated with variable rate obligations under the Program by effectively converting the variable rate debt to fixed rates. As of June 30, 2003, the Partnership receives or pays interest on a notional principal of $18,692,000, 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 last of the swaps terminates in 2008. 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 June 30, 2003	Rate on Interest Swap Agreement
4/1/1998	$ 21,770,000	$ 621,000	6.220%
7/1/1998	25,000,000	2,857,000	6.155%
10/1/1998	20,000,000	3,961,000	5.550%
4/16/1999	9,000,000	2,091,000	5.890%
1/26/2000	11,700,000	5,064,000	7.580%
5/25/2001	2,000,000	1,079,000	5.790%
9/28/2001	6,000,000	3,017,000	4.360%
1/31/2002	4,400,000	254,000	*
2/19/2002	5,700,000	-	*
	$105,570,000	$ 18,944,000	

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

The long-term debt borrowings mature from 2004 through 2008. Future minimum principal payments of long-term debt are as follows:

	Swap Notional / Debt Principal	Debt Principal Not Swapped	Interest	Total	Rates on Interest Swap Agreements**
Six months ending December 2003	$ 3,618,000	$ 96,000	$ 530,637	$ 4,244,637	6.074%-6.105%
Year ending December 31, 2004	6,104,000	114,000	763,305	6,981,305	6.107%-6.194%
2005	4,883,000	12,000	433,855	5,328,855	6.234%-6.676%
2006	1,645,000	30,000	228,734	1,903,734	6.870%-7.132%
2007	722,000	-	152,988	874,988	7.138%-7.361%
2008	1,720,000	-	101,435	1,821,435	7.399%-7.480%
	$ 18,692,000	$ 252,000	$ 2,210,954	$ 21,154,954	

** 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 (1.6178% at June 30, 2003).

6. Related party transactions:

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

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

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

The General Partner and/or Affiliates earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement during the six and three month periods ended June 30, 2003 and 2002 as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2003	2002	2003	2002
Incentive management fees and equipment management fees	$ 471,482	$ 491,462	$ 110,518	$ 209,110
Administrative costs reimbursed to General Partner	803,734	672,409	23,430	108,383
	$ 1,275,216	$ 1,163,871	$ 133,948	$ 317,493

7. Partner's capital:

As of June 30, 2003, 14,995,550 Units were issued and outstanding.

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 2003 and 2002. The amount allocated was determined to bring the General Partner's ending capital account balance to zero.

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

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

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

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

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

8. Line of credit:

The Partnership participates with the General Partner and certain of its affiliates in a $56,736,746 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of June 30, 2003, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$	14,000,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility		12,500,000
Total borrowings under the acquisition facility		26,500,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility		-
Total outstanding balance	$	26,500,000
Total available under the line of credit	$	56,736,746
Total outstanding balance		(26,500,000)
Remaining availability	$	30,236,746

8. Line of credit (continued):

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 fund and the Managing Member.

The credit agreement includes certain financial covenants applicable to each borrower. The fund was in compliance with its covenants as of June 30, 2003.

9. Commitments:

As of June 30, 2003, the Partnership had no outstanding commitments to purchase lease equipment.

10. Other comprehensive income:

In 2003 and 2002, other comprehensive income consisted of the following:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	$ 745,497	$ (828,365)	$ 95,361	$ (1,047,882)
Other comprehensive income:				
Change in fair value of interest rate swap contracts	503,080	624,828	390,186	383,707
Comprehensive net income (loss)	$ 1,248,577	$ (203,537)	$ 485,547	$ (664,175)

There were no other sources of comprehensive net income.

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

Statements contained in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-Q, 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-Q. 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-Q or to reflect the occurrence of unanticipated events, other than as required by law.

Capital Resources and Liquidity

During the first and second quarters of 2003, the Partnership's primary activity was engaging in equipment leasing activities.

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

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

The Partnership participates with the General Partner and certain of its affiliates in a $56,736,746 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on June 28, 2004. As of June 30, 2003, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 14,000,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	12,500,000
Total borrowings under the acquisition facility	26,500,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 26,500,000
Total available under the line of credit	$ 56,736,746
Total outstanding balance	(26,500,000)
Remaining availability	$ 30,236,746

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

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

No commitments of capital have been or are expected to be made other than for the acquisition of additional equipment. There were no such commitments as of June 30, 2003.

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

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

Cash Flows, 2003 vs. 2002:

During the first half of 2003, the Partnership's primary sources of cash were the proceeds of lease asset sales and borrowings under the line of credit. During the first half of 2002, the Partnership's primary source of liquidity was rents from assets on operating leases.

Cash from operating activities was almost entirely from operating lease rents in both 2003 and in 2002 for both the three and six month periods.

Sources of cash from investing activities consisted of proceeds from sales of assets and direct financing lease rents. Proceeds from sales of lease assets increased significantly compared to 2002. In 2003 and 2002, cash was used in investing activities to purchase assets on operating and direct financing leases and to pay initial direct costs to the General Partner. There were no such purchases in 2003.

In the first quarter of 2003, proceeds from the sales of lease assets were used to repay the line of credit. The amounts of cash proceeds received in excess of the amounts which were subsequently used to pay down the long-term debt were used to make distributions to the limited partners. In the second quarter of 2003, cash was borrowed under the line of credit in orderd to pay down the balance of the long-term debt. In 2002 , cash from financing sources consisted of proceeds of long-term debt and borrowings under the line of credit. In both 2002, proceeds of long-term debt were used to repay amounts due on the line of credit. Repayments of long-term debt have changed as a result of scheduled payments. Distributions to partners did not change significantly compared to 2002.

Results of operations, 2003 vs. 2002:

Operations in 2003 resulted in a net income of $745,497 (six months) and $95,361 (three months). Operations in 2002 resulted in a net loss of $828,365 (six months) and $1,047,882 (three months). Net income for the six month period ended June 30, 2003, was primarily the result of gains of $2,189,125 recognized on the sales of lease assets. The losses in 2002 were directly related to the losses incurred in sales of lease assets in the second quarter of 2002. The Partnership's primary source of revenues is from operating leases. This is expected to remain true in future periods. Operating lease revenues for the six month periods decreased from $12,543,651 in 2002 to $9,938,031 in 2003. For the three month periods, they decreased from $5,832,667 in 2002 to $4,394,962 in 2003. The decreases were the result of asset sales in 2002 and in 2003.

Depreciation expense is the single largest expense of the Partnership and is expected to remain so in future periods. As lease assets have been sold over the last year, operating lease revenues have declined. This has also led to decreases in depreciation expense. Total debt has decreased from $54,556,922 at June 30, 2002 to $34,037,382 at June 30, 2003, a decrease of $20,519,540 compared to June 30, 2002. This has led to the decrease in interest expense in 2003 compared to the comparable periods in 2002. For the six month periods, interest decreased by $649,066. For the three month period, the decrease was $379,761.

In 2003, there were charges to net income for impairments of operating lease assets in the amount of $517,926. The charges related to covered grain hopper cars on lease to various lessees. The impairment resulted from decreased estimated cash flows expected to be generated by the assets over their remaining lives.

Item 3. Quantitative and Qualitative Disclosures of Market Risk.

The Fund, like most other companies, is exposed to certain market risks, including primarily changes in interest rates. The Fund 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 Fund'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 Fund 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 Fund 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 June 30, 2003, the outstanding balance on the floating rate line of credit was $14,000,000.

Also, the Fund entered into a receivables funding facility in 1998. Since interest on the outstanding balances under the facility varies, the Fund is exposed to market risks associated with changing interest rates. To hedge its interest rate risk, the Fund enters into interest rate swaps, which effectively convert the underlying interest characteristic on the facility from floating to fixed.

Under the swap agreements, the Fund 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 Fund 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 June 30, 2003, borrowings on the facility were $18,944,000 and the associated variable interest rate was 1.6178% and the average fixed interest rate achieved with the swap agreements was 6.087% at June 30, 2003. As of June 30, 2003, the estimated fair value of the interest rate swaps was $1,121,280.

Item 4. Controls and procedures.

Internal Controls

As of June 30, 2003, an evaluation was performed under the supervision and with the participation of the Fund’s management, including the CEO and CFO of the General Partner, of the effectiveness of the design and operation of the Fund’s disclosure controls and procedures. Based on that evaluation, the Fund’s management, including the CEO and CFO of the General Partner, concluded that the Fund’s disclosure controls and procedures were effective as of June 30, 2003. There have been no significant changes in the Fund’s internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2003.

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.

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including the CEO and CFO, an evaluation of the effectiveness of the design and operation of the Fund'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 quarterly report. Based upon this evaluation, the CEO and CFO of the General Partner 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Applied Magnetics Corporation:

In January 2000, Applied Magnetics Corporation (the "Debtor") filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The Fund 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 Fund'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 (IMT), and enter into a new line of business, the manufacture and production of “micro-machines." As part of the Plan, the Fund, 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 Fund's claim due to duplication and an improper liquidated damages provision. The Fund disputed this and, as of July 26, 2002, agreement has been reached between the Fund and Debtor as to the amount of the Fund’s claim, and the Debtor’s objection to the Fund’s claim was withdrawn.

On April 28, 2003, the Fund received 139,133 shares of IMT stock. The Fund 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 Fund'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 "Debtor"). The Fund's Proof of Claim was timely filed on October 14, 2001, with the Bankruptcy Clerk in Houston. The Fund 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 Fund. 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 Fund's claim, which objection was disputed by the Fund and has been resolved with the Debtor allowing the Fund an allowed secured claim in the amount of $193,765 via a stipulation that was filed with the court in April 2003. At this point, all equipment has been returned to the Fund, and is in the process of being re-leased and/or sold. The full extent of any recovery is not known at this time as the unsecured claim amount is being paid out in the form of stock, which, while publicly traded, has a low valuation. The Fund intends to hold onto the stock received until such time as the market price improves.

Item 2. Changes In Securities.

Inapplicable.

Item 3. Defaults Upon Senior Securities.

Inapplicable.

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

Inapplicable.

Item 5. Other Information.

Inapplicable.

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

(a) Documents filed as a part of this report

1. Financial Statements

   Included in Part I of this report:

   Balance Sheets, June 30, 2003 and December 31, 2002.
   Statement of changes in partners' capital for the six months ended June 30, 2003.
   Statements of operations for the six and three month periods ended June 30, 2003 and 2002.
   Statements of cash flows for the six and three month periods ended June 30, 2003 and 2002.
   Notes to the Financial Statements.

2. Financial Statement Schedules

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

(b) Report on Form 8-K
None

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

In connection with the Quarterly report on Form 10Q of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Dean L. Cash, Chief Executive Officer of ATEL Financial Services, LLC, general partner of the Partnership, hereby certify that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dean L. Cash
Dean L. Cash
President and Chief Executive
Officer of General Partner
August 12, 2003

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

In connection with the Quarterly report on Form 10Q of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Paritosh K. Choksi, Chief Financial Officer of ATEL Financial Services, LLC, general partner of the Partnership, hereby certify that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paritosh K. Choksi
Paritosh K. Choksi
Executive Vice President of General
Partner, Principal financial officer of registrant
August 12, 2003

CERTIFICATIONS

I, Paritosh K. Choksi, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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

   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 quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly 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 quarterly 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: August 12, 2003

/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 quarterly report on Form 10-Q of ATEL Cash Distribution Fund VII, LP;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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

   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 quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly 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 quarterly 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: August 12, 2003

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

SIGNATURES

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

Date:
August 12, 2003

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

By: ATEL Financial Services, LLC
General Partner of Registrant

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

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

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